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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 11, 2002

REGISTRATION NO. 333-72750

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM S-11
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

OMEGA HEALTHCARE INVESTORS, INC.

(Exact name of Registrant as specified in its charter)

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MARYLAND	6798	38-3041398
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Number)	(IRS Employer Identification Number)

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900 VICTORS WAY
SUITE 350
ANN ARBOR, MICHIGAN 48108
(734) 887-0200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

C. TAYLOR PICKETT
CHIEF EXECUTIVE OFFICER
OMEGA HEALTHCARE INVESTORS, INC.
9690 DEERECO ROAD
SUITE 100
TIMONIUM, MARYLAND 21093
(410) 561-5726

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES OF COMMUNICATIONS TO:

RICHARD H. MILLER, ESQ.
ELIOT W. ROBINSON, ESQ.
POWELL, GOLDSTEIN, FRAZER & MURPHY LLP
SIXTEENTH FLOOR
191 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30303
(404) 572-6600

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES, OR ACCEPT ANY OFFER TO BUY THESE SECURITIES, UNTIL THE REGISTRATION STATEMENT WE HAVE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BECOMES EFFECTIVE AND WE DELIVER THIS PROSPECTUS TO YOU IN FINAL FORM. WE ARE NOT USING THIS PROSPECTUS TO OFFER TO SELL THESE SECURITIES OR TO SOLICIT OFFERS TO BUY THESE SECURITIES IN ANY STATE OR OTHER JURISDICTION WHERE THEIR OFFER OR SALE IS NOT PERMITTED.

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SUBJECT TO COMPLETION, DATED JANUARY 11, 2002

PRELIMINARY PROSPECTUS

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[LOGO]

OMEGA HEALTHCARE INVESTORS, INC.
NONTRANSFERABLE RIGHTS OFFERING
TO PURCHASE UP TO 9,400,000 SHARES OF
COMMON STOCK AT $2.92 PER SHARE

</Table>

If you held our common stock on January 22, 2002, you will receive rights to purchase additional shares of common stock for a subscription price of $2.92 per share. You will receive one right for every 2.15 shares of common stock you held on that date. Each right entitles you to purchase one share of common stock at the subscription price. The number of rights allocated to you is based on the percentage of our voting stock you own on the record date on an as converted basis. These rights represent your pro rata portion of the aggregate $50 million in new equity capital we propose to raise in this rights offering together with a concurrent private placement. There is no minimum number of shares that must be subscribed for by stockholders in the rights offering.

Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Instead, Explorer has agreed to purchase $23.6 million of our stock in a private placement concurrent with the closing of the rights offering at the same price per common share as in this rights offering. The $23.6 million that Explorer has agreed to invest represents its pro rata portion of the $50 million we seek to raise, based on Explorer's ownership of our Series C preferred stock and common stock. Explorer has also committed to invest in the concurrent private placement an additional amount equal to the aggregate subscription price of the shares of common stock that are not subscribed for by other stockholders in this rights offering. As a result, we are assured of receiving an aggregate of $50 million upon the completion of this rights offering and the private placement.

You may exercise your rights beginning on the date of this prospectus until 5:00 p.m., New York City time, on February , 2002. We can extend subscription period but in no event will the subscription period be extended beyond

February 28, 2002. However, we do not presently intend to extend the subscription period. Rights not exercised by the end of the subscription period will expire and have no value.

The closing of the rights offering and the issuance of the shares of common stock are conditioned upon certain conditions. All subscriptions will be held in escrow pending satisfaction of these conditions. If the conditions are not satisfied on or before the expiration of the subscription period, as it may be extended, we will terminate this offering. If we terminate the offering, we will return your money to you, without interest, within approximately 10 business days following termination.

We will not issue fractional rights or fractional shares, and you may not exercise rights other than in whole numbers. If the number of shares of common stock you held on the record date would result in your receipt of fractional rights, the number of rights issued to you has been rounded up to the nearest whole right.

Our common stock is traded on the New York Stock Exchange under the symbol OHI. On January 11, 2002, the last reported sale price for our common stock was $5.99 per share.

The rights generally may not be sold, transferred or assigned and will not be listed for trading on any stock exchange, quotation system or the over-the-counter market. Holders who wish to exercise their rights must certify that they have held the shares of common stock to which the rights relate continuously from January 22, 2002 through the exercise date. If you sell your common stock during the period between the record date and the exercise date, you will forfeit the rights you receive in this offering with respect to such stock. Once you exercise your rights, you may not revoke or change the exercise even if you later change your mind.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 8.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The shares of common stock are being offered for sale directly by us without the services of an underwriter or selling agent. We expect to deliver the shares as soon as practicable following the expiration of the subscription period.

The date of this prospectus is January , 2002

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You should rely only on the information contained in this prospectus and the information to which we have referred you. We have not authorized anyone else to provide you with information different from the information contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front page of this prospectus. Also, you should not assume that there has been no change in our business, financial position or results of operations since the date of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of any securities or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable in that jurisdiction.

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PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS IMPORTANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS IN MORE DETAIL. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY.

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

WHAT ARE THE RIGHTS AND TO WHAT DO THE RIGHTS ENTITLE ME?

The rights give you the opportunity to purchase additional shares of our common stock for $2.92 per share. On January 11, 2002, the last reported sale price for our common stock on the New York Stock Exchange was $5.99 per share.

If you owned our common stock as of 5:00 p.m. on January 22 , 2002, you will receive one right for every 2.15 shares of common stock owned by you at that time. Each right entitles you to purchase one share of common stock at the subscription price. For example, if you owned 100 shares of common stock on the record date, you would have the right to purchase 47 additional shares of common stock for $2.92 per share.

The aggregate number of rights you are entitled to receive, if exercised by you in full, represents your pro rata portion of the $50 million in additional equity capital we are seeking to raise. Your pro rata portion is based on the number of shares of common stock you owned on the record date assuming, solely for this purpose, conversion of all of our outstanding Series C preferred stock, all of which is held by Explorer. There is no minimum number of shares that must be subscribed for by stockholders in the rights offering.

WILL I RECEIVE FRACTIONAL RIGHTS OR SHARES?

No. We are not issuing fractional rights or shares, and you may not exercise rights in fractional amounts. If the number of shares of common stock you held on the record date would result in your receipt of fractional rights, the number of rights distributed to you has been rounded up to the nearest whole right.

WHY IS OMEGA DISTRIBUTING THE RIGHTS AND OFFERING STOCK?

We are distributing the rights to purchase common stock as part of our plan to raise up to $50 million in additional equity capital to satisfy the conditions to the modification of our credit facilities and to enhance our ability to repay approximately $98 million in debt maturing during the first half of 2002. The equity investment consists of two components--this rights offering and a concurrent private placement of equity pursuant to our October 29, 2001 investment agreement with Explorer. We are distributing the rights to give all our common stockholders the opportunity to participate in our issuance of $50 million in additional equity in proportion to their ownership interest in our voting stock. The rights offering affords our existing common stockholders an opportunity to subscribe for new shares of common stock, at the same price per common share as the Explorer private placement, and to maintain their proportionate interest in us. In addition, since no underwriting or sales

commission will be paid in respect of the shares purchased in the rights offering, we believe the rights offering will be a low-cost method for raising additional capital.

HOW DID OMEGA ARRIVE AT THE $2.92 PRICE PER SHARE?

Our Board of Directors sought and obtained a written opinion from Shattuck Hammond Partners LLC, an independent financial advisor, that as of October 29, 2001, the date of their opinion, the financial terms of the investment agreement with Explorer, taken as a whole, are fair to us from a financial point of view. The subscription price to be paid by stockholders in the rights offering will be the same price per common share paid by Explorer in the concurrent private placement. For purposes of the opinion, our financial advisor assumed a subscription price of $2.92 per share.

We have attached the full text of Shattuck Hammond's opinion as Annex A to this prospectus. You should read the entire opinion to understand the assumptions made, matters considered and limitations on the review undertaken by our financial advisor. The opinion is also summarized under "Determination of Subscription Price." The opinion does not constitute a recommendation as to whether you should exercise your rights in the rights offering.

In recommending a price at which a share of common stock may be purchased in this rights offering, a special committee of our Board of Directors, which did not include affiliates of Explorer, considered several factors, including the fairness opinion delivered by our financial advisor, the historic and current market price of our common stock as of the date of the opinion, our financial condition, challenges facing us, anticipated cash flows, general conditions in the securities markets, our need for additional capital, available alternate sources of financing, prices offered to stockholders in other rights offerings and the need to offer the shares at a price that would be attractive to investors relative to the then current trading price for our common stock, among other things. Shattuck Hammond's opinion relates solely to the fairness to Omega Healthcare of the financial terms of the investment agreement, and does not address the fairness of either the investment agreement to unaffiliated stockholders or the subscription price in the rights offering.

HAS THE BOARD OF DIRECTORS MADE A RECOMMENDATION REGARDING THE RIGHTS OFFERING?

Our Board of Directors is not making any recommendation about whether or not you should exercise any rights. Although our Board of Directors has obtained a fairness opinion and both the Board of Directors and the special committee approved our proceeding with the rights offering, you should make your own decision as to whether or not to exercise your rights and, if so, how many rights to exercise. You should make this decision only after reading this entire prospectus and consulting with your own financial advisors. Your decision should be based upon your own assessment of your best interests.

HOW SOON MUST I ACT?

The rights expire on February , 2002, at 5:00 p.m., New York City time. The subscription agent must actually receive all required documents and payments before that date and time. We recommend that you send all of your subscription documents, together with payment of the subscription price, to the subscription agent several days in advance of the expiration date. Any personal checks used to pay for shares must timely clear payment prior to the expiration date. The clearing process can take five business days or more. We can extend the expiration date, but in no event will the expiration date be extended beyond February 28, 2002. We do not presently intend to extend the expiration date.

MAY I TRANSFER MY RIGHTS OR THE SHARES TO WHICH THEY RELATE?

No. The rights are nontransferable, even by gift. However, rights may be transferred by will, devise or operation of law in the case of death, dissolution, liquidation, or bankruptcy of the holder or pursuant to an order of an appropriate court. In addition, you must certify that you have held the common stock to which your rights relate continuously from January 22, 2002 through the exercise date. If you sell your common stock during the period between the record date and the exercise date, you will forfeit the rights you receive in this offering.

WILL I BE ENTITLED TO AN OVER-SUBSCRIPTION PRIVILEGE?

No stockholder will have an over-subscription privilege in the rights offering. To the extent that shares of common stock are not subscribed for in this offering, Explorer has committed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price relating to the unsubscribed shares on the closing of the rights offering.

WILL EXPLORER PARTICIPATE IN THE RIGHTS OFFERING OR OTHERWISE INVEST IN OMEGA?

No. Explorer will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offerings, Explorer has agreed to purchase $23.6 million of our stock, in a private placement concurrent with the closing of the rights offering, at the same price per common share available in this rights offering. The amount that Explorer has agreed to invest in the private placement represents its pro rata portion, based on Explorer's ownership of our Series C preferred stock and common stock, of the $50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of $50 million in gross proceeds upon the completion of the rights offering and Explorer's investment. The shares to be issued to Explorer are not registered as part of the rights offering and will be restricted securities under the Securities Act.

As a condition to Explorer's private placement investment, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company effective as of the closing of Explorer's new investment. The effect of these amendments is generally to remove those provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our stock and from taking certain actions without the prior approval of our Board. These agreements are described in more detail under "Modifications to Agreements with Explorer" on page 46 of this prospectus. The private placement to Explorer is subject to the satisfaction of the same closing conditions to which the rights offering is subject.

The rules of the New York Stock Exchange require that stockholders approve the sale of voting capital stock to an affiliate such as Explorer. If the issuance of common stock to Explorer has not been approved by our stockholders at the time we close the rights offering and Explorer's investment, we will issue to Explorer, in lieu of common stock, non-voting Series D preferred stock, which will have greater rights and preferences than common stock. The Series D preferred stock will automatically convert into common stock upon receipt of stockholder approval or the waiver by the New York Stock Exchange of its stockholder approval requirement.

We have scheduled a special meeting of stockholders to be held on February , 2002 at which stockholders will be asked to vote on a proposal to approve the issuance of common stock to Explorer. Explorer has committed to vote its existing shares, representing 47.1% of our voting capital stock, in favor of this proposal. Proxy solicitation materials with respect to the special meeting accompany this prospectus, and we recommend that you read both the prospectus and the proxy materials completely. Your vote will not affect your ability to exercise rights received in this offering. Stockholders may vote to approve the issuance of the shares of common stock to Explorer and still decline to exercise their subscription rights. Conversely, stockholders can vote against the issuance of shares to Explorer yet still exercise their subscription rights if the closing conditions to which the rights offering is subject are met.

AM I REQUIRED TO PARTICIPATE IN THE RIGHTS OFFERING?

No. You are not required to exercise any rights, purchase any new shares, or otherwise take any action in response to this rights offering.

WHAT WILL HAPPEN IF I DO NOT EXERCISE MY RIGHTS?

If you do not exercise any rights, the number of shares you own will not change, but your percentage ownership of our total outstanding common stock will decline following the rights offering and Explorer's investment. There is no minimum number of shares that must be subscribed for by stockholders in the rights offering. If no other stockholders subscribe for shares in the rights offering, Explorer has committed to invest $50 million if the closing conditions are satisfied.

IS THE RIGHTS OFFERING SUBJECT TO ANY CLOSING CONDITIONS?

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

We have entered into amendments to our credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe that these amendments will satisfy the closing conditions relating to our credit facilities. See "Modification of Bank Credit Agreements." While there currently exists no governmental order or litigation with respect to this offering, we cannot assure you that such governmental order or litigation will not arise prior to closing the rights offering. If a governmental order or litigation arises prior to the closing of the rights offering, we may not be able to complete the rights offering and/or the private placement to Explorer.

If these conditions are not satisfied by the expiration of the subscription period, as it may be extended by us from time to time, in our sole discretion, we will terminate the rights offering. All subscriptions will be held in escrow pending satisfaction of these conditions. If we terminate the rights offering, we will return your money to you, without interest, within approximately 10 business days following termination.

HOW DO I EXERCISE MY RIGHTS?

You must properly complete and sign the enclosed subscription agreement and deliver it, together with payment in full for the rights you are exercising, to the subscription agent before expiration of the subscription period. For the address to which the subscription agreement should be mailed and payment forwarded, see "The Rights Offering--Procedures To Exercise Rights."

AFTER I EXERCISE MY RIGHTS, CAN I CHANGE MY MIND?

No. Once you send in your subscription agreement and payment, you may not revoke the exercise of your rights, even if you later learn information about us that you consider to be unfavorable, or if our stock price declines. You should not exercise your rights unless you are certain that you wish to purchase additional shares of our common stock in this rights offering.

IS THERE RISK IN OWNING OUR COMMON STOCK

Yes. Exercising your rights means making a decision to make an additional investment in our common stock. You should carefully consider this decision as you would any other equity investment. Among other things, you should carefully consider the risks described under "Risk Factors" beginning on page 8 of this prospectus.

CAN OMEGA TERMINATE THE RIGHTS OFFERING?

Yes. We may terminate the rights offering at any time before the expiration of the subscription period for any reason or promptly following expiration of the subscription period if the closing conditions are not satisfied at expiration. If we terminate the rights offering, your money will be refunded, without interest, within approximately 10 business days following termination.

WHAT SHOULD I DO IF I WANT TO PARTICIPATE IN THE RIGHTS OFFERING, BUT MY COMMON STOCK IS HELD IN THE NAME OF MY BROKER, DEALER OR OTHER NOMINEE?

If you hold your shares of our common stock through a broker, dealer or other nominee, for example, through a custodian bank, then your broker, dealer or other nominee is the record holder of

the shares you own. This record holder must exercise the rights on your behalf for shares you wish to purchase. Therefore, you will need to have your broker, dealer or other nominee act for you.

If you wish to participate in the rights offering and purchase new shares, please promptly contact the record holder of your shares. To indicate your decision with respect to your rights, you should follow the instructions provided by your broker, dealer or other nominee. You should receive these

instructions from the record holder with the other rights offering materials.

WHAT FEES OR CHARGES APPLY IF I PURCHASE SHARES?

We are not charging any fee or sales commission to issue rights to you or to issue shares to you if you exercise rights. If you exercise rights through a record holder of your shares, you are responsible for paying any fees that the record holder may charge you.

WHAT HAPPENS IF I SELL OR TRANSFER THE SHARES OF COMMON STOCK TO WHICH THE RIGHTS RELATE AFTER THE RECORD DATE?

You may exercise rights only to the extent that you have held the shares of common stock to which the rights relate continuously from the record date of January 22, 2002 through and including the date of exercise. If you sell, gift or otherwise transfer the shares to which the rights relate after the record date but prior to exercising your rights, the rights relating to the transferred shares will be forfeited, even if you later repurchase those shares or other shares of our common stock before expiration of the subscription period. However, rights may be transferred by will, devise or operation of law in the case of death, dissolution, liquidation or bankruptcy of the holder, or pursuant to an order of an appropriate court. We intend to monitor transfers of shares during the subscription period for this purpose. If you have delivered to the subscription agent a properly completed and signed subscription agreement together with the subscription price, you may thereafter sell your shares of common stock to which the rights relate without forfeiting the associated rights. You should note, however, that if your exercise of rights is determined to be defective and you have transferred the associated shares, you will forfeit the rights associated with the transferred shares.

WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF EXERCISING MY SUBSCRIPTION RIGHTS?

The receipt and exercise of your subscription rights are intended to be nontaxable. However, you should seek specific tax advice from your personal tax advisor with respect to your particular circumstances and tax situation. See "Material United States Federal Income Tax Considerations."

HOW MANY SHARES OF COMMON STOCK WILL BE OUTSTANDING AFTER THE RIGHTS OFFERING AND THE EXPLORER INVESTMENT? HOW MUCH OF OMEGA WILL EXPLORER OWN?

Following the rights offering and Explorer's investment, we will have 53,896,906 shares of common stock outstanding assuming the conversion of the Series C preferred stock and assuming we issue shares of common stock to Explorer in connection with its investment. If, at the time of Explorer's investment, we have not obtained the requisite stockholder approval to issue common stock to Explorer, Explorer will instead purchase shares of Series D preferred stock rather than common stock, and the number of shares of common stock outstanding would be reduced by the number of shares of common stock reserved for issuance upon conversion of the Series D preferred stock. The number of additional shares to be purchased by Explorer depends on the number of shares that are purchased by other stockholders in the rights offering. If no shares are subscribed for in the rights offering, following completion of the rights offering and the concurrent private placement Explorer would own approximately 63.9% of our voting stock on an as converted basis. If all of the shares are subscribed for in the rights offering, Explorer would continue to own approximately 47.1% of our voting stock on an as converted basis.

WHO IS THE SUBSCRIPTION AGENT?

EquiServe Trust Company, N.A. is the subscription agent for this rights offering. EquiServe is also the transfer agent for our common stock.

WHAT IF MY PAYMENT IS INCONSISTENT WITH THE NUMBER OF RIGHTS BEING EXERCISED?

If you send a payment that is insufficient to purchase the number of shares for which you are exercising rights, or if the number of shares is not indicated in the forms you return, the subscription agent will apply the payment received to exercise rights on your behalf up to the amount of the payment received. If your payment exceeds the subscription price for the maximum number of rights that you are eligible to exercise, the excess will be refunded to you, without interest within approximately 10 business days following the expiration date.

WILL MANAGEMENT PARTICIPATE IN THE RIGHTS OFFERING?

Our executive officers and directors that own shares of our common stock have indicated that they intend to participate in the rights offering, although they are not bound to do so and may change their mind at any time. These

executive officers and directors are eligible to subscribe for an aggregate of 448,950 additional shares of our common stock in the rights offering.

WHEN WILL SHARES BE ISSUED?

Shares of common stock purchased in the rights offering will be issued as soon as practicable after satisfaction of the closing conditions, not to exceed 10 business days after the expiration date.

WHAT SHOULD I DO IF I HAVE OTHER QUESTIONS?

If you have questions, need additional copies of offering documents or otherwise need assistance, you should contact Georgeson Shareholder Communications, Inc. Georgeson's address and phone number appear on page 29. You may also contact us at the address and telephone number shown on page 7. We also file annual and quarterly reports and other information with the Securities and Exchange Commission. You may obtain copies of these reports by contacting us, the Securities and Exchange Commission or the New York Stock Exchange, as applicable, as described in "Where You Can Find More Information" also on page 117.

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OUR COMPANY

We are a self-administered real estate investment trust, or REIT, investing in and providing financing to the long-term care industry in the United States. At September 30, 2001, we owned or had mortgages on 246 skilled nursing and assisted living facilities with approximately 25,400 beds located in 29 states and operated by 32 independent healthcare operating companies.

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 debt or a combination of these methods. We also finance acquisitions through the exchange of properties or the issuance of shares of our capital stock when the transactions otherwise satisfy our investment criteria.

We prefer to make equity investments in our properties. We do this by purchasing the property and leasing it back to the operator. However, due to regulatory, tax or other considerations, we sometimes pursue alternative investment structures, including convertible participating and participating mortgages, that we believe achieve returns comparable to equity investments. We also provide traditional fixed-rate mortgages.

We are currently unable to borrow under our revolving credit facilities because we are not in compliance with certain financial covenants contained in the loan agreements relating to our two revolving credit facilities. On December 21, 2001, we reached agreements with the bank groups under both of our revolving credit facilities. These agreements include modifications and/or waivers to the financial covenants with which we were not in compliance. In addition, certain other financial covenants will be either modified or eliminated going forward. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer. See "Modifications of Bank Credit Agreements."

Our executive offices are located at 9690 Deereco Road, Suite 100, Timonium, Maryland 21093. Our telephone number is (410) 561-5726.

We also maintain a website at www.omegahealthcare.com. However, the information on our website is not part of this prospectus and you should consider only the information contained in this prospectus when making a decision as to whether or not to exercise your rights.

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RISK FACTORS

You should carefully consider the risks described below and the other information in this prospectus before deciding to purchase shares in the rights offering. Many factors, including the risks described below and other risks we have not recognized, could cause our operating results to be different from our current expectations and plans.

RISKS RELATED TO THE RIGHTS OFFERING

YOU CANNOT REVOKE YOUR EXERCISE OF SUBSCRIPTION RIGHTS FOR ANY REASON.

You may not revoke or change your exercise of rights after you send your subscription forms and payment to the subscription agent. If you later learn information about us that you consider to be unfavorable, if our stock price declines, or if you simply change your mind, you will not be entitled to revoke your subscription or obtain a refund of your subscription price. If we terminate the rights offering, you are only entitled to a refund of your subscription price. We will not pay any interest on the subscription price while it is held in escrow. If the market value of your shares declines during the period in which you are required to hold the shares, you will not receive any compensation for such loss in market value.

IF YOU DO NOT EXERCISE YOUR RIGHTS, YOUR PERCENTAGE OWNERSHIP INTEREST WILL BE DILUTED.

If you choose not to exercise your subscription rights in full, your percentage ownership interest will be diluted following the rights offering and private placement to Explorer. In addition, because the subscription price represents a discount from the prevailing market price of our common stock, stockholders who choose not to exercise their subscription rights will experience dilution of their economic interest in us.

THE SUBSCRIPTION RIGHTS ARE NONTRANSFERABLE.

Only our stockholders of record as of the record date who continuously hold the shares to which the rights relate between the record date and the exercise date may exercise rights. You may not sell, give away, or otherwise transfer your rights. However, rights may be transferred by will, devise or operation of law in the case of death, dissolution, liquidation or bankruptcy of the holder or pursuant to an order of an appropriate court. If you have delivered to the subscription agent a properly completed and signed subscription agreement together with the subscription price, you may thereafter sell your shares of common stock to which the rights relate without forfeiting the associated rights. You should note, however, that if your exercise of rights is determined to be defective and you have transferred the associated shares, you will forfeit the rights associated with the transferred shares. If you sell your common stock during the period between the record date and the exercise date, you will forfeit the rights you receive in this offering. Rights that are forfeited due to improper transfer will be null and void and no shares will be issued with respect thereof.

YOU NEED TO ACT PROMPTLY AND FOLLOW SUBSCRIPTION INSTRUCTIONS.

If you decide to exercise your rights, you will need to follow the instructions contained in this prospectus and the subscription agreement. If you do not, your subscription may be rejected. Stockholders who desire to purchase shares in the rights offering must act promptly to ensure that all required forms and payments are actually received by EquiServe, the subscription agent, prior to the expiration date. If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures we may, depending on the circumstances, reject your subscription or accept it to the extent of the payment received. Neither we nor EquiServe undertakes to contact you concerning, or to attempt to correct, an incomplete or

incorrect subscription form. We have the sole discretion to determine whether a subscription exercise properly follows the subscription procedures.

In addition, any personal check used to pay for shares must clear prior to the expiration date, and the clearing process may require five or more business days.

THE SERIES D PREFERRED STOCK THAT MAY BE ISSUED TO EXPLORER WILL HAVE GREATER RIGHTS, PREFERENCES AND PRIVILEGES THAN THOSE ALLOCATED TO OUR COMMON STOCK.

If we have not obtained the approval of our stockholders to issue common stock to Explorer as required by the rules of the New York Stock Exchange prior to the closing of the private placement to Explorer, we will issue to Explorer a new series of preferred stock that will have greater rights, preferences and privileges than our common stock, although this preferred stock would be non-voting. The Series D preferred stock has dividend rights and rights upon liquidation, dissolution or winding up of our company that rank senior to our common stock. Accordingly, if Explorer receives Series D preferred stock and it cannot be converted into common stock, Explorer will have, in some instances, greater rights, preferences and privileges than the holders of our common stock.

YOUR SUBSCRIPTION PRICE WILL BE RETURNED WITHOUT INTEREST IF THE RIGHTS OFFERING IS NOT COMPLETED.

If we terminate the rights offering, you are only entitled to a refund of your subscription price. We will not pay any interest on the subscription price while it is held in escrow. If the market value of your shares declines during the period in which you are required to hold the shares, you will not receive any compensation for such loss in market value.

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

We have entered into amendments to our credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe that these amendments will satisfy the closing conditions relating to our credit facilities. While there currently exists no governmental order or litigation with respect to this offering, we cannot assure you that such governmental order or litigation will not arise prior to closing the rights offering. If a governmental order or litigation arises prior to the closing of the rights offering, we may not be able to complete the rights offering and/or the private placement to Explorer. As a result, we cannot assure you that the rights offering will be completed.

RISKS RELATED TO OUR COMMON STOCK

THE PRICE OF OUR COMMON STOCK MAY DECLINE BELOW THE SUBSCRIPTION PRICE.

The subscription price in this rights offering represents a discount to the market price of our common stock on the date it was determined. The trading price for our common stock may decline below the subscription price during or after the rights offering. We cannot assure you that the subscription price will remain below the trading price for our common stock.

THE FUTURE MARKET PRICE OF OUR COMMON STOCK MAY FLUCTUATE SUBSTANTIALLY.

Future prices of our stock may be affected positively or negatively by our future revenues and earnings, changes in estimates by analysts, our ability to meet analysts' estimates, speculation in the

trade or business press about our company, and overall conditions affecting our business, economic trends and the securities markets.

In addition, the stock market has recently experienced significant price and volume fluctuations, which have been further exacerbated by the events of September 11, 2001. We cannot assure you that the market for our common stock will not continue to be volatile or that any additional terrorist attacks would not further disrupt the market generally or our common stock in particular.

ALTHOUGH OUR COMMON STOCK IS LISTED ON THE NEW YORK STOCK EXCHANGE, IT IS THINLY TRADED. OUR STOCK PRICE MAY FLUCTUATE MORE THAN THE STOCK MARKET AS A WHOLE.

As a result of the thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. In addition, sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of our common stock. Explorer owns approximately 47.1% of our voting stock and will likely acquire additional shares as a result of its new investment and stockholders not exercising their rights in the rights offering. Without a large float, our common stock is less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our common stock may be more volatile. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price for our stock than would be the case if our public float were larger. Explorer has the right to require us to register for resale the shares of our capital stock that it owns and can transfer any or all of its shares without our consent. As a result, Explorer has the ability to sell a substantial amount of our stock. Sales by Explorer, or the perception that such sales may occur, could negatively impact the market for and trading price of our common stock.

RISKS RELATED TO OUR COMPANY

OUR SUBSTANTIAL INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

We have substantial indebtedness and will continue to have substantial indebtedness after the completion of the rights offering. In addition, we may increase our indebtedness in the future. Our level of indebtedness could have important consequences to our stockholders. For example, it could:

- make us more vulnerable to economic downturns;

- potentially limit our ability to withstand competitive pressures;

- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes; and

- make us more susceptible to the above risks because borrowings under our credit facilities will bear interest at fluctuating rates.

We are dependent on third party financing for our investments. We have historically obtained such financing by accessing the public and private debt capital markets. Cash provided by our operating activities and/or proceeds from asset sales or additional equity issuances may be insufficient to meet required payments of principal and interest. In addition, we are also subject to risks related to rising interest rates on our floating rate debt that is not hedged, and our ability to repay or refinance existing indebtedness, which generally will not have been fully amortized at maturity and the terms of which may not be as favorable as the terms of existing indebtedness. In the event we are unable to refinance outstanding indebtedness as it matures on acceptable terms, we might be forced to dispose of properties upon disadvantageous terms, which might result in losses to us, or to obtain financing at unfavorable terms either of which might adversely affect the cash flow available to meet debt service obligations. In addition, if a property or properties are mortgaged to secure payment of indebtedness

and we are unable to meet required mortgage payments, the mortgage securing the property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to us.

At September 30, 2001, on a consolidated basis, we had outstanding indebtedness of approximately $426.0 million, and the ratio of our debt to total assets was 46.7%. On a pro forma basis at September 30, 2001, after giving effect to the rights offering, Explorer's investment and the application of the estimated net proceeds therefrom and certain other adjustments, we would have had outstanding indebtedness of approximately $381.0 million and had a ratio of debt to total assets of 41.8%.

OUR FAILURE TO COMPLY WITH CERTAIN FINANCIAL COVENANTS IN OUR TWO CREDIT FACILITIES CURRENTLY PREVENTS US FROM BORROWING UNDER THOSE FACILITIES AND COULD CAUSE THAT AND OTHER DEBT TO BECOME IMMEDIATELY PAYABLE.

We are currently unable to borrow under our revolving credit facilities because we are not in compliance with certain of the financial covenants contained in the loan documents relating to our two revolving credit facilities. These covenant violations currently prevent us from drawing upon the remaining availability under these credit facilities.

On December 21, 2001 we reached agreements with the bank groups amending both of our revolving credit facilities. These agreements include modifications and/or waivers to certain financial covenants with which we were not in compliance. In addition, certain other financial covenants will be either modified or eliminated going forward.

Each of the amendments to our credit facilities is conditioned upon the closing of the rights offering and Explorer's investment. If the rights offering does not close, both amendments will be null and void and we will remain in violation of our credit facilities. These violations would permit the lenders to declare any or all of the amounts due under the respective credit facilities to be immediately due and payable. If the lenders declare such amounts due and payable, we will not have sufficient funds to repay the borrowings or other debt obligations that may come due in the near future.

THE SALE OF UNSUBSCRIBED SHARES IN THE RIGHTS OFFERING TO EXPLORER OR FUTURE STOCK PURCHASES BY EXPLORER MAY VEST CONTROL OF OUR COMPANY IN EXPLORER.

Explorer presently owns 47.1% of our voting stock through the ownership of our Series C preferred stock and 553,850 shares of common stock. The number of additional shares Explorer has agreed to purchase in the concurrent private placement depends on how many rights are exercised in the rights offering. If all of the rights are exercised by our stockholders in the rights offering, Explorer would continue to own 47.1% of our voting stock following the rights offering and private placement to Explorer. If none of the rights are exercised, Explorer would own 63.9% of our voting stock following the rights offering and private placement to Explorer.

As a condition to the private placement to Explorer, we have agreed to amend the agreements we have with Explorer to remove restrictions that currently limit the right of Explorer to purchase additional shares of our stock or to vote shares of our stock that it owns in excess of 49.9% of our total voting stock. As a result, if Explorer acquires beneficial ownership of more than 50% of our common stock, Explorer will have the right to designate a majority of our directors and the voting power to cause the election of all our directors. Explorer will be able to control, through our Board, the management and affairs of our company. It will also be able to control the vote on all matters submitted to our stockholders, including transactions involving an actual or potential change in our control. This could prevent transactions in which the holders of our common stock might otherwise receive a premium for their shares over then current market prices. The interests of Explorer may not coincide with the interests of the other holders of our common stock.

OUR ASSETS MAY NOT BE ADEQUATE TO SATISFY OUR DEBT OBLIGATIONS IN THE EVENT OF A LIQUIDATION AND WE MAY NOT HAVE ANY ASSETS AVAILABLE FOR DISTRIBUTION TO STOCKHOLDERS.

If the lenders under our credit facilities were to declare any or all of the amounts outstanding under those facilities to be immediately payable, we will not have sufficient funds to repay the borrowings or other debt obligations that may come due in the near future. In the event of a bankruptcy or liquidation of our company, the lenders under our credit facilities and the holders of our debt securities would be entitled to payment of all amounts due to them before the holders of our common stock would receive anything. In addition, the holders of our preferred stock are entitled to liquidation preferences. We cannot assure you that the value of our assets will be sufficient to meet all of our obligations. If they are not sufficient, the holders of our common stock may not receive anything in the event of a liquidation or reorganization of our company.

WE HAVE SIGNIFICANT PRINCIPAL AND DIVIDEND PAYMENTS COMING DUE; WE MAY BE UNABLE TO PAY THESE AMOUNTS OR REFINANCE MATURING INDEBTEDNESS.

We have significant principal and dividend payments due on our indebtedness and preferred stock over the next several years. We are presently required to make the following principal payments on our current outstanding debt:

- $99.4 million in 2002;

- $131.0 million in 2003;

- $2.2 million in 2004; and

- $180.5 million thereafter.

Additionally, dividends on Series A, B and C preferred stock accrue at $20.1 million annually. As of December 31, 2001, we had $19.9 million of accumulated and unpaid preferred dividends.

Although we intend to use a portion of the proceeds of this offering to repay our indebtedness, it will not be enough to satisfy all of these obligations. Our ability to meet these obligations will depend upon our future operating performance and our ability to dispose of properties currently held for sale, which in turn will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control.

We cannot assure you that our business will continue to generate sufficient cash flow from operations or that there will be sufficient proceeds from asset

sales or additional equity issuances to repay our substantial indebtedness. If we are unable to generate sufficient cash from these sources, we may be required to sell additional assets, to refinance all or a portion of our indebtedness or to obtain additional financing. We cannot assure you that any such refinancing will be possible or that any additional financing will be available on terms acceptable to us.

OUR DEBT AGREEMENTS IMPOSE SIGNIFICANT OPERATING AND FINANCIAL RESTRICTIONS, WHICH MAY PREVENT US FROM CAPITALIZING ON BUSINESS OPPORTUNITIES.

Our debt agreements impose significant operating and financial restrictions on us. These restrictions affect, and in certain cases limit, among other things, our ability to:

- incur additional indebtedness and liens;

- make capital expenditures;

- make investments and acquisitions and sell assets; or

- consolidate, merge or sell all or substantially all of our assets.

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We cannot assure you that these restrictions will not adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be in the interest of stockholders.

OUR INDUSTRY IS SUBJECT TO SIGNIFICANT GOVERNMENT REGULATION.

Nearly all of our properties are used as healthcare facilities; therefore, we are directly affected by the risks associated with the healthcare industry. The healthcare industry is highly regulated by federal, state and local laws, rules and regulations and is directly affected by state and local licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. These laws, rules and regulations are complex and constantly evolving, and subject to considerable interpretation and discretion on the part of regulators and courts. We cannot assure you that government investigations will not result in interpretations that are inconsistent with industry practices.

The Balanced Budget Act of 1997 enacted a number of anti-fraud and abuse provisions and contains civil monetary penalties for an operator's violation of the anti-kickback laws. The Balanced Budget Act also imposes an affirmative duty on operators to ensure they do not employ or contract with persons excluded from the Medicare or other governmental programs. It also provides a minimum ten-year period for exclusion from participation in federal healthcare programs for operators convicted of a prior healthcare offense. Additionally, the Health Insurance Portability and Accountability Act of 1996, which became effective January 1, 1997, broadened the scope of fraud and abuse laws, such as the anti-kickback law, and related enforcement activities.

Governmental investigations and enforcement of healthcare laws have increased dramatically and are expected to continue to increase. There are heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry, including the skilled nursing segment. There is increasing scrutiny by law enforcement authorities, the Office of Inspector General, the Department of Health and Human Services, the U.S. Department of Justice, the courts and Congress of arrangements between healthcare providers and potential referral sources to ensure that arrangements are not designed as a mechanism to exchange remuneration for patient care referrals and opportunities. Investigators have also demonstrated a willingness to look behind the formalities of a business transaction to determine the underlying purpose of payments between healthcare providers and potential referral sources. Additionally, federal and state enforcement authorities have used the federal False Claims Act with increasing frequency in quality of care cases. In addition to investigations and enforcement actions initiated by governmental agencies, healthcare companies may also be the subject of qui tam or whistleblower actions brought under the False Claims Act by private individuals on behalf of the government. Whistleblowers receive a portion of any amounts collected by the government in those types of actions as a reward for bringing the action to the government's attention. Actions under the False Claims Act are generally filed under seal to allow the government adequate time to investigate and determine whether or not it will intervene in the lawsuit, and defendant healthcare providers are often without knowledge of these actions until the government has completed its investigation and the seal is lifted. This process can take several years. Over the past few years, a number of False Claims Act or fraud and abuse suits have been brought against nursing home facilities or operators based on quality of care issues, staffing levels, submitting falsely inflated costs reports, billing for services never rendered, billing of labor costs, and upcoding of claims.

The increase in governmental investigations, the Balanced Budget Act, Health Insurance Portability and Accountability Act, future healthcare legislation or other changes in administration or interpretation of governmental healthcare programs may have a material adverse effect on the amounts we receive with respect to our owned and operated portfolio and the liquidity, financial condition or

results of operations of our operators, which could also have a material adverse effect on their ability to make rent and interest payments to us.

OUR LESSEES/MORTGAGORS RELY ON THIRD PARTY PAYORS FOR PAYMENT.

Based on information provided by the operators of our facilities, the following table sets forth the approximate payor mix for our facilities for the most recently reported twelve-month period:

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<S>	<C>
Medicaid	52.5%
Medicare	22.5
Private	12.0
Other	13.0
Total	100.0%

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Our lessees and mortgagors, as well as the facilities owned and operated for our account, derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. These programs are highly regulated and subject to frequent and substantial changes. The Balanced Budget Act significantly reduced spending levels for the Medicare and Medicaid programs. Due to the implementation of the terms of the Balanced Budget Act, effective July 1, 1998, the majority of skilled nursing facilities shifted from payments based on reimbursable cost to a prospective payment system for services provided to Medicare beneficiaries. Under the prospective payment system, skilled nursing facilities are paid on a per diem prospective case mix adjusted payment basis for all covered services. Implementation of the prospective payment system has affected each long-term care facility to a different degree depending upon the amount of revenue it derives from Medicare patients. Long-term care facilities have had to attempt to restructure their operations to operate profitably under the new Medicare prospective payment system reimbursement policies. Although Congress amended the Balanced Budget Act in 1999 and 2000 to restore some monies to skilled nursing facilities that were cut as a result of the implementation of the Balanced Budget Act, we cannot assure you that there will be any future legislation to increase payment rates for skilled nursing facilities. If payment rates for skilled nursing facilities are not increased in the future, our lessees and mortgagors may have difficulty meeting their payment obligations to us.

Each state has its own Medicaid program that is funded jointly by the state and federal government. Federal law governs how each state manages its Medicaid program, but there is wide latitude for states to customize Medicaid programs to fit the needs and resources of its citizens. The Balanced Budget Act repealed the federal payment standard, also known as the Boren Amendment, for hospitals and nursing facilities under Medicaid, increasing states' discretion over the administration of Medicaid programs. A number of states are considering legislation designed to reduce their Medicaid expenditures which could result in decreased revenues for our lessees and mortgagors.

In addition, private payors, including managed care payors, are increasingly demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk of operating a healthcare facility. Efforts to impose greater discounts and more stringent cost controls are expected to continue. Any changes in reimbursement policies which reduce reimbursement levels could adversely affect the amounts we receive with respect to our owned and operated portfolio and the revenues of our lessees and mortgagors and thereby adversely affect those lessees' and mortgagors' abilities to make their monthly lease or debt payments to us.

OUR LESSEES/MORTGAGORS MAY NOT GENERATE SUFFICIENT INCOME TO MEET THEIR PAYMENT OBLIGATIONS TO US.

The possibility that the healthcare facilities will not generate income sufficient to meet operating expenses or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in healthcare-related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation, such as zoning laws, general or local economic conditions, such as fluctuations in interest rates and

adequacy of local labor supply, the available local supply and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters, such as earthquakes and floods or similar factors.

Other changes in the healthcare industry that may adversely affect the incomes of lessees and mortgagors include continuing trends toward shorter lengths of stay, increased use of outpatient services, increased federal, state and third-party regulation and oversight of healthcare company operations and business practices and increased demand for capitated healthcare services, defined as the delivery of services at a fixed price per capita basis to a defined group of covered parties. The entrance of insurance companies into managed care programs is also accelerating the introduction of managed care in new localities, and states and insurance companies continue to negotiate actively the amounts they will pay for services. Moreover, the percentage of healthcare services that are reimbursed under Medicare and Medicaid programs continues to increase as the population ages and as states expand their Medicaid programs. Continued eligibility to participate in these programs is crucial to a provider's financial strength. Finally, healthcare regulation through Certificates of Need has tended to limit construction of new long-term care facilities in many states because states that have enacted Certificate of Need legislation require the issuance of a Certificate of Need prior to the construction of a new healthcare facility. A Certificate of Need is issued by the applicable health planning agency in a state only after the health planning agency makes a determination that a need exists in a particular area in the state for a particular service or facility. Several states in which we have investments have repealed Certificates of Need legislation, including California and Texas, opening up opportunities for additional competition for our facilities. As a result of the foregoing, the revenues and margins of the operators of our facilities may decrease, resulting in a reduction of our rent/interest coverage from investments

OUR LESSEES/MORTGAGORS MAY EXPERIENCE A REDUCTION IN REVENUES DUE TO HEALTHCARE REFORM.

The Health Insurance Portability and Accountability Act, enacted in 1996, focused on assuring portability of employee healthcare benefits and increasing enforcement powers of federal agencies that investigate and prosecute fraud and abuse in federally funded healthcare programs. Ongoing federal budget constraints will continue to place priority on the need to slow the growth rate in federal healthcare expenditures. We anticipate that further debate on overall structural reform of federal healthcare programs will affect additional legislative action on cost-containment. We also anticipate that private payor efforts to contain or reduce healthcare costs will continue. These trends are likely to lead to reduced or slower growth in reimbursement for certain services provided by some of our lessees and mortgagors. We cannot assure you that the implementation of any reforms will not have a material adverse effect on our financial condition or results of operations.

Additionally, portions of the Health Insurance Portability and Accountability Act required the Department of Health and Human Services to adopt standards governing electronic transmission of healthcare information. The purpose of this law is to promote efficiency and effectiveness in the healthcare system through the establishment of standards and requirements for the electronic transmission of certain healthcare information. The entities covered under this law are health plans, healthcare clearinghouses, and healthcare providers that transmit health information electronically. Pursuant to this authority, the Department of Health and Human Services published final regulations

on August 17, 2000 setting standardized transaction forms and code sets for several common healthcare transactions, including healthcare claims, remittance advice, coordination of benefits, referral certification and authorization, health plan enrollments and disenrollments, health plan premium payments, and health plan eligibility. The use of these standardized formats for the covered transactions is expected to be mandated within 24 months of the effective date of these regulations for providers such as our lessees and mortgagors that engage in these types of transactions through electronic transmissions.

Pursuant to other Administrative Simplification provisions of the Health Insurance Portability and Accountability Act, the Department of Health and Human Services published final regulations governing privacy and security of health information on December 28, 2000, which became effective April 14, 2001. These privacy regulations will likely require substantial review of and revisions to our lessees' and mortgagors' current policies and procedures regarding the storage, use and disposition of health information, as well as require them to engage in "business partners" agreements regarding these practices with any third party to which they disclose health information in order to carry out their business and operate their facilities. These privacy regulations would also require publication of our lessees' and mortgagors' policies regarding privacy of health information and would confer enumerated rights upon residents with respect to access to their own health information, requests to correct such information, and accounting for particular disclosures of the information by our

lessees and mortgagors, and under our agreements with business partners.

Compliance with the regulations issued by the Department of Health and Human Services under the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act will require our lessees and mortgagors to assure that their information systems, as well as their operating policies and procedures, are sufficient to accommodate the final standardized transactions and code sets, as well as the security and privacy standards in the privacy regulations published by the Department of Health and Human Services. As a result of compliance with the foregoing, the revenues and margins of the operators of our facilities may decrease, resulting in a reduction of our rent/interest coverage from investments.

MEDICAID MAY NOT ADEQUATELY REIMBURSE US OR OUR LESSEES AND MORTGAGORS WHICH COULD IMPACT THEIR ABILITY TO MEET THEIR PAYMENT OBLIGATIONS TO US.

We cannot assure you that the Medicaid reimbursement programs in each of the states where we own and operate facilities or where our lessees' and mortgagors' facilities are located will adequately reimburse us for our operating costs or the rent or interest costs of our lessees and mortgagors. Failure by these state Medicaid programs to provide reimbursement at current or increased levels could have an adverse effect upon the cash flow of the facilities and, hence, on the ability of our lessees and mortgagors to meet their respective payment obligations to us. Additionally, Medicare regulations provide that, effective December 1, 1997, when a facility changes ownership, by sale or under certain lease transactions, reimbursement for depreciation and interest will be based on the cost to the owner of record as of August 5, 1997, less depreciation allowed. Previously, the buyer would use its cost of purchase up to the original owner's historical cost before depreciation. Such changes could adversely affect the resale value of our healthcare facilities.

THE LONG-TERM CARE INDUSTRY MAY EXPERIENCE INCREASED LIABILITY COSTS.

General liability and professional liability costs in the long-term care industry have significantly increased over the past several years, with increases in the number and average size of claims. Excluding Florida, where recent experience is materially inconsistent with most other states, the number of claims in the long-term care industry has been increasing annually at a rate of approximately 8%, while the size of such claims has increased 14%. In Florida, the number of claims has been increasing annually at a rate of approximately 23%, while the size of such claims has increased 18%.

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The increased frequency and magnitude of losses have led a number of insurance companies to exit from the long-term care industry, resulting in dramatically increased premiums and increased difficulties in obtaining coverage.

WE MAY BE EXPOSED TO UNINSURED LOSSES.

We currently require, and it is our intention to continue to require, all lessees and mortgagors to secure adequate comprehensive property and liability insurance that covers us as well as the lessee and mortgagor. Certain risks may, however, be uninsurable or not economically insurable and we cannot assure you that we or a lessee will have adequate funds to cover all contingencies.

OUR REAL ESTATE INVESTMENTS ARE RELATIVELY ILLIQUID.

Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. All of our properties are "special purpose" properties that could not be readily converted to general residential, retail or office use. Healthcare facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance, and may be excluded from the programs--in some cases without a prior hearing--for failure to meet program requirements. 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 lessee or mortgagor becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. 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, an owner of real property or a secured lender, such as us, may be liable in certain circumstances for the costs of removal or remediation 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 without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and liability may be imposed on the owner in connection with the activities of an operator of the property. The cost of any required 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 the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce our revenues.

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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, and we cannot assure you that any such borrower or lessee would be able to fulfill its indemnification obligations.

WE RELY ON THIRD PARTY OPERATORS OF HEALTHCARE FACILITIES.

As of September 30, 2001, our portfolio of domestic investments consisted of 246 facilities located in 29 states and operated by 32 independent healthcare operating companies. Our gross investments in these facilities totalled $887.2 million at September 30, 2001. This portfolio is made up of 129 long-term care facilities and two rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 55 long-term healthcare facilities and 48 long-term care facilities that were recovered from customers and are currently operated through third-party management contracts for our own account. In addition, 12 facilities are subject to third-party leasehold interests. Approximately 73.7% of our real estate investments were operated by seven public companies, including Sun Healthcare Group, Inc. (24.6%), Integrated Health Services, Inc. (18.1%, including 10.7% as the manager for and 50% owner of Lyric Health Care LLC), Advocat Inc. (12.0%), Mariner Post-Acute Network, Inc. (6.7%), Kindred Healthcare, Inc. (formerly known as Vencor Operating, Inc.) (5.7%), Alterra Healthcare Corporation (3.8%) and Genesis Health Ventures, Inc. (2.8%). Kindred and Genesis manage facilities for our own account, including "owned and operated" assets. The two largest private operators represent 3.5% and 2.5%, respectively, of investments. No other operator represents more than 2.5% of investments. The three largest states in which we had investments were Florida (16.0%), California (7.5%) and Illinois (7.5%).

WE ARE EXPOSED TO POTENTIAL RISKS FROM BANKRUPTCIES OF OUR LESSEES.

Our financial position and our ability to service our debt may be adversely affected by financial difficulties experienced by any of our operators and the related potential for a bankruptcy filing.

Our lease arrangements with operators who operate more than one of our facilities are generally made pursuant to a single master lease covering all of that operator's facilities. Although each lease or master lease provides that we may terminate the master lease upon the bankruptcy or insolvency of the tenant, the Bankruptcy Reform Act of 1978 provides that a trustee in a bankruptcy or reorganization proceeding under the Bankruptcy Act, or a debtor-in-possession in a reorganization, has the power and the option to assume or reject the unexpired lease obligations of a debtor-lessee. In the event that the unexpired lease is assumed on behalf of the debtor-lessee, all the rental obligations thereunder generally would be entitled to a priority over other unsecured claims. However, the court also has the power to modify a lease if a debtor-lessee in a reorganization were required to perform certain provisions of a lease that the court determined to be unduly burdensome. It is not possible to determine at this time whether or not any of our leases or master lease contains any such provision. If a lease is rejected, the lessor has a general unsecured claim limited to any unpaid rent already due plus an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of such lease, not to exceed three years.

Generally, with respect to our mortgage loans, the imposition of an automatic stay under the Bankruptcy Act precludes us from exercising foreclosure or other remedies against the debtor. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and

(2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as ourselves is entitled to the recovery of interest and costs only if and to the extent that the value of the collateral exceeds the amount owed. If the value of the collateral is less than the debt, a lender such as ourselves would not receive or be entitled to any interest for the time period between the filing of the case and

confirmation. If the value of the collateral does exceed the amount of the debt, interest and allowed costs may not be paid during the bankruptcy proceeding but accrue until confirmation of a plan of reorganization or some other time as the court orders. Finally, while a lease generally would either be rejected or assumed with all of its benefits and burdens intact, the terms of a mortgage, including the rate of interest and timing of principal payments, may be modified if the debtor is able to effect a "cramdown" under the Bankruptcy Act.

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

WE ARE EXPOSED TO POTENTIAL RISKS RELATED TO OWNED AND OPERATED ASSETS.

As a consequence of the financial difficulties encountered by a number of our operators, we have recovered various long-term care assets, pledged as collateral for the operators' obligations, either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. During 2000, $24.3 million of assets previously classified as held for sale were reclassified to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of then prevailing market conditions.

We are typically required to hold applicable licenses and are responsible for the regulatory compliance at our owned and operated facilities. Our management contracts with third party operators for these properties provide that the third party operator is responsible for regulatory compliance, but we could be sanctioned for violation of regulatory requirements. In addition, the risk of third party claims such as patient care and personal injury claims may be higher with respect to our owned and operated properties as compared to the our leased and mortgaged assets.

THE INDUSTRY IN WHICH WE OPERATE IS HIGHLY COMPETITIVE. THIS COMPETITION MAY PREVENT US FROM RAISING PRICES AT THE SAME PACE AS OUR COSTS INCREASE.

We compete for additional healthcare facility investments with other healthcare investors, including other real estate investment trusts. The operators of the facilities compete with other regional or local nursing care facilities for the support of the medical community, including physicians and acute care hospitals, as well as the general public. Some significant competitive factors for the placing of patients in skilled and intermediate care nursing facilities include quality of care, reputation, physical appearance of the facilities, services offered, family preferences, physician services and price.

WE ARE SUBJECT TO SIGNIFICANT ANTI-TAKEOVER PROVISIONS.

In addition to the potential anti-takeover effects resulting from Explorer's significant investment in our company, our certificate 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 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. We have also adopted a stockholders rights plan which provides for share purchase rights to become exercisable at a discount if a person or group, other than Explorer and its affiliates, acquires more than 9.9% of our

common stock or announces a tender offer for more than 9.9% of our common stock. 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 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 in the future that a change is in our and our stockholders' best interests. The methods of implementing our investment strategies and policies may vary as new investments and financing techniques are developed.

WE ARE ORGANIZED AS A SELF-ADMINISTERED REAL ESTATE INVESTMENT TRUST.

We were organized to qualify for taxation as a real estate investment trust, or REIT, under Sections 856 through 860 of the Internal Revenue Code. We believe we have conducted, and we intend to continue to conduct, our operations so as to qualify 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 Internal Revenue 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. For example, in order to qualify as a REIT, each year we must distribute to our stockholders at least 90% (95% for taxable years before 2001) of our taxable income, other than any net capital gain. 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. 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 reduce our net earnings and cash flow available for investment, debt service or distribution to stockholders because of our additional tax liability for the years involved. In addition, distributions to stockholders would no longer be required to be made.

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THE RIGHTS OFFERING

THE RIGHTS

If you owned our common stock as of 5:00 p.m. on January 22, 2002, you will receive one right for every 2.15 shares of common stock owned by you at that time. Each right entitles you to purchase one share of common stock at the subscription price. For example, if you owned 100 shares of common stock on the record date, you would have the right to purchase 47 additional shares of common stock for $2.92 per share. The aggregate number of rights you are entitled to receive, if exercised by you in full, represents your pro rata portion of the $50 million in additional equity capital we are seeking to raise in the rights offering and private placement. Your pro rata portion is based on the number of shares of common stock you owned on the record date, assuming solely for this purpose the conversion of all of our outstanding Series C preferred stock, all of which is held by Explorer. There is no minimum number of shares that must be subscribed for by stockholders in the rights offering. If no stockholders subscribe for shares in the rights offering, Explorer will purchase $50 million of additional equity assuming the closing conditions are satisfied.

We will not issue fractional rights, and you may not exercise rights other than in whole numbers. If the number of shares of common stock you held on the record date would result in your receipt of fractional rights, the number of rights distributed to you has been rounded up to the nearest whole right.

EXPIRATION TIME AND DATE

The rights expire on February , 2002, at 5:00 p.m., New York City time. Our subscription agent must actually receive all required documents and payments before that date and time. We recommend that you send all of your subscription documents, together with payment of the subscription price, to the subscription agent several days in advance of the expiration date. We can extend the expiration date, but in no event will the date be extended beyond February 28, 2002. We do not presently intend to extend the expiration date. Rights not exercised by the expiration date will be null and void and will have no value, and the shares of common stock associated with those rights will not be issued.

SUBSCRIPTION PRICE

The subscription price is $2.92 per share, payable in cash. All payments must clear on or before the expiration date. The market price of our common stock may increase or decrease during the rights offering. On January 11, 2002, the last reported sale price for our common stock on the New York Stock Exchange

was $5.99 per share.

The subscription price is the same price that is being offered to Explorer in the private placement concurrent with this offering. Our Board of Directors sought and obtained a written opinion from Shattuck Hammond Partners LLC, an independent financial advisor, that as of October 29, 2001, the date of their opinion, the financial terms of the investment agreement with Explorer taken as a whole are fair to Omega from a financial point of view. For purposes of the opinion, our financial advisor assumed a subscription price of $2.92 per share.

We have attached the full text of Shattuck Hammond's opinion as Annex A to this prospectus. You should read the entire opinion to understand the assumptions made, matters considered and limitations on the review undertaken by our financial advisor. The opinion does not constitute a recommendation as to whether you should exercise your rights in the rights offering. Shattuck Hammond's opinion relates solely to the fairness to Omega Healthcare of the financial terms of the investment agreement, and does not address the fairness of either the investment agreement to unaffiliated stockholders or the subscription price in the rights offering. A summary of the opinion is also set forth below under "Determination of Subscription Price."

In determining whether to pursue the rights offering as well as setting the price at which a share of common stock may be purchased in this rights offering, a special committee of our Board of Directors, which did not include affiliates of Explorer, considered several factors, including the fairness

opinion delivered by our financial advisor, the historic and current market price of our common stock as of the date of the opinion, our financial condition, challenges facing us, anticipated cash flows, general conditions in the securities markets, our need for additional capital, available alternate sources of financing, prices offered to stockholders in other rights offerings and the need to offer the shares at a price that would be attractive to investors relative to the then current trading price for our common stock, among other things.

CLOSING CONDITIONS

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

We have entered into amendments to our credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. See "Modification of Bank Credit Agreements" for a discussion of the general terms of the proposed amendment to our two credit facilities and any conditions to the effectiveness of such amendments. We believe that these amendments will satisfy the closing conditions relating to our credit facilities. While there currently exists no governmental order or litigation with respect to this offering, we cannot assure you that such governmental order or litigation will not arise prior to closing the rights offering. If a governmental order or litigation arises prior to the closing of the rights offering, we may not be able to complete the rights offering and/or the private placement to Explorer.

All subscriptions will be held in escrow until expiration of the subscription period and the satisfaction of the closing conditions. If the closing conditions are not satisfied on or before expiration of the subscription period as it may be extended by us, we will terminate the rights offering and return your money to you, without interest, within approximately 10 business days following the termination.

ESCROW ARRANGEMENT

Until the closing conditions have been satisfied and the expiration of the subscription period, your money will be held in a non-interest-bearing account maintained by Bank One Trust Company, NA, the escrow agent. If we terminate the offering, we will return your money to you, without interest, within

approximately 10 business days following termination. We will pay the fees and expenses of the escrow agent, which we estimate to be approximately $4,000.

EXPLORER PRIVATE PLACEMENT

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

As a condition to Explorer's private placement investment, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company effective as of the closing of

Explorer's new investment. The effect of these amendments is generally to remove those provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our stock and from taking certain actions without the prior approval of our Board. These agreements are described in more detail under "Modifications to Agreements with Explorer" on page 46 of this prospectus. The private placement to Explorer is subject to the satisfaction of the same closing conditions to which the rights offering is subject. In addition, prior to the closing of the rights offering, the private placement to Explorer is subject to the condition that our existing stockholder rights plan has not been triggered and that the amendment to the stockholder rights plan in connection with the Explorer investment remains in effect.

The rules of the New York Stock Exchange require that stockholders approve the sale of voting capital stock to an affiliate such as Explorer. If the issuance of common stock to Explorer has not been approved by our stockholders at the time we close the rights offering and Explorer's investment, we will issue to Explorer, in lieu of common stock, non-voting Series D preferred stock, which will have greater rights and preferences than common stock. The Series D preferred stock will automatically convert into common stock upon receipt of stockholder approval or the waiver by the New York Stock Exchange of its stockholder approval requirement.

We have scheduled a special meeting of stockholders to be held on February , 2002 at which stockholders will be asked to vote on a proposal to approve the issuance of common stock to Explorer. Proxy solicitation materials with respect to the special meeting accompany this prospectus, and we recommend that you read both the prospectus and the proxy materials completely. Your vote will not affect your ability to exercise rights received in this offering. Stockholders may vote to approve the issuance of the shares of common stock to Explorer and still decline to exercise their subscription rights. Conversely, stockholders can vote against the issuance of shares to Explorer yet still exercise their subscription rights if the closing conditions to which the rights offering is subject are met.

REASONS FOR THE RIGHTS OFFERING

We are distributing the rights to purchase common stock as part of our plan to raise up to $50 million in additional equity capital to satisfy the conditions to the modification of our credit facilities and to enhance our ability to repay approximately $98 million in debt maturing during the first half of 2002. Our equity offering consists of two components--this rights offering and a concurrent private placement of equity pursuant to our October 29, 2001 investment agreement with Explorer. We are distributing the rights to give all our common stockholders the opportunity to participate in proportion to their ownership interest in our voting stock.

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

- our need for capital;

- the alternative methods available to us for raising capital;

- the pro rata nature of a rights offering to our stockholders;

- the terms of the investment agreement with Explorer;

- the time period available in which to raise the needed capital and the uncertainty of closure associated with various alternative methods for raising capital;

- the market price of our common stock; and

- conditions of the capital markets in general.

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

NO BOARD INVESTMENT RECOMMENDATION TO STOCKHOLDERS

Our Board of Directors is not making any recommendation to you about whether or not you should exercise any rights. Although our Board of Directors has obtained a fairness opinion and the Board of Directors approved proceeding with the rights offering based on the recommendation of the special committee, you should make your own decision as to whether or not to exercise your rights and, if so, how many rights to exercise. You should make this decision only after reading this entire prospectus and consulting with your own financial advisors. Your decision should be based upon your own assessment of your best interests.

CONSEQUENCES OF FAILURE TO EXERCISE RIGHTS

If you choose not to exercise your subscription rights in full, your relative percentage ownership interest will be diluted. There is no minimum number of shares that must be subscribed for by stockholders in the rights offering. If no other stockholders subscribe for shares in the rights offering, Explorer has committed to invest $50 million if the closing conditions are satisfied.

NO REVOCATION

You may not revoke or change your exercise of rights after you send in your subscription agreement and payment even if you later learn information about us that you deem to be unfavorable, or if our stock price declines. You should not exercise your rights unless you are certain that you wish to purchase additional shares of our common stock in this rights offering.

OVER-SUBSCRIPTION PRIVILEGE

There will be no over-subscription privilege for unexercised rights. To the extent that shares of common stock are not subscribed for in this offering, Explorer has committed to increase the size of its private placement investment in our company by an amount equal to the aggregate subscription price relating to the unsubscribed shares on the closing of the rights offering.

EXTENSION, WITHDRAWAL AND AMENDMENT

We have the option of extending the rights offering and the period for exercising your rights until February 28, 2002, although we presently do not intend to do so.

We also reserve the right to terminate the rights offering at any time for any reason including the failure of the closing conditions to occur. In the event that the offering is terminated, money received from subscriptions will be returned, without interest.

We reserve the right to amend the terms of the rights offering. If we make an amendment that we consider significant, we will:

- mail notice of the amendment to all stockholders of record as of the record date;

- extend the expiration date by at least ten days; and

- offer all subscribers no less than ten days to revoke any subscription already submitted.

The extension of the expiration date will not, in and of itself, be treated as a significant amendment for these purposes.

MAILING OF SUBSCRIPTION AGREEMENTS AND EXERCISE OF RIGHTS

We are sending a subscription agreement and the proxy statement to each record holder as of the record date along with this prospectus and related instructions. To exercise rights, you must complete and sign the subscription agreement and deliver it, along with full payment for the shares to be purchased, to EquiServe before the expiration of the subscription period. See "--Procedures to Exercise Rights."

SHARES HELD FOR OTHERS

Only holders of record of common stock at the close of business on the record date may exercise rights. You are a record holder for this purpose only if your name is registered as a stockholder with our transfer agent, EquiServe, as of the record date.

A depository bank, trust company or securities broker or dealer which is a record holder for more than one beneficial owner of shares may divide or consolidate subscription agreements to represent shares held on the record date by their beneficial owners, upon proper showing to EquiServe.

If you own shares held in a brokerage, bank or other custodial or nominee account, you should promptly send the proper instruction form to the person holding your shares in order to exercise your rights. Your broker, dealer, depository or custodian bank or other person holding your shares is the record holder of your shares and will have to act on your behalf in order for you to exercise rights. We have asked your broker, dealer or other nominee holders of our stock to contact the beneficial owners to obtain instructions concerning rights the beneficial owners are entitled to exercise.

RIGHT TO BLOCK EXERCISE DUE TO REGULATORY ISSUES

We do not anticipate that the laws of any state or local U.S. jurisdiction will restrict the exercise of rights or require any prior clearance or approval. However, holders in non-U.S. jurisdictions who receive rights may not be eligible to exercise their rights and participate in the offer if applicable law in such non-U.S. jurisdiction restricts or regulates such exercise.

We reserve the right to refuse the exercise of rights by any holder of rights who would, in our opinion, be required to obtain prior clearance or approval from any regulatory authorities for the exercise of rights or ownership of additional shares if, at the expiration date, this clearance or approval has not been obtained. We are not undertaking to pay any expenses incurred in seeking that clearance or approval.

PROCEDURES TO EXERCISE RIGHTS

Rights may be exercised by delivering to EquiServe, the subscription agent, on or prior to 5:00 p.m., New York City time, on February , 2002, the properly completed and executed subscription agreement, together with payment in full of the exercise price for each right exercised. IF YOU ARE NOT A BROKER, BANK OR OTHER ELIGIBLE INSTITUTION, YOU MUST OBTAIN A SIGNATURE GUARANTEE ON THE SUBSCRIPTION AGREEMENT FROM A BROKER, BANK OR OTHER INSTITUTION ELIGIBLE TO GUARANTEE SIGNATURES. Please do not send subscription agreements or related forms to us. The subscription price may be paid by:

- a personal check, which must have timely cleared payment on or before expiration of the subscription period; or

- a certified or cashier's check or bank draft drawn upon a U.S. bank or a U.S. postal money order.

FUNDS PAID BY UNCERTIFIED PERSONAL CHECK MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR. ACCORDINGLY, IF YOU PAY THE SUBSCRIPTION PRICE BY MEANS OF UNCERTIFIED PERSONAL CHECK, YOU SHOULD MAKE PAYMENT SUFFICIENTLY IN ADVANCE OF THE EXPIRATION TIME TO ENSURE THAT YOUR CHECK ACTUALLY CLEARS AND THE PAYMENT IS

RECEIVED BEFORE THAT TIME. WE ARE NOT RESPONSIBLE FOR ANY DELAY IN PAYMENT BY YOU AND SUGGEST THAT YOU CONSIDER PAYMENT BY MEANS OF CERTIFIED OR CASHIER'S CHECK, MONEY ORDER OR WIRE TRANSFER OF FUNDS.

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All subscription agreements, payments of the subscription price and nominee holder certifications, to the extent applicable to your exercise of rights, must be delivered to EquiServe as follows:

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By Regular Mail:
EquiServe Trust Company, N.A.
P.O. Box 43025
Providence, RI 02940-3025

By Overnight Courier:
EquiServe Trust Company, N.A.
40 Campanelli Drive
Braintree, MA 02184

By Hand:
EquiServe Trust Company, N.A.
c/o Securities Transfer and Reporting Services, Inc.
100 William Street--Galleria
New York, NY 10038

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Eligible institutions may also deliver documents by facsimile transaction. EquiServe's facsimile number is (781) 575-4826 or (781) 575-4827. You should confirm receipt of all facsimiles by calling (781) 575-4816.

You should read carefully the forms of subscription agreement and related instructions and forms which accompany this prospectus. You should call Georgeson Shareholder Communications, Inc. at (800) 223-2064 promptly with any questions you may have.

LIMITATIONS ON YOUR ABILITY TO EXERCISE YOUR RIGHTS

The rights may be exercised only to the extent that you held the shares of common stock to which the rights relate continuously from January 22, 2002 through the date of exercise of the rights. Any transfers of those shares before exercising your rights will correspondingly reduce the number of rights that you may exercise. For example:

- If you beneficially owned 100 shares on January 22, 2002 you will receive 47 rights.

- If, between January 22, 2002 and the date of exercise of the rights, you transfer beneficial ownership of 14 out of the 100 shares, then you may only exercise 40 rights.

- If, between January 22, 2002 and the date of exercise of the rights, you transfer beneficial ownership of 15 out of the 100 shares, then you still may exercise 40 of the rights because fractional rights will be rounded up to the nearest whole right.

If you are both the record holder and beneficial owner of the shares of common stock to which the rights relate you must certify as to the number of shares you beneficially owned on January 22, 2002. You must also certify as to the number of shares that, as of the date of exercise, continue to be beneficially owned, having not been transferred since January 22, 2002.

If you hold shares of common stock for the account of others, such as a broker, a trustee or a depository for securities, you must certify as to the number of shares beneficially owned on January 22, 2002 by each beneficial owner for which you hold shares. You must also certify as to the corresponding number of shares that, as of the date of exercise, continue to be beneficially owned, having not been transferred since January 22, 2002.

We intend to monitor beneficial ownership by rightsholders who elect to exercise all or a portion of their rights.

INCOMPLETE FORMS; INSUFFICIENT PAYMENT

If you do not specify the number of rights being exercised in your subscription agreement, or do not forward sufficient payment to pay for the

number of rights that you indicate are being exercised, then we will accept the subscription forms and payment only for the maximum number of rights that may be exercised based on the amount of the payment received. If you do not forward sufficient payment and as a result not all of your rights are exercised, your relative percentage ownership interest

will be diluted. If your payment exceeds the aggregate subscription price for the number of common shares indicated on your subscription agreement or the maximum number of common shares for which you are eligible to subscribe, your payment will be applied to the maximum number of common shares for which you are eligible to subscribe. We will return any payment not applied to the purchase of shares under the rights offering procedures to those who made these payments as soon as practicable by mail. Interest will not be payable on amounts refunded.

INSTRUCTIONS TO NOMINEE HOLDERS

If you are a broker, trustee or depository for securities or other nominee holder of common stock for beneficial owners of the stock, we are requesting you to contact the beneficial owners as soon as possible to obtain instructions and related certifications concerning their rights. Our request to you is further explained in the suggested form of letter of instructions from nominee holders to beneficial owners accompanying this prospectus.

To the extent so instructed, nominee holders should complete appropriate subscription agreements on behalf of beneficial owners and submit them on a timely basis to EquiServe with the proper payment.

RISK OF LOSS ON DELIVERY OF SUBSCRIPTION AGREEMENT FORMS AND PAYMENTS

Each holder of rights bears all risk of the method of delivery to EquiServe of subscription agreements and payments of the subscription price.

IF SUBSCRIPTION AGREEMENTS AND PAYMENTS ARE SENT BY MAIL, YOU ARE URGED TO SEND THESE BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND TO ALLOW A SUFFICIENT NUMBER OF DAYS TO ENSURE DELIVERY TO EQUISERVE AND CLEARANCE OF PAYMENT PRIOR TO THE EXPIRATION TIME.

BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF CERTIFIED OR CASHIER'S CHECK, MONEY ORDER OR WIRE TRANSFER OF FUNDS.

PROCEDURES FOR DTC PARTICIPANTS

If you hold your shares of common stock through the Depository Trust Company or one if its participants, you may exercise your rights through the facilities of the Depository Trust Company. You should contact the Depository Trust Company or the participant through which you hold your shares for further instructions.

TRANSFERABILITY OF RIGHTS

The rights may not be sold, transferred or assigned, even by gift. However, rights may be transferred by will, devise or by operation of law in the case of death, dissolution, liquidation, or bankruptcy of the holder, or pursuant to an order of an appropriate court. To the extent you sell, gift or otherwise transfer the shares of common stock to which the rights relate prior to exercising your right, the rights related to those shares will be forfeited, even if you later repurchase those shares or other shares of our common stock before expiration of the subscription period. Rights that are forfeited due to improper transfer will be null and void and no shares will be issued in respect thereof. If your rights are forfeited, your relative percentage ownership interest will be diluted. If you have delivered to the subscription agent a properly completed and signed subscription agreement together with the subscription price, you may thereafter sell your shares of common stock to which the rights relate without forfeiting the associated rights. You should note, however, that if your exercise of rights is determined to be defective and you have transferred the associated shares, you will forfeit the rights associated with the transferred shares.

HOW PROCEDURAL AND OTHER QUESTIONS ARE RESOLVED

We are entitled to resolve all questions concerning the timeliness, validity, form and eligibility of any exercise of rights and our determinations of such questions will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right because of any defect or irregularity in the exercise.

Subscription agreements will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine, in our sole discretion. Neither we nor EquiServe will have any duty to notify you of any defect or irregularity in connection with the submission of

subscription agreements or any other required document and neither we nor EquiServe will incur any liability for failure to so notify you.

We reserve the right to reject any exercise of rights if the exercise does not comply with the terms of this rights offering or is not in proper form or if the exercise of rights would be unlawful or materially burdensome.

MANAGEMENT PARTICIPATION

Our executive officers and directors that own shares of our common stock have indicated that they intend to participate in the rights offering, although they are not bound to do so and may change their mind at any time. These executive officers and directors are eligible to subscribe for an aggregate of 448,950 additional shares of our common stock in the rights offering.

FEDERAL INCOME TAX CONSIDERATIONS

For United States federal income tax purposes, we believe that holders of our common stock will not recognize taxable income upon receipt or exercise of the rights. If you sell the common stock you acquire upon exercise of your rights, you will recognize gain or loss equal to the difference between the amount realized and your basis in the common stock. You should consult your own tax advisor concerning the tax consequences of this offering with respect to your particular circumstances and tax situation.

ISSUANCE OF STOCK CERTIFICATES

Stock certificates for shares of common stock purchased in the rights offering will be issued as soon as practicable after the expiration date. EquiServe will deliver subscription payments to us at the same time as it delivers stock certificates to those exercising rights. Unless otherwise instructed in your subscription agreement form, shares purchased by the exercise of rights will be registered in the name of the person exercising the rights.

SUBSCRIPTION AGENT

EquiServe is the subscription agent for the rights offering. It is also the transfer agent for our common stock. We will pay the fees and expenses of EquiServe, which we estimate to be approximately $37,500. We have also agreed to indemnify EquiServe from any liability which it may incur in connection with the rights offering.

QUESTIONS AND ANSWERS CONCERNING THE RIGHTS

You should direct any questions, requests for assistance concerning the rights or requests for additional copies of this prospectus to:

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Georgeson Shareholder Communications, Inc.
17 State Street
New York, New York 10004

Banks and brokers..... (212) 440-9800
All others..... (800) 223-2064
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USE OF PROCEEDS

We estimate that the net proceeds of this offering and Explorer's investment will be approximately $48 million. We intend to use the proceeds to repay a portion of our outstanding debt maturing in 2002, as well as for debt service, working capital needs and other general corporate purposes. We have not determined the exact amount of proceeds that we will use for each of these purposes. The allocation of the net proceeds for a particular purpose, including a determination as to which outstanding debt we repay, is subject to numerous factors, which can be expected to change over the short term. These factors include:

- economic conditions generally and in the healthcare industry in particular, including the financial situation of our operators and the resulting effect on our revenues and cash flows;

- our ability to negotiate appropriate modifications to the terms of our credit facilities;

- developments in the capital markets affecting our ability to refinance all or a portion of our outstanding debt;

- our ability to dispose of assets held for sale and other property at appropriate prices;

- re-leasing of owned and operated assets and recoupment of working capital investments; and

- the other factors discussed under "Risk Factors," which begin on page 8.

We will have broad discretion over the use of proceeds. Pending application, we intend to invest the net proceeds from this offering and Explorer's investment in interest-bearing deposit accounts, certificates of deposit, government securities or short-term and investment-grade financial instruments of varying maturities.

As of the date of this prospectus, we had approximately $129 million of loans outstanding under one of our secured revolving credit facilities, which bears interest at a weighted average rate of 6.72% at that date. As of the date of this prospectus, we had approximately $64.6 million of loans outstanding under our other senior revolving credit facility, which bears interest at a weighted average rate per annum of 6.88% at that date. Our 6.95% senior notes also mature in June 2002. As of the date of this prospectus, we had approximately $97.5 million aggregate principal amount of these notes outstanding. We are currently unable to borrow under our revolving credit facilities because we are not in compliance with certain financial covenants contained in the loan agreements relating to our two revolving credit facilities. See "Modification of Bank Credit Agreements."

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MODIFICATION OF BANK CREDIT AGREEMENTS

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

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

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

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

Explorer has approved the amendments, and therefore the effectiveness of the amendments will satisfy the conditions to the rights offering and Explorer investment related to our credit facilities. See "The Rights Offering--Closing Conditions."

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DETERMINATION OF SUBSCRIPTION PRICE

The subscription price is $2.92 per share, payable in cash. Our Board of Directors sought and obtained a written opinion from Shattuck Hammond Partners LLC, an independent financial advisor, that as of October 29, 2001, the date of their opinion, the financial terms of the investment agreement with Explorer, taken as a whole, are fair to Omega from a financial point of view. We have

attached the full text of their opinion as Annex A to this prospectus. You should read the entire opinion to understand the assumptions made, matters considered and limitations on the review undertaken by our financial advisor. The opinion does not constitute a recommendation as to whether you should exercise your rights in the rights offering. Shattuck Hammond's opinion relates solely to the fairness to Omega Healthcare of the financial terms of the investment agreement, and does not address the fairness of either the investment agreement to unaffiliated stockholders or the subscription price in the rights offering.

In recommending a price at which a share of common stock may be purchased in this rights offering, a special committee of our Board of Directors, which did not include affiliates of Explorer, considered several factors, including the fairness opinion delivered by our financial advisor, the historic and current market price of our common stock, our financial condition, challenges facing us, anticipated cash flows, general conditions in the securities markets, our need for additional capital, available alternate sources of financing, prices offered to stockholders in other rights offerings, and the need to offer the shares at a price that would be attractive to investors relative to the then current trading price for our common stock, among other things. Our Board of Directors established $2.92 as the maximum subscription price based upon a 6% discount from the average closing price of $3.10 for our common stock over a 20 consecutive trading day period ending on October 26, 2001.

Based on the $2.92 subscription price, up to 9,400,000 shares of common stock will be offered to stockholders who own our common stock on the January 22, 2002 record date. These shares represent 52.9% of the total equity capital we seek to raise. The remaining 47.1% of the equity capital sought will be invested by Explorer, plus an amount equal to the aggregate subscription price for all rights not exercised by common stockholders.

OPINION OF FINANCIAL ADVISOR TO THE SPECIAL COMMITTEE OF INDEPENDENT DIRECTORS AND THE BOARD OF DIRECTORS

Our Board of Directors asked a special committee, composed solely of directors who are unaffiliated with Explorer, to evaluate any proposals received from Explorer and make a recommendation to the full Board of Directors regarding what action, if any, our company should take with respect to such proposals. The special committee engaged Shattuck Hammond Partners LLC on October 15, 2001 as the committee's financial advisor to (i) review and analyze potential financing alternatives for our company as well as financing proposals we received; and (ii) if requested, render an opinion to the Board of Directors regarding the fairness from a financial point of view of a financing contemplated by us involving, among other things, an investment by Explorer, a 45.5% owner of our common stock on an as converted basis as of the date of the fairness opinion, and a rights offering to our stockholders other than Explorer. Prior to being engaged by us as the financial advisor to the special committee, Shattuck Hammond had no professional relationship with us.

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

it was Shattuck Hammond's understanding that the proportional ownership of our stock by stockholders other than Explorer and by Explorer on an as converted basis would, upon Explorer's payment of the unsubscribed purchase amount and the issuance to it of shares of our common stock, remain approximately the same as of the date of Shattuck Hammond's opinion.

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

Shattuck Hammond rendered an oral opinion to the special committee and our Board of Directors on October 23, 2001, subject to review of definitive documentation that was in the process of being negotiated, and a written opinion addressed to the special committee and our Board of Directors on October 29, 2001, in each case to the effect that, as of such date and subject to the

assumptions made, matters considered and the limitations set forth in its opinion, the financial terms of the investment agreement taken as a whole, defined as the "financial terms of the investment agreement" as described more fully in its opinion, are fair to us from a financial point of view. The full text of Shattuck Hammond's written opinion is attached as Annex A to this prospectus and is incorporated herein by reference. Shattuck Hammond's opinion sets forth the assumptions made, the matters considered and limits on the review undertaken by Shattuck Hammond in connection with its engagement. The following summary of Shattuck Hammond's opinion is qualified in its entirety by reference to the full text of such opinion. Shattuck Hammond's opinion is directed only to the fairness to us, from a financial point of view, of the financial terms of the investment agreement taken as a whole and does not address any other aspect of the investment by Explorer or the rights offering or any other transaction to which Explorer and our company are parties. Shattuck Hammond's opinion was provided for the information and assistance of the special committee and the Board of Directors in connection with their consideration of the financing proposal put forward by Explorer and is not a recommendation of any action that the special committee, the Board of Directors or any of our stockholders should take.

It was Shattuck Hammond's further understanding that the investment agreement included, among other things, the various financial terms that are specifically identified in Shattuck Hammond's fairness opinion set forth in Annex A (see pages A-1 to A-2) to this prospectus.

In connection with preparing its opinion, Shattuck Hammond reviewed a variety of materials including those specifically identified in its fairness opinion set forth in Annex A (see pages A-2 to A-4) to this prospectus and made such investigations as it deemed appropriate. Shattuck Hammond did not independently verify any of the information it obtained for the purposes of its opinion. Instead, Shattuck Hammond assumed the accuracy and completeness of all such information. Shattuck Hammond relied upon assurances by our management that all forward-looking information concerning us reflected the best currently available judgments and estimates of management as to our likely future financial performance and capital requirements. Shattuck Hammond assumed that the financing will be consummated in accordance with the terms of the investment agreement. Shattuck Hammond did not make an independent inspection, evaluation or appraisal of our assets or liabilities, nor did anyone furnish Shattuck Hammond with any such evaluation or appraisal. The Shattuck Hammond opinion is based on market, economic and other conditions as they existed and could be evaluated at the time their fairness opinion was rendered.

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

In evaluating the fairness, from a financial point of view, of the financial terms of the investment agreement taken as a whole to us, Shattuck Hammond employed a variety of analyses and reviews

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

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

In connection with its analyses and reviews, Shattuck Hammond utilized estimates and forecasts of our future operating results contained in or derived from projections developed and supplied by our management. Analyses based on forecasts of future results are not necessarily indicative of actual future

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

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

ALTERNATIVE FINANCING STRUCTURES REVIEW

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

- equity financing (secondary public offering, private investment into public equity, private placement);

- debt financing (subordinated debt, collateralized mortgage backed securitization, Health and Urban Development insured and senior unsecured); and

- other financings (asset sales, sale or merger of our company).

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

- Explorer did not require any additional due diligence;

- Explorer and our company were willing to enter into agreements on terms that were substantially similar to the definitive documentation related to Explorer's investment in our Series C preferred stock;

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

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

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

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

- an investment of equity would deleverage our balance sheet;

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

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

MARKET VALUATION OF OMEGA PUBLICLY-TRADED SENIOR UNSECURED DEBT AND SERIES A AND B PREFERRED STOCK. Shattuck Hammond noted that our senior unsecured debt and Series A and B preferred stock were trading at significant discounts to their respective par values. Moreover, Shattuck Hammond further noted that our unsecured debt has a below investment grade rating and that the Series A and B preferred stock have had their dividends suspended. Shattuck Hammond concluded that our below investment grade rating on our debt, dividend suspension on our preferred stock and relative trading values of such securities to their par amounts were indicative of the challenges we would face in attempting to complete an alternative financing to Explorer's investment.

OMEGA SENIOR UNSECURED DEBT

<Table>
<Caption>

	PRICE	YTM	S&P RATING
<S>	<C>	<C>	<C>
Omega 6.95%; 6/15/02	85	35.8%	CCC+
Omega 6.95%; 8/01/07	60	18.5%	CCC+

</Table>

OMEGA SERIES A AND SERIES B PREFERRED (ACTUAL DOLLARS)

<Table>
<Caption>

	LIQUIDATION PREFERENCE	CURRENT PRICE AS OF 10/26/01	DISCOUNT TO LIQUIDATION PREFERENCE	DIVIDEND YIELD
<S>	<C>	<C>	<C>	<C>
Series A Preferred	$25.00	$14.51	58.0%	NA (1)
Series B Preferred	$25.00	$13.70	54.8%	NA (2)

</Table>

(1) DIVIDEND SUSPENDED; ACCRUES AT RATE OF 9.250%.

(2) DIVIDEND SUSPENDED; ACCRUES AT RATE OF 8.625%.

EXPLORER PRO FORMA OWNERSHIP ANALYSIS

Shattuck Hammond noted that Explorer's current ownership of 45.5% of our voting capital stock and the ability to designate four out of nine Board seats (and approve an independent director) provided Explorer with significant control of our company. Based on the $50 million financing and an

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assumed subscription price of $2.92, depending on the number of our stockholders other than Explorer who exercise their rights, Explorer's ownership of our voting capital stock could exceed 50% on an as converted basis.

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

OWNERSHIP ANALYSIS (SHARES IN MILLIONS)

<Table>
<Caption>

	COMMON SHARES ON AN AS CONVERTED BASIS(1)					
EXPLORER OWNERSHIP LEVEL	NON-EXPLORER PARTICIPATION IN RIGHTS OFFERING	TOTAL SHARES NON-EXPLORER	PERCENTAGE NON-EXPLORER	TOTAL SHARES EXPLORER	PERCENTAGE EXPLORER	TOTAL SHARES
<S>	<C>	<C>	<C>	<C>	<C>	<C>
High	0%	20.1	37.2%	33.9	62.8%	54.0
Medium	50%	24.7	45.8%	29.2	54.2%	54.0
Low	100%	29.4	54.5%	24.6	45.5%	54.0

</Table>

(1) EXCLUDES OPTIONS AND WARRANTS AND 553,850 SHARES OF OUR COMMON STOCK ACQUIRED BY EXPLORER SUBSEQUENT TO OCTOBER 29, 2001.

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

- a limitation on the number of our Board of Directors which Explorer could designate;

- so long as Explorer holds at least 15% of our voting securities, a commitment by Explorer to vote in favor of the election of three directors who are both "independent" under the rules of the New York Stock Exchange and unaffiliated with Explorer and, upon the increase in the number of directors to ten, one additional person who is unaffiliated with Explorer;

and

- except for a transaction approved by a committee of our Board of Directors comprised entirely of independent directors and under certain other limited circumstances, a prohibition against Explorer acquiring beneficial ownership of more than 80% of our voting securities.

RIGHTS OFFERING ANALYSIS

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

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

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

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

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

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

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

RIGHTS OFFERING ANALYSIS

ANALYSIS BY ANNOUNCEMENT DATE

<Table>
<Caption>

WEEK BEFORE	DAY BEFORE	ON DAY OF	ONE DAY AFTER	ONE WEEK AFTER
<S>	<C>	<C>	<C>	<C>
1.00	0.99	1.00	0.97	0.93

</Table>

ANALYSIS BY EX DATE

<Table>
<Caption>

WEEK BEFORE	DAY BEFORE	ON DAY OF	ONE DAY AFTER	ONE WEEK AFTER
<S>	<C>	<C>	<C>	<C>
1.13	1.13	1.00	0.98	1.05

</Table>

OMEGA FLOAT COMPARISON

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

The public float for the stable REITs ranged from 16.4 million shares to 54.7 million shares and averaged 37.9 million shares. The public float for the distressed REITs, excluding our company, ranged from 20.2 million shares to 21.8 million shares and averaged 21.0 million shares. Shattuck Hammond noted

that a larger float generally increases the trading liquidity of a stock and may enhance the ability to undertake a reverse split to increase share price. In this regard, if any non-Explorer stockholders, other than management and other affiliates, exercised their rights, our float would increase.

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

OMEGA PRO FORMA FLOAT ANALYSIS (SHARES IN MILLIONS)

<Table>
<Caption>

	HIGH	MEDIUM	LOW
<S>	<C>	<C>	<C>
Omega Float	19.2	19.2	19.2
Non-Explorer Rights Participation	100%	50%	0%
New Shares Issued (1)	9.3	4.7	0.0
Total Pro Forma Float	28.5	23.9	19.2
% Increase in Float	48%	24%	0%

</Table>

(1) ASSUMES $27.3 MILLION RIGHTS OFFERING PRICED AT $2.92 PER SHARE REPRESENTING A 6% DISCOUNT TO AVERAGE CLOSING PRICE FOR 20 TRADING DAY PERIOD ENDED OCTOBER 26, 2001.

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PRO FORMA DEBT TO CAPITALIZATION ANALYSIS

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

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

OMEGA PRO FORMA DEBT TO CAPITALIZATION ANALYSIS (DOLLARS IN MILLIONS)

<Table>
<Caption>

	JUNE 30, 2001	EQUITY INVESTMENT	PRO FORMA WITH EQUITY	FURTHER REDUCTION	PRO FORMA JUNE 30, 2001
<S>	<C>	<C>	<C>	<C>	<C>
DEBT					
Total Debt (1)	$425.6	(50.0)	$375.6	(73.5)	$302.1
EQUITY					
Preferred	$212.3		$212.3		$212.3
Other	247.4	50.0	297.4		297.4
Total Equity	$459.7	50.0	$509.7		$509.7
DEBT TO CAPITALIZATION:	48.1%		42.4%		37.2%
MEAN (2)					
Distressed REITs	34.7%		34.7%		34.7%
Stable REITs	42.5%		42.5%		42.5%
MEDIAN (2)					
Distressed REITs	34.7%		34.7%		34.7%
Stable REITs	40.3%		40.3%		40.3%

</Table>

(1) ASSUMES ADDITIONAL $10.0 MILLION OF DEBT IS REPAID FROM PROCEEDS IN EXCESS OF $113.5 DUE IN MARCH AND JUNE OF 2002.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS EXCLUDE OMEGA. MEAN AND MEDIAN FOR STABLE REITS EXCLUDE SENIOR HOUSING PROPERTIES TRUST.

OMEGA SHARE PRICE ANALYSIS

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

outperformed the stable REIT index and improved relative to the distressed REIT index.

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

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COMPARABLE COMPANY ANALYSIS

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

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

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

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

The table below presents the mean and median price to FFO multiples for the periods shown:

COMPARABLE PUBLIC COMPANIES' PRICE/FFO MULTIPLES

<Table>
<Caption>

	LTM 6/30/01	ANNUALIZED 6/30/01	2001 ESTIMATED	2002 PROJECTED
<S>	<C>	<C>	<C>	<C>
STABLE REITS				
Mean	10.4x	10.5x	9.6x	9.2x
Median	10.4x	10.4x	10.2x	9.8x
DISTRESSED REITS				
Mean (1)	5.6x	6.0x	7.0x	7.0x
Median (1)	5.6x	6.0x	7.0x	7.0x
OMEGA (2) (3)	3.2X	3.1X	3.9X	4.4X

</Table>

(1) MEAN AND MEDIAN EXCLUDES OMEGA.

(2) 2001E AND 2002P ASSUME FULL CONVERSION OF SERIES C PREFERRED STOCK, AND INCLUDES ADDITIONAL STOCK IN 2002 DUE TO PROPOSED $50 MILLION FINANCING.

(3) OUR FFO PER SHARE INCLUDES ADD-BACK OF ONE-TIME ITEMS AND CERTAIN ADJUSTMENTS RELATED TO 2002 FINANCING.

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

COMPARABLE PUBLIC COMPANIES' EQUITY VALUE AS A PERCENTAGE OF TOTAL ENTERPRISE VALUE.

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

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

<Page>

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

COMPARABLE PUBLIC COMPANIES' EV AS A % OF TEV

<Table>
<Caption>

	AS OF OCTOBER, 26 2001
<S>	<C>
STABLE REITS	
Mean	62.4%
Median	55.6%
DISTRESSED REITS	
Mean (1)	31.4%
Median (1)	25.4%
OMEGA	9.2%

</Table>

(1) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

COMPARABLE PUBLIC COMPANIES' TEV/EBITDA MULTIPLE. Shattuck Hammond noted that Omega's TEV/EBITDA multiple is greater than the mean and median multiples of the distressed REITs and less than the mean and median multiples of the stable REITs.

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

COMPARABLE PUBLIC COMPANIES' TEV/EBITDA

<Table>
<Caption>

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
STABLE REITS		
Mean	10.5x	10.7x
Median	10.6x	10.7x
DISTRESSED REITS		
Mean (1)	7.9x	8.4x
Median (1)	7.8x	8.6x
OMEGA (2)	8.7X	9.0X

</Table>

(1) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

(2) OMEGA EBITDA ADJUSTED TO REFLECT ADD-BACK AND REDUCTION OF CERTAIN ONE-TIME ITEMS.

COMPARABLE PUBLIC COMPANIES' FFO AS A PERCENTAGE OF DEBT. Shattuck Hammond noted that Omega's FFO as a percentage of debt, or FFO/Debt, was below the median and mean percentages for the distressed and stable REITs.

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

COMPARABLE PUBLIC COMPANIES' FFO/DEBT

<Table>
<Caption>

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
STABLE REITS		
Mean (1)	17.2%	17.2%
Median (1)	17.8%	17.9%
DISTRESSED REITS		
Mean (2)	15.4%	14.6%
Median (2)	12.8%	11.1%
OMEGA (3)	4.8%	4.9%

</Table>

<Page>

(1) SENIOR HOUSING PROPERTY TRUST EXCLUDED FROM MEAN AND MEDIAN AS AN OUTLIER.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

(3) OMEGA FFO ADJUSTED TO REFLECT ADD-BACK AND REDUCTION OF CERTAIN ONE-TIME ITEMS.

COMPARABLE PUBLIC COMPANIES' DEBT TO EBITDA MULTIPLE. Shattuck Hammond noted that Omega's Debt to EBITDA, or Debt/EBITDA, multiple was greater than the mean and median multiples for the distressed REITs and the stable REITs.

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

COMPARABLE PUBLIC COMPANIES' DEBT/EBITDA

<Table>
<Caption>

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
STABLE REITS		
Mean (1)	3.6x	3.7x
Median (1)	3.5x	3.5x
DISTRESSED REITS		
Mean (2)	3.6x	3.8x
Median (2)	3.3x	3.6x
OMEGA (3)	5.2X	5.4X

</Table>

(1) SENIOR HOUSING PROPERTY TRUST EXCLUDED FROM MEAN AND MEDIAN AS AN OUTLIER.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

(3) OMEGA EBITDA ADJUSTED TO REFLECT ADD-BACK AND REDUCTION OF CERTAIN ONE-TIME ITEMS.

COMPARABLE PUBLIC COMPANIES' EBITDA TO INTEREST MULTIPLE. Shattuck Hammond noted that Omega's EBITDA to Interest, or EBITDA/Interest, multiple was less than the mean and median multiples for the distressed REITs and the stable REITs.

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

COMPARABLE PUBLIC COMPANIES' EBITDA/INTEREST

<Table>
<Caption>

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
STABLE REITS		
Mean (1)	3.5x	3.5x
Median (1)	3.5x	3.7x
DISTRESSED REITS		
Mean (2)	2.7x	2.8x
Median (2)	2.8x	2.8x
OMEGA (3)	2.1X	2.1X

</Table>

(1) SENIOR HOUSING PROPERTY TRUST EXCLUDED FROM MEAN AND MEDIAN AS AN OUTLIER.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

(3) OMEGA EBITDA ADJUSTED TO REFLECT ADD-BACK AND REDUCTION OF CERTAIN ONE-TIME ITEMS.

COMPARABLE PUBLIC COMPANIES' EBITDA AS A PERCENTAGE OF REVENUES. Shattuck Hammond noted that Omega's EBITDA as a percentage of revenue, or EBITDA/Revenue, was less than the mean and median percentages for the distressed REITs and the stable REITs.

<Page>

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

COMPARABLE PUBLIC COMPANIES' EBITDA/REVENUE

<Table>
<Caption>

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
STABLE REITS		
Mean (1)	89.7%	90.1%
Median (1)	89.7%	90.5%
DISTRESSED REITS		

Mean (2)	59.8%	58.8%
Median (2)	59.1%	57.4%
OMEGA (3)	28.8%	29.1%

(1) SENIOR HOUSING PROPERTY TRUST EXCLUDED FROM MEAN AND MEDIAN AS AN OUTLIER.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

(3) OMEGA EBITDA ADJUSTED TO REFLECT ADD-BACK AND REDUCTION OF CERTAIN ONE-TIME ITEMS.

COMPARABLE PUBLIC COMPANIES' NET INCOME AS A PERCENTAGE OF REVENUE. Shattuck Hammond noted that Omega's Net Income as a percentage of revenue, or Net Income/Revenue, was less than the mean and median percentages for the distressed REITs and the stable REITs.

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

COMPARABLE PUBLIC COMPANIES' NET INCOME/REVENUE

	LTM 6/30/01	6 MONTHS ANNUALIZED 6/30/01
STABLE REITS		
Mean (1)	41.6%	41.0%
Median (1)	40.1%	40.0%
DISTRESSED REITS		
Mean (2)	29.7%	26.5%
Median (2)	29.7%	30.2%
OMEGA	7.1%	7.4%

(1) SENIOR HOUSING PROPERTY TRUST EXCLUDED FROM MEAN AND MEDIAN AS AN OUTLIER.

(2) MEAN AND MEDIAN FOR DISTRESSED REITS INCLUDE OMEGA.

NET ASSET VALUE ANALYSIS

Shattuck Hammond performed a net asset value analysis that compared the estimated net asset value per fully-diluted common share to our actual share price at October 26, 2001. A similar comparative analysis was done with respect to the stable REITs and the distressed REITs. The analysis was based on financial results for the latest twelve months ended June 30, 2001 and the six months ended June 30, 2001 annualized. The net asset value calculation was based on determining a value for owned properties and other income and then adjusting this combined value for various balance sheet related items such as cash, debt and preferred stock. The value of owned properties was determined by multiplying property cash flow by a multiple. Property cash flow was assumed to be equal to real estate operating revenue less direct real estate operating costs. Other income is assumed to consist primarily of interest income and excludes income or losses related to sales of assets. The value of other income is determined by multiplying other income for the period by a multiple. For the stable REITs, the

property cash flow multiple and other income multiple utilized is 10.0x and 6.0x, respectively. For the distressed REITs, the property cash flow multiple and other income multiple utilized is 8.0x and 5.5x, respectively.

The table below presents the calculation of our net asset value, the median

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

SUMMARY NET ASSET VALUE PER SHARE (ACTUAL DOLLARS)

<Table>
<Caption>

	LTM 6/30/01	PREMIUM/ (DISCOUNT)	SIX MONTHS ANNUALIZED 6/30/01	PREMIUM/ (DISCOUNT)
<S>	<C>	<C>	<C>	<C>
STABLE REITS				
Mean	$ 25.5	(6.8)%	$ 25.0	(4.7)%
Median	$ 24.8	(3.7)%	$ 24.8	(2.2)%
DISTRESSED REITS				
Mean (1)	$13.31	(22.9)%	$11.95	(8.3)%
Median (1)	$13.31	(22.9)%	$11.95	(8.3)%
OMEGA	$ 2.97	7.2%	$ 2.39	33.2%

</Table>

(1) DISTRESSED REITS EXCLUDE OMEGA.

CALCULATION OF OMEGA'S NET ASSET VALUE (DOLLARS IN MILLIONS)

<Table>
<Caption>

	LTM 6/30/01	SIX MONTHS ANNUALIZED 6/30/01
<S>	<C>	<C>
Real Estate Operating Revenue	$ 251.6	$ 241.1
Direct Operating Expenses	191.2	180.3
Property Cash Flow	$ 60.4	$ 60.8
Applied Market Multiple	8.0x	8.0x
Property Asset Value	$ 483.4	$ 486.7
Other Income	$ 31.3	$ 28.6
Applied Market Multiple	5.5x	5.5x
Other Income for NAV Purposes	$ 172.3	$ 157.2
BALANCE SHEET (6/30/01)		
Property Asset Value	$ 483.4	$ 486.7
Other Income	172.3	157.2
Plus: Land	32.1	32.1
Plus: Cash	10.8	10.8
Less: Debt	(425.7)	(425.7)
Less: Preferred	(212.3)	(212.3)
Net Asset Value	$ 60.5	$ 48.7
SHARES OUTSTANDING (MILLIONS)	20.4	20.4
NET ASSET VALUE PER SHARE	$ 2.97	$ 2.39
CURRENT SHARE PRICE (10/26/01)	$ 3.18	$ 3.18
SHARE PRICE RELATIVE TO NAV	7.16%	33.17%

</Table>

SELECTION AND ENGAGEMENT OF SHATTUCK HAMMOND

The Board of Directors authorized the special committee to engage a financial advisor to provide financial advice and issue a fairness opinion with respect to the rights offering. The special committee solicited proposals from several investment banking firms. After careful consideration, the special committee elected to engage Shattuck Hammond based on a number of factors including the firm's experience in the healthcare sector as well as the competitive terms of its fee proposal. As part of its

<Page>
investment banking business, Shattuck Hammond is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes. Shattuck Hammond acted as financial advisor to the special committee in connection with a review of other financing alternatives that might be available to us and a review of any proposals related to Explorer and will receive a fee from us for such services and an additional fee upon the delivery of its opinion.

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

- a retainer of $50,000;

- $50,000 upon the submission of a written report to the Board of Directors which addressed a review and analysis of potential financing alternatives for us as well as a review and analysis of financing proposals received by us; and

- $250,000 (less any fees previously received) upon the earlier of the completion of a financing or the delivery of a written opinion as to the fairness of such financing from a financial point of view.

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

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PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is listed on the NYSE under the symbol "OHI." On January 11, 2002, there were approximately 2,050 registered holders of the common stock, and the closing price per share of the common stock as listed on the NYSE composite tape was $5.99.

In prior years, we historically distributed to stockholders a large portion of the cash available from operations. Cash dividends paid totaled $1.00 per common share for 2000, compared with $2.80 per common share for the year ended December 31, 1999. Our historical policy had been to make distributions on our common stock of approximately 80% of funds from operations. The dividend payout ratio, that is the ratio of per common share amounts for dividends paid to the diluted per common share amounts of funds from operations, was approximately 238% for 2000 and 84.3% for 1999. Excluding the provision for loss on mortgages and notes receivable and severance and consulting agreement costs, the dividend payout ratio for 2000 was approximately 73.0%. Cash dividends paid totaled $1.00 per common share during 2000 and $0.75 for the nine-month period ended September 30, 2000. No common dividends were paid during the first three quarters of 2001.

In November 2000, Explorer agreed to defer receipt until April 2, 2001 of $4.7 million in dividends declared in the third quarter of 2000 on the Series C preferred stock. We requested this deferral in light of the maturity in February 2001 of $16.6 million of subordinated debentures. In February 2001, we suspended payment of all common and preferred cash dividends. This action was intended to preserve cash to facilitate our ability to obtain financing to fund the 2002 debt maturities. Additionally, on March 30, 2001, we exercised our option to pay the $4,666,667 Series C preferred stock dividend deferred from November 15, 2000 and the associated deferral fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of our common stock at $6.25 per share. We do not know when or if we will resume dividend payments on our common stock and preferred stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our $98 million of debt maturing in the first half of 2002 has been repaid. All accumulated and unpaid dividends on our Series A, B and C preferred stock, which totalled $19.9 million at December 31, 2001, must be paid in full before dividends on our common stock can be resumed.

Our current revolving credit facilities limit our ability to pay and declare dividends to the maximum of 95% of our earnings before interest, taxes, depreciation and amortization, except that we are permitted to declare and pay any amount of dividends as may be required to be paid by us to maintain our status as a real estate investment trust. If the maturity of a material amount of our indebtedness is accelerated, we would be unable to pay dividends.

We have made sufficient distributions to satisfy the distribution requirements under the REIT rules of the Internal Revenue Code of 1986 to maintain our REIT status for 2000 and intend to satisfy the requirements under the REIT rules for 2001.

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

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The following table sets forth the high and low closing prices of the common stock as reported on the NYSE composite tape, together with the amount of cash dividends declared per common share for each quarter for 2001 and 2000.

<Table>
<Caption>

2002				2001				2000	
QUARTER	HIGH	LOW	DIVIDENDS PER SHARE	QUARTER	HIGH	LOW	DIVIDENDS PER SHARE	QUARTER	HIGH
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
First.....	6.1700	5.9000		First.....	4.7188	1.7500	$0.00	First.....	$12.8125
Second.....	7.0625			Second.....	3.3906	1.3438	0.00		
Third.....	6.6875			Third.....	3.6406	2.4531	0.00		
Fourth.....	6.2500			Fourth.....	6.1563	2.9375	0.00		

<Caption>

2000		
QUARTER	LOW	DIVIDENDS PER SHARE
<S>	<C>	<C>
First.....	$5.8125	$0.50
	4.5156	0.00
	4.5625	0.25
	3.3750	0.25

</Table>

<Page>

MODIFICATIONS TO AGREEMENTS WITH EXPLORER

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

As a condition to Explorer's investment, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company effective as of the closing of Explorer's new investment. The effect of these amendments generally will be to remove those provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our stock and from taking certain actions without the prior approval of our Board of Directors.

EXISTING AGREEMENTS IN CONNECTION WITH JULY 2000 EXPLORER INVESTMENT

STOCKHOLDERS AGREEMENT. In connection with Explorer's July 2000 investment in our company, we entered into a stockholders agreement dated July 14, 2000 under which Explorer is entitled to designate up to four members of our Board of Directors depending on the percentage of total voting securities, consisting of common stock and Series C preferred stock, acquired from time to time by Explorer. Explorer is entitled to designate at least one director to our Board of Directors as long as it owns at least 5% of the total voting power of our company and to approve one "independent" director as long as it owns at least 25% of the shares it acquired at the initial closing or our common stock issued

upon conversion of those preferred shares. The right to designate directors will terminate on July 14, 2010.

Explorer is permitted to transfer its Series C preferred stock to large institutional investors if either (i) the total amount of voting securities represented by the Series C preferred stock does not exceed 9.9% of the total voting power of our voting securities or (ii) the investor becomes a party to the standstill agreement contained in the stockholders agreement. Explorer has the right, up to five times, to request us to register its shares for resale, subject to customary conditions and limitations on such registration requests. Any transfer of voting securities by Explorer or its affiliates (other than in connection with the exercise of registration rights) is subject to a right of first offer that can be exercised by us or any other purchaser that we may designate. These transfer restrictions terminate on July 14, 2005.

Under the terms of the standstill provisions in the stockholders agreement, Explorer agreed that, until July 14, 2005, it will not acquire, without the prior approval of our Board of Directors, beneficial ownership of any voting securities, other than acquisitions of not more than 5% of our voting securities. In addition, without the prior approval of our Board of Directors, Explorer is restricted from soliciting proxies from our other stockholders in opposition to a recommendation of the Board of Directors, joining a "group" within the meaning of Section 13(d)(3) of the Exchange Act with respect to our securities, depositing our securities into a voting trust, or tendering our securities in a tender offer not approved by the Board. Explorer and its affiliates cannot exercise more than 49.9% of our total voting power, due to the terms of the Series C preferred stock, which provide that no holder of Series C preferred stock will be entitled to vote any shares of Series C preferred stock that would result in such holder, together with its affiliates, voting in excess of 49.9% of the then outstanding voting power. In addition, shares of Series C preferred stock cannot be converted to the extent that such conversion

would cause the converting stockholder to beneficially own in excess of 49.9% of the then outstanding voting power.

SERIES C INVESTMENT AGREEMENT. Under the terms of an investment agreement dated May 11, 2000 between us and Explorer in connection with Explorer's purchase of Series C preferred stock, we agreed to reimburse Explorer for its out-of-pocket expenses, up to a maximum amount of $2.5 million, incurred in connection with the Series C investment. To date, we have reimbursed Explorer for approximately $1.6 million of these expenses.

ADVISORY AGREEMENT. Under the terms of an amended and restated advisory agreement dated October 4, 2000 between us and Hampstead, we have agreed to pay Explorer an advisory fee if Hampstead provides assistance to us in connection with the evaluation of growth opportunities or other financing matters. On June 1, 2001, in connection with Hampstead's agreement to provide certain specified financial advisory, consulting and operational services, including but not limited to assistance in our efforts to refinance, repay or extend certain indebtedness and assist in efforts to manage our capitalization and liquidity, we agreed to pay Hampstead a fee equal to 1% of the aggregate amount of our indebtedness that is refinanced, repaid or extended, based on the maximum amount available to be drawn in the case of revolving credit facilities, up to a maximum fee of $3.1 million. The advisory fee was payable five business days following the completion of the refinancing, repayment or extension of any of our indebtedness, but as amended no fee will be payable prior to December 31, 2001. Upon the closing of the rights offering and Explorer investment, Hampstead will have fulfilled all of its obligations under the agreement, but the advisory fee will only be payable at such time as all of the conditions to payment of the advisory fee contained in the advisory agreement are met.

DIVIDEND AND GOVERNANCE RIGHT DEFERRAL. We and Explorer entered into a dividend deferral letter agreement dated November 15, 2000 relating to the extension of the dividend payment payable in connection with our Series C preferred stock for the dividend period ended October 31, 2000. The deferral period expired on April 2, 2001. The amount of the deferred dividend payment is $4.667 million representing the total unpaid preferential cumulative dividend for the October 2000 dividend. In exchange for the deferral, we also agreed to pay Explorer a fee equal to 10% of the daily unpaid principal balance of the unpaid dividend amount from November 15, 2000 until the dividend was paid. Under certain circumstances, the portion of the unpaid dividend amount and fee which is not paid in cash may be payable with additional shares of Series C preferred stock. Shares of Series C preferred stock issued pursuant to this agreement are valued at $100 per share, the stated per share liquidation preference, and are convertible into our common stock at $6.25 per share. In consideration of the payment of the deferral fee, Explorer agreed that the deferral of the subject dividend would not be considered an unpaid dividend and, as a result, the October 31, 2000 dividend period will not be included in the determination of when Explorer's right to elect additional directors will vest.

By letter dated January 31, 2001, Explorer has waived its right to elect additional preferred stock directors through December 31, 2002 provided that the dividends on any shares of Series C preferred stock would not be in arrears for

six or more dividend periods from January 31, 2001 through and including December 31, 2002.

In full payment of our obligations under the dividend deferral letter agreement, we issued 48,420 shares of Series C preferred stock to Explorer on April 2, 2001.

AGREEMENTS RELATED TO CURRENT EXPLORER INVESTMENT COMMITTMENT

AMENDED AND RESTATED STOCKHOLDERS AGREEMENT. We will enter into an amended and restated stockholders agreement at the closing of Explorer's investment. If Explorer owns securities representing more than 50% of our common stock, Explorer would be able to elect all of the members of the Board of Directors. However, pursuant to the amended and restated stockholders agreement, Explorer will be

entitled to designate to our Board of Directors that number of directors that would generally be proportionate to Explorer's ownership of voting securities of our company, not to exceed five directors (six following increase in the size of the Board of Directors to ten directors). We will limit the number of directors on our Board so as not exceed nine without the consent of Explorer (ten following stockholder approval of the increase in the size of the Board of Directors to ten). We will also take such action to ensure generally that Explorer's representation on all committees of the Board is proportionate to its representation on the entire Board other than any special committee established to consider transactions in which Explorer or any of its affiliates may have a conflict of interest.

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

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

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

AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT. Pursuant to an amended and restated registration rights agreement, we have agreed, subject to certain limitations and under certain circumstances, to register for sale any shares of our stock held by Explorer. We will enter into the amended and restated registration rights agreement with Explorer at the closing of Explorer's investment.

AMENDED SERIES C ARTICLES SUPPLEMENTARY. Pursuant to our investment agreement with Explorer, we are required to seek the approval of our stockholders to amend the Series C articles supplementary for the Series C preferred stock presently owned by Explorer. Pursuant to the amended Series C articles supplementary, the terms of the Series C preferred stock will be amended to:

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

(ii) provide that if we fail to pay dividends owed upon the Series C

preferred stock or the Series D preferred stock for a period of time, the holders of the Series C preferred stock and the Series D preferred stock, voting together as a single class, will be entitled to designate two additional directors to our Board;

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

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

The above amendments will not be effective unless approved by our stockholders. We intend to seek stockholder approval for these amendments at a special meeting of our stockholders. Explorer has committed to vote its shares, representing approximately 47.1% of our voting shares, in favor of these amendments. We will file an amended Series C articles supplementary with the State Department of Assessments and Taxation of the State of Maryland following receipt of stockholder's approval and the closing of Explorer's investment.

STOCKHOLDERS RIGHTS PLAN AMENDMENT. Pursuant to our investment agreement with Explorer, we have amended our stockholders rights plan to provide that neither Explorer nor its affiliates will be an "acquiring person" for purposes of activating the rights that were issued pursuant to our stockholders rights plan. The amendment also exempts direct and indirect transferees of Explorer, other than in transfers through an underwriter or national securities exchange, from the definition of an "acquiring person." We will enter into the amendment to our stockholder's rights plan at the closing of Explorer's investment.

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

OCTOBER 2001 INVESTMENT AGREEMENT. As part of our investment agreement with Explorer dated October 29, 2001 in connection with the rights offering and Explorer's investment, we have agreed to reimburse Explorer for its out of pocket expenses in connection with its new investment.

CAPITALIZATION

The following table shows, as of September 30, 2001, our historical capitalization and our capitalization as adjusted for the rights offering and Explorer's investment, including the application of the proceeds, assuming net proceeds of $48 million. For purposes of this table, we have assumed that all of the rights will be exercised in full by stockholders in the rights offering and that we will issue Series D preferred stock to Explorer at the closing of the rights offering. If stockholders approve Explorer's investment before the closing of the rights offering, Explorer will be issued a number of shares of common stock equal to the number of shares of common stock that would otherwise have been issuable upon conversion of the Series D preferred stock in lieu of the Series D preferred stock. To the extent stockholders do not exercise all of the rights, the amount of Series D preferred stock or common stock issued to Explorer will increase. For purposes of our capitalization as adjusted, we have assumed a subscription price of $2.92 per share.

<Table>
<Caption>

	UNAUDITED	
	HISTORICAL	AS ADJUSTED
	(IN THOUSANDS)	
<S>	<C>	<C>
Debt:		
Revolving lines of credit	$ 203,641	$ 203,641
Other secured borrowings	18,595	18,595
Unsecured borrowings:		
6.95% Notes Due June 2002(1)	99,641	51,641
6.95% Notes Due August 2007	100,000	100,000
Other unsecured borrowings	4,160	4,160
Total Debt	426,037	378,037
Stockholders' Equity:		
Preferred Stock $1.00 par value:		
Authorized--10,000 Shares		
Issued and Outstanding--2,300 shares Series A with an aggregate liquidation preference of $57,500	57,500	57,500
Issued and Outstanding--2,000 shares Series B with an aggregate liquidation preference of $50,000	50,000	50,000
Issued and Outstanding--1,048 shares Series C with an aggregate liquidation preference of $104,842	104,842	104,842
Issued and Outstanding--228 shares Series D with an aggregate liquidation preference of $22,808(2)	--	22,808
Common Stock $.10 par value:		
Authorized--100,000 shares		
Issued and Outstanding--20,076(2)	2,008	--
Issued and Outstanding--37,199	--	3,720
Additional paid-in capital	438,384	461,864
Cumulative net earnings	171,272	171,272
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(202)
Accumulated other comprehensive income	(1,491)	(1,491)
Total Stockholders' Equity	456,659	504,659
Total Capitalization	$ 882,696	$ 882,696

</Table>

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

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

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SELECTED FINANCIAL DATA

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

independent auditors. The following selected financial data have been derived from and should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31,				
	2001	2000	2000	1999	1998	1997	1996
	(UNAUDITED)		(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
OPERATING DATA							
Revenues(1)	$201,666	$195,673	$275,793	$148,129	$109,314	$90,820	$73,127
Net Earnings (Loss) Available to Common (before gain/loss on assets sold and provision for impairment in 2001, 2000, 1999 and 1998 and gain from early extinguishment of debt in 2001)	(19,951)	(13,500)	(14,784)	40,047	41,777	41,305	34,590
Net Earnings (Loss) Available to Common	(26,242)	(57,507)	(66,485)	10,040	68,015	41,305	34,590
Per Share Amounts:							
Net Earnings (Loss) (before gain/loss on assets sold and provision for impairment in 2001, 2000, 1999 and 1998 and gain from early extinguishment of debt in 2001):							
Basic	(1.00)	(0.67)	$ (0.74)	$ 2.01	$ 2.09	$ 2.16	$ 2.01
Diluted	(1.00)	(0.67)	(0.74)	2.01	2.08	2.16	2.01
Net Earnings (Loss) Available to Common:							
Basic	(1.31)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Diluted	(1.31)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Net Earnings (Loss) before gain on early extinguishment of debt:							
Basic	(1.46)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Diluted	(1.46)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Dividends, Common Stock(2)	--	0.75	1.00	2.80	2.68	2.58	2.48
Dividends, Series A Preferred(2)	--	1.73	2.31	2.31	2.31	1.16	
Dividends, Series B Preferred(2)	--	1.62	2.16	2.16	1.08		
Dividends, Series C Preferred(3)	--	--	0.25				
Weighted Average Common Shares Outstanding, Basic	20,032	20,058	20,052	19,877	20,034	19,085	17,196
Weighted Average Common Shares Outstanding, Diluted	20,032	20,058	20,052	19,877	20,041	19,137	17,240

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	NINE MONTHS ENDED SEPTEMBER 30,	DECEMBER 31,				
	2001	2000	1999	1998	1997	1996
	(UNAUDITED)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA						
Gross Investments	$944,148	$974,507	$1,072,398	$1,069,646	$839,927	$643,261
Total Assets	911,265	948,451	1,038,731	1,037,207	816,108	634,836
Revolving Lines of Credit	203,641	185,641	166,600	123,000	58,300	6,000
Other Long-Term Borrowings	222,396	249,161	339,764	342,124		

208,966 135,659
Subordinated Convertible Debentures..... -- 16,590 48,405 48,405
62,485 94,810
Stockholders' Equity..... 456,659 464,313 457,081 505,762
468,221 383,007
</Table>

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

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

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

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

THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS. THESE STATEMENTS RELATE TO OUR EXPECTATIONS, BELIEFS, INTENTIONS, PLANS, OBJECTIVES, GOALS, STRATEGIES, FUTURE EVENTS, PERFORMANCE AND UNDERLYING ASSUMPTIONS AND OTHER STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS. IN SOME CASES YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY THE USE OF FORWARD-LOOKING TERMINOLOGY INCLUDING "MAY" "WILL" "ANTICIPATES" "EXPECTS" "BELIEVES" "INTENDS" "SHOULD" OR COMPARABLE TERMS OR THE NEGATIVE THEREOF. THESE STATEMENTS ARE BASED ON INFORMATION AVAILABLE ON THE DATE OF THIS PROSPECTUS AND ONLY SPEAK AS OF THE DATE HEREOF AND NO OBLIGATION TO UPDATE SUCH FORWARD-LOOKING STATEMENTS SHOULD BE ASSUMED. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN AS A RESULT OF A VARIETY OF FACTORS, INCLUDING THOSE DISCUSSED UNDER "FORWARD-LOOKING STATEMENTS" AND "RISK FACTORS."

OVERVIEW

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

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

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

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

for sale were reclassified to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

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

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

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

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

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our funds from operations for the year ended December 31, 2000 on a fully diluted basis totaled $19.2 million, a decrease of $52.6 million as compared to the $71.9 million for 1999 due to factors mentioned above. After adjusting for the non-recurring provision for loss on mortgages and notes receivable and severance and consulting costs, funds from operations for the year was $39.3 million, a decrease of $32.6 million from the year ended December 31, 1999. Funds from operations is net earnings available to common stockholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. Diluted funds from operations is the lower of funds from operations and funds from operations adjusted for the assumed conversion of Series C Preferred Stock and Subordinated Convertible Debentures and the exercise of in-the-money stock options. We consider funds from operations to be one

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

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

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

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

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

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

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

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

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

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

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

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

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

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

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

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

THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000

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

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

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

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

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

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

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

The provision for depreciation and amortization totaled $5.5 million and

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

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

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

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

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

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

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

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

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

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

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

Preferred Stock and Subordinated Convertible Debentures and the exercise of in-the-money stock options. We consider funds from operations to be one performance measure which is helpful to investors of real estate companies

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

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

RECENT DEVELOPMENTS

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

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

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

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

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

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

In November, 2001 we were informed by Integrated Health Services, Inc. that they were not intending to pay future rent and mortgage interest due. We hold three mortgages on properties owned by Integrated: a $37.5 million mortgage collateralized by seven facilities located in Florida and Texas; a $12 million mortgage, collateralized by two facilities located in Georgia; and a $4.9 million mortgage collateralized by one facility located in Florida. Annual contractual interest income on each of the mortgages is approximately $3.96 million, $1.25 million and $0.55 million, respectively. We also have a

lease with IHS for one property in the state of Washington, representing an investment of $10 million and annualized contractual revenue of $1.45 million. IHS rejected this lease on November 9, 2001.

We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Rent under the lease was paid for November, but no payments were made on the October mortgage interest due November 1. As of the date of this filing, no further payments have been made. Accordingly, no revenue was recorded for the mortgage for October and November.

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

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

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

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

OFFICE RELOCATION. We are relocating our corporate offices effective as of January 1, 2002 and have entered into a lease of office space in Timonium, Maryland, a suburb of Baltimore. All of our current

employees either have an employment agreement or are otherwise entitled to incentives if they remain employed with us in their current positions during the transitional period expected to be completed by January 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

The settlement of the lawsuit with Karrington Health, Inc. in August 2001 fixed the amount of expense associated with this claim against us at $10 million and was therefore recorded at June 30, 2001. The recognition of this non-recurring expense resulted in certain violations of financial covenants contained in the loan agreements relating to our revolving credit facilities. We previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under our $175 million secured credit facility extended their waiver through December 13, 2001, and the lenders under our $75 million secured credit facility extended their waiver through December 15, 2001. These covenant violations currently prevent us from drawing upon the remaining availability under both credit facilities.

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

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

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

The effectiveness of these amendments as of the completion of the rights offering will reduce our outstanding debt maturing in 2002 to $97.5 million. Upon completion of the private placement and

rights offering, we expect to have approximately $17.7 million available to draw upon under our revolving credit facilities.

In prior years, we historically distributed to stockholders a large portion of the cash available from operations. Our historical policy has been to make distributions on common stock of approximately 80% of funds from operations, but on February 1, 2001, we announced the suspension of all common and preferred dividends. This action is intended to preserve cash to facilitate our ability to obtain financing to fund the 2002 debt maturities. Additionally, on March 30, 2001, we exercised our option to pay the accrued $4,666,667 Series C preferred stock dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of our common stock at $6.25 per share.

Cash dividends paid totaled $0.25 per common share and $0.75 per common share for the three-month and nine-month periods ended September 30, 2000, respectively. No common dividends were paid during 2001 nor during the second quarter of 2000. Cash dividends paid totaled $1.00 per common share for 2000, compared with $2.80 per common share for the year ended December 31, 1999. The dividend payout ratio, that is the ratio of per common share amounts for dividends paid to the diluted per common share amounts of funds from operations,

was approximately 238% for 2000 and 84.3% for 1999. Excluding the provision for loss on mortgages and notes receivable and severance and consulting agreement costs, the dividend payout ratio for 2000 was approximately 73.0%.

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

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

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

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TITLE OF CLASS	ANNUAL DIVIDEND PER SHARE	ARREARAGE AS OF SEPTEMBER 30, 2001
<S>	<C>	<C>
9.25% Series A Cumulative Preferred Stock.....	$ 2.3125	$ 3,989,063
8.625% Series B Cumulative Preferred Stock.....	$ 2.1563	3,234,375
Series C Convertible Preferred Stock.....	$10.0000	7,660,493
Total.....		$14,883,931

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We have entered into an investment agreement with Explorer under which Explorer has committed to purchase, on the closing of the rights offering, at the same price per share available in the rights offering, shares of our stock. The shares that Explorer has committed to purchase represent its pro rata portion of the $50 million in additional capital we are seeking to raise, plus an additional amount equal to the aggregate subscription price for the shares that are not subscribed for in the rights offering. As a

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result of Explorer's commitment, we are assured of receiving a total of $50 million in gross proceeds from the rights offering and Explorer's investment assuming they are both completed.

Assuming we complete the rights offering and Explorer's investment and the amendments to our credit facilities become effective, management believes our liquidity and various sources of available capital, including funds from operations and expected proceeds from planned asset sales, are adequate to finance operations, meet recurring debt service requirements including our 2002 debt maturities and fund future investments through the next 12 months. As a result of the ongoing financial challenges facing long-term care operators, the availability of the external capital sources historically used by us has become extremely limited and expensive. Therefore, if the rights offering and Explorer investment are not completed, we could not assure you that we would be able to replace or extend our debt maturing in 2002, or that any refinancing or replacement financing would be on terms favorable to us. There also can be no assurance that we will be able to complete the rights offering and Explorer investment as planned, and in such event our agreements with the lenders under our credit facilities would not become effective. If we were unable to refinance this debt or other indebtedness on acceptable terms, we might be forced to dispose of properties on disadvantageous terms, which might result in losses to us and might adversely affect the cash available for distribution to stockholders, or to pursue additional dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, our interest expense would increase, which might affect our ability to make distributions to our stockholders.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

The market value of our long-term fixed rate borrowings and mortgages are subject to interest rate risks. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of our total long-term borrowings at September 30, 2001 was $396 million. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $5.3 million.

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

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

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

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BUSINESS

OVERVIEW

We were incorporated in the State of Maryland on March 31, 1992. We are a self-administered real estate investment trust, or REIT, investing in income-producing healthcare facilities, principally long-term care facilities located in the United States. We provide lease or mortgage financing to qualified operators of skilled nursing facilities and, to a lesser extent, assisted living 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. We also finance acquisitions through the exchange of properties or the issuance of shares of our capital stock when the transactions otherwise satisfy our investment criteria.

As of September 30, 2001, our portfolio of domestic investments consisted of 246 healthcare facilities, located in 29 states and operated by 32 third-party operators. Our gross investments in these facilities totaled $887.2 million at September 30, 2001. This portfolio is made up of:

- 129 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties;

- fixed rate, participating and convertible participating mortgages on 55 long-term healthcare facilities; and

- 48 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for our own account.

In addition, we have 12 facilities subject to third-party leasehold interests. We also hold miscellaneous investments and closed healthcare facilities held for sale of approximately $55.2 million at September 30, 2001, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, a $7.7 million investment in Omega Worldwide, Principal Healthcare Finance Limited, and Principal Healthcare Finance Trust, and $14.3 million of notes receivable.

Approximately 73.7% of our real estate investments were operated by seven public companies, including Sun Healthcare Group, Inc. (24.6%), Integrated

Health Services, Inc. (18.1%, including 10.7% as the manager for and 50% owner of Lyric Health Care LLC), Advocat Inc. (12.0%), Mariner Post-Acute Network, Inc. (6.7%), Kindred Healthcare, Inc. (formerly known as Vencor Operating, Inc.) (5.7%), Alterra Healthcare Corporation (3.8%) and Genesis Health Ventures, Inc. (2.8%). Kindred and Genesis manage facilities for our own account, including "owned and operated" assets. The two largest private operators represent 3.5% and 2.5%, respectively, of our investments. No other operator represents more than 2.5% of our investments.

The following tables summarize our net revenues and real estate assets by asset category for 2000, 1999 and 1998, setting forth the effect of the results of operations of property recovered as a result of foreclosure and settlements with troubled operators that are held for sale or operated on an interim basis for our own account until such time as the properties are sold or re-leased. Historical information for 1999 and 1998 is reclassified, for comparative purposes, to the presentation for 2000.

NET REVENUES BY ASSET CATEGORY
(IN THOUSANDS)

<Table>
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	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Core Assets:			
Lease Rental Income	$67,308	$ 76,389	$ 72,072
Mortgage Interest Income	24,126	36,369	30,399
Total Core Asset Revenues	91,434	112,758	102,471
Owned and Operated Assets Net Revenue (Loss)	(3,416)	1,050	--
Other Asset Revenue	6,594	6,814	5,971
Miscellaneous Income	2,206	2,334	872
Total Net Revenue	$96,818	$122,956	$109,314

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REAL ESTATE ASSETS BY ASSET CATEGORY
(IN THOUSANDS)

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	AS OF DECEMBER 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Core Assets:			
Leased Assets	$579,941	$ 686,105	$ 643,378
Mortgaged Assets	206,710	213,617	340,455
Total Core Assets	786,651	899,722	983,833
Owned and Operated and Held for Sale Assets	134,614	97,216	35,289
Other Assets	53,242	75,460	41,753
Total Real Estate Assets	$974,507	$1,072,398	$1,060,875

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INVESTMENT STRATEGIES

INVESTMENT POLICIES. We maintain a diversified portfolio of long-term healthcare facilities and mortgages on healthcare facilities located in the United States. In making investments, we generally have focused on established, creditworthy, middle-market healthcare operators that meet our standards for quality and experience of management. We have sought to diversify our investments in terms of geographic locations, operators and facility types. As a consequence of our current financial condition and upcoming debt maturities, we have not recently made investments and do not intend to make investments unless and until we address our $98 million of debt maturing in the first half of 2002.

In evaluating potential investments, we consider such factors as:

- the quality and experience of management and the credit worthiness of the operator of the facility;

- the facility's historical, current and forecasted cash flow and its adequacy to meet operational needs, capital expenditures and lease or debt

service obligations, providing a competitive return on investment to us;

- the construction quality, condition and design of the facility;

- the geographic area and type of facility;

- the tax, growth, regulatory and reimbursement environment of the community in which the facility is located;

- the occupancy and demand for similar healthcare facilities in the same or nearby communities; and

- the payor mix of private, Medicare and Medicaid patients.

One of our fundamental investment strategies is to obtain contractual rent escalations under long-term, non-cancelable, "triple-net" leases and revenue participation through participating mortgage loans, and to obtain substantial liquidity deposits. Additional security is typically provided by 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 sometimes pursue alternative investment structures, including convertible participating and participating mortgages, that achieve returns comparable to equity investments. The following summarizes the four primary investment structures currently used by us. Average annualized yields reflect existing contractual arrangements and an estimate of restructured arrangements for one of

our troubled operators. However, in view of the ongoing financial challenges in 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. Certain operators have recently indicated to us that they intend to delay or reduce the payment of their contractual obligations to us, and therefore the annualized yields as of January 1, 2001 set forth below are not necessarily indicative of or a forecast of actual yields, which may be lower.

PURCHASE/LEASEBACK. In a Purchase/Leaseback transaction, we purchase the property from the operator and lease it back to the operator over terms ranging from 8 to 17 years, plus renewal options. The leases originated by us generally provide for minimum annual rentals which are subject to annual formula increases based upon such factors as increases in the consumer price index, or CPI, or increases in the revenue streams generated by the underlying properties, with certain fixed minimum and maximum levels. Generally, the operator holds an option to repurchase the property at set dates at prices based on specified formulas. The average annualized yield from leases was 11.19% at January 1, 2001.

CONVERTIBLE PARTICIPATING MORTGAGE. Convertible participating mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the consumer price index or increases in the revenues generated by the underlying long-term care facilities, with certain maximum limits. Convertible participating mortgages afford us the option to convert our mortgage into direct ownership of the property, generally at a point six to nine years from inception. If we exercise our purchase option, we are obligated to lease the property back to the operator for the balance of the originally agreed term and for the originally agreed participations in revenues or consumer price index adjustments. This allows us to capture a portion of the potential appreciation in value of the real estate. The operator has the right to buy out our option at prices based on specified formulas. The average annualized yield on these mortgages was approximately 12.99% at January 1, 2001.

PARTICIPATING MORTGAGE. Participating mortgages are similar to convertible participating mortgages except that we do not have a purchase option. Interest rates are usually subject to annual increases based upon increases in the consumer price index or increases in revenues of the underlying long-term care facilities, with certain maximum limits. The average annualized yield on these investments was approximately 13.26% at January 1, 2001.

FIXED-RATE MORTGAGE. These mortgages 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. The average annualized yield on these investments was 11.20% at January 1, 2001.

The following table identifies the years of expiration of the payment obligations due to us under existing contractual obligations as of January 1, 2001, or in the case of one of our troubled operators, under an estimated restructured arrangement. This information is provided solely to indicate the

scheduled expiration of payment obligations due to us, and is not a forecast of expected revenues.

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	RENT	MORTGAGE INTEREST	TOTAL	%
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
2001	$ --	$ 1,746	$ 1,746	1.92%
2002	215	15	230	0.25
2003	1,128	4,049	5,177	5.69
2004	1,263	572	1,835	2.02
2005	805	588	1,393	1.53
Thereafter	61,476	19,117	80,593	88.59
Total	$64,887	$26,087	$90,974	100.00%

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BORROWING POLICIES. We may incur additional indebtedness and have historically sought to maintain a long-term debt-to-total capitalization ratio in the range of 40% to 50%. Total capitalization is total stockholders equity plus long-term debt. We intend to review periodically our policy with respect to our debt-to-total capitalization ratio and to modify the policy as our management deems prudent in light of prevailing market conditions. Our strategy generally has been to match the maturity of our indebtedness with the maturity of our investment assets, and to employ long-term, fixed-rate debt to the extent practicable in view of market conditions in existence from time to time.

We may use proceeds of any additional indebtedness to provide permanent financing for investments in additional healthcare facilities. We may obtain either secured or unsecured indebtedness, and may obtain indebtedness which may be convertible into capital stock or be accompanied by warrants to purchase capital stock. Where debt financing is present on terms deemed favorable, we generally may invest in properties subject to existing loans, secured by mortgages, deeds of trust or similar liens on properties.

Industry turmoil and continuing adverse economic conditions have caused the terms on which we can obtain additional borrowings to become unfavorable. If we need capital to repay indebtedness as it matures, we may be required to liquidate investments in properties at times which may not permit realization of the maximum recovery on these investments. This also could result in adverse tax consequences to us. We may also be required to issue additional equity interests in our company, which could dilute your investment in our company.

FEDERAL INCOME TAX CONSIDERATIONS. We intend to make and manage our investments, including the sale or disposition of property or other investments, and to operate in such a manner as to qualify as a REIT under the Internal Revenue Code, unless, because of changes in circumstances or changes in the Internal Revenue Code, our Board of Directors determines that it is no longer in our best interest to qualify as a REIT. As a REIT, we generally will not pay federal income taxes on the portion of our income which is distributed to stockholders, See "Material United States Federal Income Tax Considerations."

SECURITIES OR INTEREST IN PERSONS PRIMARILY ENGAGED IN REAL ESTATE ACTIVITIES.

In November 1997, we formed Omega Worldwide, Inc., a company which provides asset management services and management advisory services, as well as equity and debt capital to the healthcare industry, particularly residential healthcare services to the elderly. On April 2, 1998, we contributed substantially all of our assets in Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company, to Omega Worldwide in exchange for approximately 8.5 million shares of Omega Worldwide common stock and 260,000 shares of Series B preferred stock. Of the 8,500,000 shares of Omega Worldwide common stock we received, approximately 5,200,000 were distributed on April 2, 1998 to our stockholders, and we sold 2,300,000 shares on April 3, 1998. As of September 30, 2001, the carrying value of our investment in Omega Worldwide is $4.9 million represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. We also have entered into a services agreement with Omega Worldwide which provides for an allocation of the indirect costs incurred by us to Omega Worldwide. See "Affiliate Relationships and Transactions." We also hold a $1.6 million investment in Principal Healthcare Finance Limited and a $1.3 million investment in the Principal Healthcare Finance Trust, an Australian Unit Trust.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

If our Board of Directors determines that additional funding is required, we may raise such funds through additional equity offerings, debt financing, retention of cash flow (subject to provisions in the

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Internal Revenue Code concerning taxability of undistributed REIT taxable income) or a combination of these methods.

In the event that our Board of Directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property. In July 2000, we issued shares of our Series C Convertible Preferred Stock to Explorer in exchange for an investment of $100.0 million.

Borrowings may be in the form of bank borrowings, secured or unsecured, and publicly or privately placed debt instruments, purchase money obligations to the sellers of assets, long-term, tax-exempt bonds or other publicly or privately placed debt instruments, financing from banks, institutional investors or other lenders, securitizations, any of which indebtedness may be unsecured or may be secured by mortgages or other interests in the asset. Such indebtedness may be recourse to all or any part of our assets or may be limited to the particular asset to which the indebtedness relates. On July 17, 2000, we replaced our prior $200.00 million unsecured revolving credit facility with a new $175.0 million secured credit facility that expires on December 31, 2002. On August 16, 2000 we replaced our $50.0 million secured revolving credit facility with a new $75.0 million secured revolving credit facility that expires on March 31, 2002 as to $10.0 million and June 30, 2005 as to $65.0 million.

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

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

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

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

Explorer has approved the amendments, and therefore the effectiveness of the amendments will satisfy the conditions to the rights offering and Explorer investment related to our credit facilities. See "The Rights Offering--Closing Conditions."

We have authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares or any other securities and may engage in such activities in the future. Similarly, we may offer additional interests in our operating partnership that are exchangeable into common shares or, at our option, cash, in exchange for property. We also may make loans to our subsidiaries.

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.

<Page>
We make annual and quarterly reports to our stockholders pursuant to the requirements of the Exchange Act on Forms 10-K and 10-Q. We may elect to deliver

other forms of reports to stockholders from time to time.

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.

PROPERTIES

At September 30, 2001, our real estate investments include long-term care facilities and rehabilitation hospital investments, either in the form of purchased facilities which are leased to operators, mortgages on facilities which are operated by the mortgagors or their affiliates and facilities owned and operated for our account, including facilities subject to leasehold interests. The facilities are located in 29 states and are operated by 32 unaffiliated operators. The following table summarizes our property investments as of September 30, 2001:

<Table>
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INVESTMENT STRUCTURE/OPERATOR	NO. OF BEDS/UNITS	NO. OF FACILITIES	OCCUPANCY PERCENTAGE(1)	GROSS INVESTMENT (IN THOUSANDS)
<S>	<C>	<C>	<C>	<C>
PURCHASE/LEASEBACK				
Sun Healthcare Group, Inc.	5,408	50	88	$218,985
Integrated Health Services, Inc.	1,573	11	81	105,400
Advocat, Inc.	3,055	29	78	89,647
Alterra Healthcare Corporation.	361*	10	75	34,085
Alden Management Services, Inc.	868	4	62	31,306
Roncalli Health Center.	312	3	95	22,163
USA Healthcare, Inc.	668	8	76	17,213
Washington N&R, LLC.	286	2	87	12,152
Peak Medical of Idaho, Inc.	224	2	76	10,500
HQM of Floyd County, Inc.	283	3	96	10,250
Safe Harbor Florida Healthcare Properties, Inc.	300	1	85	8,151
Liberty Assisted Living Centers, LP.	120	1	88	5,995
Meadowbrook Healthcare of N.C.	192	2	75	5,561
Eldorado Care Center, Inc. & Magnolia Manor, Inc.	167	2	59	5,100
Lamar Healthcare, Inc.	102	1	49	2,540
Kansas & Missouri, Inc.	102	1	75	2,500
Lakeland Diversified.	118	1	62	80
	14,139	131	81	581,628
OWNED AND OPERATED ASSETS--FEE				
Kindred Healthcare, Inc.	1,436	14	80	48,495
Genesis Health Ventures, Inc.	767	7	86	25,062
Atrium Living Centers, Inc.	1,049	22	78	21,721
Pinon Management, Inc.	181	3	85	14,287
Nexion Health Management, Inc.	197	2	81	6,437
	3,630	48	81	116,002
OWNED AND OPERATED ASSETS--LEASEHOLD INTEREST				
Kindred Healthcare, Inc.	896	10	69	1,761
Pinon Management, Inc.	175	2	72	358
	1,071	12	70	2,119

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INVESTMENT STRUCTURE/OPERATOR	NO. OF BEDS/UNITS	NO. OF FACILITIES	OCCUPANCY PERCENTAGE(1)	GROSS INVESTMENT (IN THOUSANDS)
<S>	<C>	<C>	<C>	<C>
CONVERTIBLE PARTICIPATING MORTGAGES				
Senior Care Properties, Inc.	150	2	59	6,184
Integrated Health Services, Inc.	180	1	62	4,903
	330	3	60	11,087
PARTICIPATING MORTGAGES				
Mariner Post-Acute Network, Inc.	1,679	12	90	59,688
Integrated Health Services, Inc.	1,144	9	91	49,500
Midtown Real Estate Company, LLC.	552	4	61	8,900
Advocat, Inc.	120	1	57	2,000
	3,495	26	84	102,088

FIXED RATE MORTGAGES				
Essex Healthcare Corporation	633	6	70	15,821
Advocat, Inc	423	4	73	14,785
Parthenon Healthcare, Inc	300	2	83	11,003
Texas Health Enterprises/HEA Mgmt. Group, Inc	594	4	57	5,557
Tiffany Care Centers, Inc	319	5	79	4,892
Covenant Care, Inc	150	1	50	1,922
Rocky Mountain Health Care	100	1	50	1,851
BNS, Inc	80	1	93	1,515
Integrated Health Services, Inc	164	2	84	1,080
	2,763	26	70	58,426
Total	25,428	246	80	$889,350

- ------------------------
(1) Generally represents data for the twelve-month period ending June 30, 2001.

* Represents Assisted Living Units. Occupancy percentage for these facilities excludes 216 units that are in fill-up.

The following table presents the concentration of our facilities by state as of September 30, 2001:

	NUMBER OF FACILITIES	TOTAL BEDS/UNITS(1)	TOTAL INVESTMENT (IN THOUSANDS)	% OF TOTAL INVESTMENT
Florida	29	3,439	$142,544	16.0%
California	19	1,545	66,922	7.5
Illinois	13	1,732	66,386	7.5
Ohio	11	1,282	55,887	6.3
Michigan	13	1,784	50,909	5.7
Texas	16	1,976	50,273	5.7
North Carolina	10	1,346	45,950	5.2
Indiana	32	1,806	41,105	4.6
Arkansas	12	1,281	39,325	4.4
Alabama	12	1,431	36,362	4.1
Massachusetts	7	772	33,153	3.7
West Virginia	7	734	30,579	3.4
Kentucky	7	757	26,963	3.0
Connecticut	4	442	22,373	2.5
Washington	3	354	21,574	2.4
Tennessee	6	636	21,553	2.4
Iowa	10	898	20,650	2.3
Pennsylvania	2	413	19,900	2.2
Arizona	8	894	18,150	2.0
Colorado	6	393	17,228	1.9
Missouri	7	605	17,044	1.9

	NUMBER OF FACILITIES	TOTAL BEDS/UNITS(1)	TOTAL INVESTMENT (IN THOUSANDS)	% OF TOTAL INVESTMENT
Georgia	2	304	12,000	1.4
Idaho	3	264	11,100	1.3
Kansas	2	136	5,919	0.7
New Hampshire	1	68	5,800	0.7
Louisiana	1	131	4,603	0.5
Oklahoma	1	32	3,178	0.4
Utah	1	100	1,851	0.2
Nevada	1	73	71	--
Total	246	25,428	$889,350	100%

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(1) Beds include a total of 361 assisted living units.

Our core portfolio consists of long-term lease and mortgage agreements. However, there are risks associated with this segment. See "Risks Related to Our

Company."

Our leased real estate properties are leased under provisions of master leases with initial terms typically ranging from 10 to 16 years, plus renewal options. Substantially all of the master leases provide for minimum annual rentals which are subject to annual increases based upon increases in the Consumer Price Index or increases in revenues of the underlying properties, with certain limits. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

Our owned and operated facilities, like those of our lessees and mortgagees, are subject to government regulation and derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. See "Risks Related to Our Company."

Our owned and operated facilities are managed by independent third parties under management contracts. These managers are responsible for the day-to-day operation of the facilities, including, among other things, patient care, staffing, billing and collection of patient accounts and facility-level financial reporting. For their services, the managers are paid a management fee, typically based on a percentage of nursing home revenues.

As a consequence of the financial difficulties encountered by a number of our operators, we have recovered various long-term care assets pledged as collateral for the operators' obligations either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. Under normal circumstances, we would seek to re-lease or otherwise dispose of such assets as promptly as practicable. When we adopt a plan to sell a property, the property is classified as Assets Held for Sale. However, a number of companies are actively marketing portfolios of similar assets and, in light of the current conditions in the long-term care industry generally, it has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire such properties.

As of the date of this report, there are eight properties in assets held for sale, representing a total investment, net of impairment of $7.1 million. Of these eight properties, three are under contract for sale. However, no assurance can be given that the sales will be realized, as there are financing and other contingencies on these contracts.

COMPETITION

We compete for additional healthcare facility investments with other healthcare investors, including other real estate investment trusts. The operators of the facilities compete with other regional or local nursing care facilities for the support of the medical community, including physicians and acute care

<Page>
hospitals, as well as the general public. Some significant competitive factors for the placing of patients in skilled and intermediate care nursing facilities include quality of care, reputation, physical appearance of the facilities, services offered, family preferences, physician services and price.

EMPLOYEES

As of September 30, 2001, we had 29 full-time employees and 5 part-time employees. On October 9, 2001, we announced that we are relocating our corporate offices effective as of January 1, 2002 to Timonium, Maryland, a suburb of Baltimore. All of our current employees either have an employment agreement or are otherwise entitled to incentives if they remain employed with us in their current positions during the transitional period, which is expected to be completed by January 31, 2002.

LEGAL PROCEEDINGS

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

On June 21, 2000, we were named as a defendant in certain litigation brought against us by Madison/OHI Liquidity Investors, LLC, a customer that claims that we have breached and/or anticipatorily breached a commercial contract. Ronald M. Dickerman and Bryan Gordon are partners in Madison and limited guarantors of Madison's obligations to us. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and us. We contend that Madison is in default under the contract in question. We believe

that the litigation is meritless. We continue to vigorously defend the case and have filed counterclaims against Madison and the guarantors, seeking repayment of approximately $9.4 million, excluding default interest, that Madison owes us. The trial in this matter is currently set for February 2002.

On December 29, 1998, Karrington Health, Inc. brought suit against us in the Franklin County, Ohio, Common Pleas Court (subsequently removed to the U.S. District Court for the Southern District of Ohio, Eastern Division) alleging that we repudiated and ultimately breached a financing contract to provide $95 million of financing for the development of 13 assisted living facilities. Karrington was seeking recovery of approximately $34 million in damages it alleged to have incurred as a result of the breach. On August 13, 2001, we paid Karrington $10 million to settle all claims arising from the suit, but without our admission of any liability or fault, which liability is expressly denied. Based on the settlement, the suit has been dismissed with prejudice. The settlement was recorded in the quarter ended June 30, 2001.

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MANAGEMENT

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

Our directors and executive officers are listed below.

<Table>
<Caption>

NAME	AGE	POSITION	TERM AS DIRECTOR EXPIRES
<S>	<C>	<C>	<C>
C. Taylor Pickett	40	Chief Executive Officer	--
Daniel J. Booth	38	Chief Operating Officer	--
R. Lee Crabill, Jr	48	Vice-President of Operations	--
Robert O. Stephenson	38	Chief Financial Officer	--
Daniel A. Decker(1)	49	Director, Chairman of the Board	2002
Thomas W. Erickson(1)	50	Director	2002
Thomas F. Franke	72	Director	2003
Harold J. Kloosterman	59	Director	2003
Bernard J. Korman	70	Director	2003
Edward Lowenthal	57	Director	2004
Christopher W. Mahowald(1)	40	Director	2004
Donald J. McNamara(1)	48	Director	2002
Stephen D. Plavin(2)	42	Director	2004

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(1) Designated by Explorer pursuant to our stockholders agreement with Explorer.

(2) Independent Director designated pursuant to our stockholders agreement with Explorer.

C. TAYLOR PICKETT is the Chief Executive Officer and has served in this capacity since June 12, 2001. Prior to joining our company, Mr. Pickett served as the Executive Vice President and Chief Financial Officer from January 1998 to June 2001 of Integrated Health Services, Inc., a public company specializing in post-acute healthcare services. He also served as Executive Vice President of mergers and acquisitions from May 1997 to December 1997 of Integrated Health Services. Prior to his roles as Chief Financial Officer and Executive Vice President of mergers and acquisitions, Mr. Pickett served as the President of Symphony Health Services, Inc. from January 1996 to May 1997.

DANIEL J. BOOTH is the Chief Operating Officer and has served in this capacity since October 15, 2001. Prior to joining our company, Mr. Booth served as a member of Integrated Health Services, Inc.'s management team since 1995, most recently serving as Senior Vice President, Finance. Prior to joining Integrated Health Services, Mr. Booth was Vice President in the Healthcare Lending Division of Maryland National Bank (now Bank America).

R. LEE CRABILL, JR. is the Senior Vice-President of Operations of our company and has served in this capacity since July 30, 2001. Mr. Crabill served as a Senior Vice-President of Operations at Mariner Post-Acute Network from 1997 through 2000. Prior to that, he served as an Executive Vice-President of Operations at Beverly Enterprises.

ROBERT O. STEPHENSON is the Chief Financial Officer and has served in this capacity since August 1, 2001. Prior to joining our company, Mr. Stephenson served for five years from 1996 to July 1, 2001 as the Senior Vice President and

Treasurer of Integrated Health Services, Inc., a public company specializing in post-acute healthcare services. Prior to Integrated Health Services, Mr. Stephenson served in management roles at CSX Intermodal, Martin Marietta Corporation and Electronic Data Systems.

DANIEL A. DECKER is Chairman of the Board and has served in this capacity since July 17, 2000. Mr. Decker also served as Executive Chairman from March 2001 until June 12, 2001 when Mr. Pickett

joined us as Chief Executive Officer. Mr. Decker has been an officer of The Hampstead Group, L.L.C., a privately-held equity investment firm based in Dallas, Texas, since 1990. Mr. Decker has previously served as a director of various other public companies, including Bristol Hotel Company (NYSE), Wyndham Hotel Company (NYSE), Malibu Entertainment International Inc., and the Forum Group (NASDAQ).

THOMAS W. ERICKSON is a Director and has served in this capacity since July 17, 2000. Mr. Erickson served as our Interim Chief Executive Officer from October 1, 2000 until June 12, 2001. Mr. Erickson has served as President and Chief Executive Officer of CareSelect Group, Inc., an operator of physician clinics, since 1994 and ECG Ventures, Inc., a healthcare venture capital firm, since 1987.

THOMAS F. FRANKE is a Director and has served in this capacity since March 31, 1992. Mr. Franke is Chairman and principal owner of Cambridge Partners, Inc., an owner, developer and manager of multifamily housing in Grand Rapids and Ann Arbor, Michigan. He is also the principal owner of private healthcare firms operating in the United States and the United Kingdom and is a principal owner of a private hotel firm in the United Kingdom. Mr. Franke is a director of Principal Healthcare Finance Limited and Omega Worldwide, Inc.

HAROLD J. KLOOSTERMAN is a Director and has served in this capacity since September 1, 1992. Mr. Kloosterman has served as President since 1985 of Cambridge Partners, Inc., a company he formed in 1985. He has been involved in the development and management of commercial, apartment and condominium projects in Grand Rapids and Ann Arbor, Michigan and in the Chicago area. Mr. Kloosterman was formerly a Managing Director of Omega Capital from 1986 to 1992. Mr. Kloosterman has been involved in the acquisition, development and management of commercial and multifamily properties since 1978. He has also been a senior officer of LaSalle Partners, Inc.

BERNARD J. KORMAN is a Director and has served in this capacity since October 19, 1993. Mr. Korman is Chairman of the Board of Trustees of Philadelphia Health Care Trust, a private healthcare foundation, since December 1995. He formerly was President, Chief Executive Officer and Director of MEDIQ Incorporated (health care services) from 1977 to 1995. Mr. Korman also is a director of the following public companies: The New America High Income Fund, Inc. (financial services), The Pep Boys, Inc. (auto supplies), Kramont Realty Trust (real estate investment trust), NutraMax Products, Inc. (consumer health care products), and Omega Worldwide, Inc.

EDWARD LOWENTHAL is a Director and has served in this capacity since October 17, 1995. Mr. Lowenthal is President and Chief Executive Officer of Wellsford Real Properties, Inc. (AMEX:WRP), a real estate Merchant bank since 1997, and was President of the predecessor of Wellsford Real Properties, Inc. since 1986. Mr. Lowenthal also serves as a director of United American Energy Corporation (a developer, owner and operator of energy facilities), Corporate Renaissance Group, Inc. (a mutual fund), Equity Residential Properties Trust, and Great Lakes REIT.

CHRISTOPHER W. MAHOWALD is a Director and has served in this capacity since October 17, 2000. Mr. Mahowald has served as President of EFO Realty since January 1997 where he is responsible for the origination, analysis, structuring and execution of new investment activity and asset management relating to EFO Realty's existing real estate assets.

DONALD J. MCNAMARA is a Director and has served in this capacity since October 17, 2000. Mr. McNamara is the founder of The Hampstead Group, L.L.C., a privately-held equity investment firm based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He has served as Chairman of the Board of Directors of FelCor Lodging Trust (NYSE:FCH) since its merger with Bristol Hotel Company in July 1998. Mr. McNamara has also served as a director of Franklin Covey Co. (NYSE:FC) since May 1999. Mr. McNamara also currently serves as a trustee of St. Mark's School in Texas and a trustee of the Virginia Tech Foundation.

STEPHEN D. PLAVIN is a Director and has served in this capacity since July 17, 2000. Mr. Plavin is Chief Operating Officer of Capital Trust, Inc., a New York City-based specialty finance and investment

management company and has served in this capacity since 1998. In this role,

Mr. Plavin is responsible for all of the lending, investing and portfolio management activities of Capital Trust, Inc.

RIGHT OF EXPLORER TO APPOINT DIRECTORS

Pursuant to the existing stockholders agreement executed in connection with Explorer's investment in our Series C preferred stock in July 2000, Explorer is entitled to designate up to four members of our Board of Directors depending on the percentage of total voting securities, consisting of common stock and Series C preferred stock, acquired from time to time by Explorer. Explorer is entitled to designate at least one director as long as it owns at least 5% of the total outstanding voting power and to approve one "independent director" as long as it owns at least 25% of the shares it acquired in July 2000, or common stock issued upon the conversion of the Series C preferred stock acquired by Explorer at that time. The holders of the Series C preferred stock are entitled to elect a majority of the members of the Board of Directors at such time as their dividends are in arrears for four or more dividend periods. The dividends are currently in arrears for more than four periods, but Explorer has waived its right to appoint a majority of our directors through December 31, 2002, provided that dividends on the Series C preferred stock are not in arrears for six or more dividend periods from January 1, 2001 through December 31, 2002. Explorer's right to appoint directors under the existing stockholders agreement expires July 14, 2010.

As a condition to the closing of Explorer's new investment, we have agreed to amend and restate our stockholders agreement with Explorer and to seek stockholder approval to increase the maximum size of our Board of Directors so that C. Taylor Pickett, our Chief Executive Officer, can be appointed to the Board of the Directors. Under the new stockholders agreement to be executed at the closing of Explorer's investment, Explorer would be entitled to designate a number of directors that would generally be proportionate to Explorer's ownership of voting securities, not to exceed five directors, six following any increase in the size of the Board to nine directors. Under the new stockholders agreement, the number of directors on the Board may not exceed nine without the consent of Explorer (ten following stockholder approval of the increase in the size of the Board to ten). We have agreed to take appropriate action to ensure generally that Explorer's representation on all committees of the Board is proportionate to its representation on the entire board, other than any special committee established to consider transactions in which Explorer or any of its affiliates may have a conflict of interest.

The new stockholders agreement will require Explorer to vote its shares in favor of three independent directors, as defined under the rules of the New York Stock Exchange, who are not affiliated with Explorer so long as it owns at least 15.0% of our voting securities. Upon the increase of the size of the Board to ten directors, Explorer will vote its shares in favor of a fourth director who is not affiliated with Explorer. The fourth director will be C. Taylor Pickett, our Chief Executive Officer. The new stockholders agreement expires on October 29, 2006.

The rules of the New York Stock Exchange require us to seek stockholder approval before an affiliate such as Explorer can invest in our common stock. We intend to seek this approval and Explorer has agreed that it will vote its share in favor of the proposal. The terms of the Series D preferred stock to be issued to Explorer if stockholders have not approved Explorer's investment before closing will provide that the holders of the Series D preferred stock, voting together as a single class with the holders of the Series C preferred stock, will have the right to elect two additional directors if dividends on the Series D preferred stock are in arrears for four or more dividend periods.

BOARD COMMITTEES AND MEETINGS

The Board of Directors held 24 meetings during 2000. Henry H. Greer, a former member of our Board of Directors, attended 11 of the 21 meetings held during the time he was director. All other

members of the Board of Directors attended more than 75% of the Board or committee meetings held during 2000.

The Board of Directors has established an audit committee consisting of Messrs. Korman, Kloosterman and Plavin, a compensation committee consisting of Messrs. Kloosterman, McNamara and Franke, an independent directors committee consisting of Messrs. Franke, Kloosterman, Korman and Lowenthal, and an executive committee consisting of Messrs. Decker and Korman.

The Board of Directors does not presently have a standing nominating committee and the functions that would typically be performed by a nominating committee are performed by the entire Board of Directors, except that each nominee that is not designated by Explorer pursuant to the stockholders agreement are designated by the independent directors committee. In connection with the closing of the rights offering and Explorer's investment, the Board of

Directors intends to reconstitute the nominating committee with two independent directors, and one Explorer designee. Recommendations of the nominating committee must be approved by the entire Board of Directors.

The audit committee met twice in 2000. Its primary function is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to:

- the annual financial information to be provided to stockholders and the Securities and Exchange Commission;

- the system of internal controls that management has established; and

- the external audit process.

In addition, the audit committee provides an avenue for communication between the independent accountants, financial management and the Board.

The compensation committee met three times during 2000 and is responsible for the compensation of directors and key management personnel and the administration of our 2000 Stock Incentive Plan and our 1993 Deferred Compensation Plan. The compensation committee also administered our Amended and Restated Stock Option and Restricted Stock Plan prior to the plan's termination in 2000.

The independent directors committee, which did not meet during 2000, is responsible for passing upon those issues with respect to which a conflict may exist between us and Explorer and its affiliates, including issues with respect to the allocation of costs between us and Explorer pursuant to the advisory agreement between us and The Hampstead Group L.L.C., an affiliate of Explorer. See "Affiliate Relationships and Transactions--Advisory Agreement" below.

The executive committee, which met four times during 2000, is responsible for acting on behalf of the entire Board of Directors in between meetings of the Board of Directors.

COMPENSATION OF DIRECTORS

For the year ended December 31, 2000, we paid each non-employee director a fee of $20,000 per year for services as a director, plus $3,000 for services as a committee chairperson and $500 for attendance at a meeting of the Board of Directors, or of any committee during the first and second quarters of fiscal year 2000 and $1,000 for attendance at a meeting during the third and fourth quarters of fiscal year 2000, as well as $500 for participation in each teleconference meeting. In addition, we reimbursed the directors for travel expenses incurred in connection with their duties as directors. Employee directors received no compensation for service as directors. The cash compensation, not including reimbursement for expenses, paid by us in consideration of Mr. Decker's and Mr. McNamara's service on the Board of Directors as Explorer designees was paid directly to Hampstead under the advisory agreement.

The compensation committee changed the manner in which non-employee directors are awarded cash compensation for 2001 and thereafter. Commencing in 2001, each non-employee director will

receive a cash payment equal to $10,000 per year, payable in quarterly installments of $2,500. Each non-employee director will receive a grant of shares of common stock equal to the number of shares determined by dividing the sum of $2,500 by the fair market value of the common stock on the date of each quarterly grant, currently set at February 15, May 15, August 15, and November 15. In addition, each non-employee director is entitled to receive fees equal to $1,000 per meeting for attendance at each regularly scheduled meeting of the Board of Directors. For each teleconference or called special meeting of the Board of Directors, each non-employee director will receive $1,000 for meetings with a duration in excess of 15 minutes and $500 for meetings with a duration of less than 15 minutes. We will also continue to reimburse directors for travel expenses incurred in connection with their duties as directors. In addition, we expect to continue paying this cash compensation and expense reimbursement in connection with Mr. Decker's and Mr. McNamara's service on the Board of Directors as Explorer designees directly to Hampstead.

Mr. Erickson is compensated through payments made to an entity controlled by him under a management services agreement. Under the management services agreement, Mr. Erickson may also receive awards of stock options and dividend equivalent rights. See "Executive Compensation--Management Services Agreement."

Robert L. Parker, one of our former directors, provided ongoing consulting services to us during the time he served as a director. Mr. Parker received $3,000 per month up until the time of his resignation from the Board of Directors on July 14, 2000.

Directors are eligible to participate in our 2000 Stock Incentive Plan. Directors received option grants under our amended and restated plan prior to

its termination in 2000. Each non-employee director was awarded options with respect to 10,000 shares at the date the plan was adopted or on his or her subsequent election as a director, and each non-employee director will be granted an additional option grant with respect to 1,000 shares on January 1 of each year they serve as a director. On July 17, 2000, Messrs. Decker, Erickson, Mahowald and Plavin each received their initial award of an option to purchase 10,000 shares of our common stock. Mr. McNamara received his initial award of an option to purchase 10,000 shares of our common stock on October 17, 2000. All grants have been and will be at an exercise price equal to 100% of the fair market value of our common stock on the date of the grant. Non-employee director options vest one third after each year for three years.

During the year ended December 31, 2000, Messrs. Franke, Kloosterman, Korman and Lowenthal were each awarded a grant of 300 shares of restricted stock, which vested six months after the date of grant.

In addition, a borrowing program was adopted to enable directors and employees to borrow funds from us with which to purchase shares of our common stock pursuant to the exercise of stock options. See "Affiliate Relationships and Transactions--Borrowing Program."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Decker, the Chairman of the Board, and Mr. Erickson were previously members of our compensation committee. Both Mr. Decker and Mr. Erickson have resigned from the compensation committee as of March 30, 2001. Mr. McNamara is currently a member of the compensation committee. Messrs. Decker and McNamara are affiliates of Explorer and Hampstead, and therefore may be deemed to have an interest in the investment to be made by Explorer contemporaneously with the closing of the rights offering, as well as the agreements and transactions described under "Affiliate Relationships and Transactions--Explorer." Mr. Erickson can be deemed to have an interest in payments made by us under the terms of the management services agreement, the terms of which are described under "Executive Compensation--Management Services Agreement."

EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth, for the years ended December 31, 2000, 1999, and 1998, the compensation for services in all capacities to our company of each person who served as chief executive officer during the year ended December 31, 2000 and the four most highly compensated executive officers serving at December 31, 2000.

<Table>
<Caption>

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION			
				AWARD(S)		PAYOUTS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)	RESTRICTED STOCK AWARD(S) ($)	SECURITIES UNDERLYING OPTIONS/ SARS(#)	ALL LTIP PAYOUTS ($)	OTHER COMPENSATION ($) (1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Thomas W. Erickson.....	2000	127,055(2)	--	--	45,000(3)	--	--
Interim Chief Executive Officer (10/1/2000 through 6/12/2001)							
Essel W. Bailey, Jr.....	2000	241,718	--	381,500(4)	--	--	2,547,110 (5)
Chief Executive Officer (Prior to	1999	440,000	66,000	66,000(4)	50,000	--	(85,229)
7/14/2000)	1998	420,000	75,000	140,500(4)	--	--	252,043
Richard M. FitzPatrick.....	2000	139,634(6)	--	--	--	--	--
Chief Financial Officer (7/14/2000 through 7/31/2001)							
F. Scott Kellman.....	2000	266,651	325,000(7)	212,400(8)	500,000(9)	--	10,743
Chief Operating Officer (prior to	1999	245,000	55,000	55,000(8)	27,500	--	(19,559)
10/15/2001)	1998	236,000	65,000	78,200(8)	--	--	

37,092

Susan A. Kovach.....	2000	143,219	90,000(7)	112,700(10)	227,500(9)	--
3,741						
Vice President, Secretary and	1999	130,000	26,000	26,000(10)	17,500	--
9,385						
General Counsel (prior to	1998	120,000	15,000	31,100(10)	--	--
1,800						
4/6/2001)						
Laurence D. Rich.....	2000	139,833	115,000(7)	104,000(11)	227,500(9)	--
3,239						
Vice President	1999	120,000	27,500	27,500(11)	15,000	--
9,664						

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(1) Consists of our contributions to our 401(k) Profit-Sharing Plan and provisions for each participant under our 1993 Deferred Compensation Plan, except as follows or as otherwise noted in footnotes appearing in this column: with respect to Mr. Bailey, such amount includes $219,525 for 1998 from the settlement of the Directors' Retirement Plan as described under "Compensation of Directors"; with respect to Mr. Kellman, such amount includes a payment of $8,036 for consideration of acceleration of certain options in 1999; with respect to Ms. Kovach, such amount includes a payment of $3,325 for consideration of acceleration of certain options in 1999; with respect to Mr. Rich, such amount includes a payment of $2,700 for consideration of acceleration of certain options in 1999.

(2) Represents amounts paid to a company controlled by Mr. Erickson pursuant to the terms of the Management Services Agreement in consideration of the services performed by Mr. Erickson as our Interim Chief Executive Officer. See "Compensation and Severance Agreements--Management Services Agreement."

(3) Includes 35,000 shares subject to an option granted to Mr. Erickson under the terms of the Management Services Agreement and 10,000 shares subject to an option granted to Mr. Erickson in consideration of becoming a director. See "Compensation and Severance Agreements--Management Services Agreement."

(4) Represents restricted stock awards of 63,321 shares, 8,516 shares and 4,655 shares of our common stock made to Mr. Bailey on February 10, 2000, January 31, 2000 and January 4, 1999, respectively. The February 10, 2000 award was a prospective award for service in fiscal 2000. The January 31, 2000 and January 4, 1999 awards represent compensation earned in fiscal 1999 and 1998, respectively. With regard to the February 10, 2000 award, 47,490 shares were released from vesting requirements pursuant to the Consulting and Severance Agreement dated July 18, 2000 between us and Mr. Bailey. The severance agreement also provided that 15,831 shares of the February 10, 2000 award would have been awarded if the price of the common stock met certain performance hurdles prior to February 10, 2001. See "Compensation and Severance Agreements--Bailey Severance Agreement." The performance of our common stock did not satisfy the performance hurdle prior to the required time and Mr. Bailey was not awarded the 15,831 shares. Under the terms of the severance agreement the vesting of 12,218 restricted shares held by Mr. Bailey in connection with restricted stock awards made prior to the February 10, 2000 award was accelerated.

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(5) Includes severance pay of $1,555,000, $249,510 paid in connection with certain deferred compensation units held by Mr. Bailey and $737,500 in consulting fees paid to Mr. Bailey through December 31, 2000. Mr. Bailey received payment with respect to the items described in the prior sentence under the terms of his severance agreement. See "Compensation and Severance Agreements--Bailey Severance Agreement."

(6) Represents compensation payable to Mr. FitzPatrick by Hampstead in consideration of Mr. FitzPatrick serving as our Chief Financial Officer through December 31, 2000. Pursuant to the Advisory Agreement, we have agreed to reimburse Explorer for the services provided to us by Mr. FitzPatrick. See "Certain Transactions--Advisory Agreement."

(7) Includes a special bonus paid in connection with the Series C Investment pursuant to a compensation agreement entered into between the named individuals and us. See "Compensation and Severance Agreements--Compensation Agreements with Management."

(8) Represents restricted stock awards of 35,258 shares, 7,097 shares, and 2,590 shares of our common stock made to Mr. Kellman on February 10, 2000, January 31, 2000 and January 4, 1999, respectively. The February 10, 2000 award was a prospective award for service in fiscal 2000. The January 31, 2000 and January 4, 1999 awards represent compensation earned in fiscal 1999 and 1998, respectively. With respect to the February 10, 2000 grant, 25% of the shares vested 180 days following the grant date and 25% of the shares

vest on each anniversary of the grant date for the next three years. Under the February 10, 2000 award, 17,629 shares were awarded subject to the price of our common stock meeting certain performance hurdles. The price of our common stock did not satisfy the required performance hurdles, and the 17,629 shares referred to above were forfeited in accordance with the terms of the grant. With respect to the January 31, 2000 grant, 50% of the shares vested 180 days following the grant date, with the balance vesting on the anniversary of the grant date. With respect to the January 4, 1999 grant, 25% of the shares vested 180 days following the grant date, with the balance vesting in equal 25% increments on each anniversary of the grant date. Mr. Kellman receives dividends on unvested shares. The number of unvested shares and value of Mr. Kellman's restricted stock awards as of the end of last year were 13,656 shares and $42,675 of which 4,195 shares and 8,814 shares were released in January and February 2001, respectively.

(9) Represents special grant of options in connection with the Series C Investment pursuant to the terms of a Compensation Agreement between the named individuals and us. See "Compensation and Severance Agreements--Compensation Agreements with Management."

(10) Represents restricted stock awards of 18,708 shares, 3,355 shares and 1,030 shares of our common stock made to Ms. Kovach on February 10, 2000, January 31, 2000 and January 4, 1999, respectively. The February 10, 2000 award was a prospective award for service in fiscal 2000. The January 31, 2000 and January 4, 1999 awards represent compensation earned in fiscal 1999 and 1998, respectively. With respect to the February 10, 2000 grant, 25% of the shares vested 180 days following the grant date and 25% of the shares are to vest on each anniversary of the grant date for the next three years. Under the February 10, 2000 award, 9,354 shares were awarded subject to the price of our common stock meeting certain performance hurdles. The price of our common stock did not satisfy the required performance hurdles and the 9,354 shares referred to above were forfeited in accordance with the terms of the grant. With respect to the January 31, 2000 grant, 50% of the shares vested 180 days following the grant date with the remaining 50% vesting on the anniversary of the grant date. With respect to the January 4, 1999 grant, 25% of the shares vested 180 days following the grant date with the balance vesting in equal 25% increments on each anniversary of the grant date. The number of unvested shares and value of Ms. Kovach's restricted stock awards at the end of last year were 6,868 shares and $21,463 of which 1,934 shares and 4,677 shares were released in January and February 2001, respectively.

(11) Represents restricted stock awards of 17,269 shares and 3,548 shares of our common stock made to Mr. Rich on February 10, 2000 and January 31, 2000, respectively. The February 10, 2000 award was a prospective award for service in fiscal 2000. The January 31, 2000 award represents compensation earned in fiscal 1999. With respect to the February 10, 2000 grant, 25% of the shares vested 180 days following the grant date and 25% of the shares are to vest on each anniversary of the grant date for the next three years. Under the February 10, 2000 award, 8,634 shares were awarded subject to the price of our common stock meeting certain performance hurdles. The price of our common stock did not satisfy the required performance hurdles and the 8,634 shares referred to above were forfeited in accordance with the terms of the grant. With respect to the January 31, 2000 grant, 50% of the shares vested 180 days following the grant date, with the remaining 50% vesting on the anniversary of the grant date. Mr. Rich receives dividends on unvested shares. The number of unvested shares and value of Mr. Rich's restricted stock awards at the end of last year were 430 shares and $1,344 from a 1999 grant awarded before Mr. Rich became an officer, of which 215 shares were released in January 2001; and 6,091 shares and $19,034 of which 1,774 shares and 4,317 shares were released in January and February 2001, respectively.

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OPTION GRANTS/SAR GRANTS

The following table sets forth certain information concerning options and stock appreciation rights, or SARs, granted during 2000 to Messrs. Erickson, Kellman and Rich and Ms. Kovach. Messrs. Bailey, FitzPatrick and Stover did not receive any option grants during 2000 and therefore do not appear in the table below.

<Table>
<Caption>

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED(2)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE	5%($)	10%($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Thomas W. Erickson.....	10,000(3)		$ 6.250	7/17/11	$ 29,400	$ 90,900

	35,000(4)(5)		6.250	11/01/11	117,950	343,000
	45,000	4.20%			147,350	433,900
F. Scott Kellman.....	500,000(5)(6)	46.62%	6.250	7/17/11	1,470,000	4,545,000
Susan A. Kovach.....	227,500(5)(6)	21.21%	6.250	7/17/11	668,850	2,067,975
Laurence D. Rich.....	227,500(5)(6)	21.21%	6.250	7/17/11	668,850	2,067,975

</Table>

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(1) The assumed annual rates of appreciation of 5% and 10% would result in the price of our stock increasing, at the expiration date of the options, to $9.19 and $15.34 for the July 17, 2000 grant, and $9.62 and $16.05 for the November 1, 2000 grant. We cannot assure you that our stock price will appreciate at such rates.

(2) Represents a grant of non-qualified options which expires 11 years after the date of grant.

(3) Vests in equal increments of 1/3rd on each anniversary of the grant date of July 17, 2001.

(4) The shares subject to such option will vest on the earlier of (a) May 1, 2001 or (b) upon the termination of the management services agreement.

(5) Shares granted in tandem with dividend equivalent rights.

(6) 30% of the shares subject to the indicated option grant will vest on December 31, 2001, with the remainder vesting in equal monthly increments of 1/60th thereafter.

AGGREGATED OPTIONS/ SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/ SAR VALUES

The following table summarizes options and stock appreciation rights exercised during 2000 and presents the value of unexercised options and stock appreciation rights held by the named executive officers at December 31, 2000. Messrs. Bailey, FitzPatrick and Stover did not have any outstanding options or stock appreciation rights at December 31, 2000 and therefore do not appear in the table below.

<Table>
<Caption>

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/ SARS AT FISCAL YEAR-END(#) UNEXERCISABLE(U) EXERCISABLE(E)	IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END($) UNEXERCISABLE(U) EXERCISABLE(E)
<S>	<C>	<C>	<C>	<C>
Thomas W. Erickson.....	--	--	45,000(U)	0(U)
F. Scott Kellman.....	--	--	500,000(U)	0(U)
	--	--	27,880(E)	0(E)
Susan A. Kovach.....	--	--	227,500(U)	0(U)
Laurence D. Rich.....	--	--	227,500(U)	0(U)

</Table>

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LONG-TERM INCENTIVE PLAN

For the period from August 14, 1992, the date of commencement of our operations, through December 31, 2000, we have had no long-term incentive plans.

C. TAYLOR PICKETT EMPLOYMENT AGREEMENT

We entered into an employment agreement with C. Taylor Pickett dated as of June 12, 2001, to be our Chief Executive Officer. The term of the agreement expires on June 12, 2005.

Mr. Pickett's base salary is $450,000 per year, subject to increase by us and provides that he will be eligible for an annual bonus of up to 100% of his base salary based on criteria determined by the compensation committee of our Board of Directors. We issued Mr. Pickett 50,000 shares of our restricted common stock on June 12, 2001, which vest after he has completed two years of service. Additionally, Mr. Pickett was granted an incentive stock option to purchase 172,413 shares of our common stock and a nonqualified stock option to purchase 627,587 shares of our common stock. The incentive stock option will be vested as to 25% of the shares on December 31, 2002; as to an additional 25%, after Mr. Pickett completes two years of service; as to an additional 25%, ratably on

a monthly basis in 2004; and as to the final 25%, ratably on a monthly basis in the first six months of 2005, in each case provided Mr. Pickett continues to work for us on the applicable vesting date. The nonqualified stock option will become vested as to 50% of the shares after Mr. Pickett completes two years of service and will become ratably vested as to the remainder of the shares on a monthly basis over the next 24 months of service following that two year anniversary.

If we terminate Mr. Pickett's employment without cause or if he resigns for good reason, he will be entitled to payment of his base salary for a period of 12 months or, if shorter, for the remainder of the term of the agreement. Additionally, Mr. Pickett will be entitled to payment of an amount equal to the bonus paid in the prior year, payable in 12 monthly installments. Mr. Pickett is required to execute a release of claims against us as a condition to the payment of severance benefits. The vesting of Mr. Pickett's options may be subject to acceleration upon the occurrence of certain events such as termination without cause or resignation for good reason and will become fully vested if, within one year following a change of control, he is terminated without cause or resigns for good reason.

Mr. Pickett is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. Mr. Pickett is subject to covenants which prohibit him from competing with us and from soliciting our customers or employees while he is employed by us and for 12 months following his termination of employment.

DANIEL J. BOOTH EMPLOYMENT AGREEMENT

We entered into an employment agreement with Daniel J. Booth effective as of October 15, 2001, to be our Chief Operating Officer. The term of the agreement expires on January 1, 2006.

Mr. Booth's base salary is $275,000 per year, subject to increase by us, and he is eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the compensation committee. Mr. Booth was granted an incentive stock option to purchase 166,666 shares of our common stock and a nonqualified stock option to purchase 83,334 shares of our common stock. The incentive stock option will vest as to 20% of the shares on each of December 31, 2002, October 1, 2003, October 1, 2004, October 1, 2005, and January 1, 2006 and the nonqualified stock option will vest on January 1, 2003, provided Mr. Booth continues to work for us on the applicable vesting date.

Our agreement with Mr. Booth contains severance and accelerated option vesting provisions similar to those in Mr. Pickett's agreement described above. Mr. Booth is required to execute a release of claims against us as a condition to the payment of severance benefits. He is also subject to

restrictions on his use of confidential information and our trade secrets that are the same as those in our agreement with Mr. Pickett described above.

ROBERT O. STEPHENSON EMPLOYMENT AGREEMENT

We entered into an employment agreement with Robert O. Stephenson effective as of August 30, 2001, to be our Chief Financial Officer. The term of the agreement expires on January 1, 2006.

Mr. Stephenson's base salary is $215,000 per year, subject to increase by us, and he is eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the compensation committee. Mr. Stephenson was granted an incentive stock option to purchase 181,155 shares of our common stock and a nonqualified stock option to purchase 18,845 shares of our common stock. The incentive stock option will vest as to 20% of the shares on each of December 31, 2002, August 1, 2003, August 1, 2004, August 1, 2005, and January 1, 2006 and the nonqualified stock option will vest on August 1, 2003, provided Mr. Stephenson continues to work for us on the applicable vesting date.

Our agreement with Mr. Stephenson contains severance and accelerated option vesting provisions similar to those in Mr. Pickett's agreement described above. Mr. Stephenson is required to execute a release of claims against us as a condition to the payment of severance benefits. He is also subject to restrictions on his use of confidential information and our trade secrets that are the same as those in our agreement with Mr. Pickett described above.

R. LEE CRABILL, JR. EMPLOYMENT AGREEMENT

We entered into an employment agreement with R. Lee Crabill, Jr. effective as of July 30, 2001, to be our Senior Vice President of Operations. The term of the agreement expires on July 30, 2005.

Mr. Crabill's base salary is $215,000 per year, subject to increase by us, and he is eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the compensation committee. Mr. Crabill was granted an

incentive stock option to purchase 133,333 shares of our common stock and a nonqualified stock option to purchase 41,667 shares of our common stock. The incentive stock option will vest as to 25% of the shares on each of December 31, 2002, August 1, 2003, August 1, 2004, and August 1, 2005, and the nonqualified stock option will vest as to 50% of the shares after Mr. Crabill completes two years of service and will become ratably vested as to the remainder of the shares on a monthly basis over the next twenty-four (24) months of service following that two year anniversary, provided Mr. Crabill continues to work for us on the applicable vesting date.

Our agreement with Mr. Crabill contains severance and accelerated option vesting provisions similar to those in Mr. Pickett's agreement described above. Mr. Crabill is required to execute a release of claims against us as a condition to the payment of severance benefits. He is also subject to restrictions on his use of confidential information and our trade secrets that are the same as those in our agreement with Mr. Pickett described above.

THOMAS W. ERICKSON MANAGEMENT SERVICES AGREEMENT

We entered into a management services agreement with ECG Ventures, Inc. dated as of October 1, 2000, to obtain the services of Thomas W. Erickson as our interim Chief Executive Officer. Mr. Erickson continued to provide services following the appointment of Mr. Pickett as Chief Executive Officer to facilitate a transition. The term of the agreement expires on the earlier of (i) December 31, 2001 or (ii) the later of (x) the date we determine that Mr. Erickson's services are no longer necessary, or (y) three months following the hiring of a new Chief Executive Officer.

We pay ECG Ventures $41,667 per month and granted them an option to purchase 50,000 shares of our common stock which will be fully vested on December 31, 2001. We also reimburse ECG Ventures for the premiums for healthcare coverage for Mr. Erickson and his dependents. We agreed to pay ECG Ventures $250,000 if Mr. Erickson continues to provide transitional services through the

earlier of December 31, 2001, or the date we determine that his services are no longer necessary. Mr. Erickson and ECG Ventures are subject to customary restrictions on their use of our confidential information and trade secrets.

RICHARD M. FITZPATRICK EMPLOYMENT AGREEMENT

We entered into an employment agreement with Richard M. FitzPatrick effective as of May 1, 2001, to be our interim Chief Financial Officer. The term of the agreement expires on the earlier of January 31, 2002 or the date we determine his services are no longer necessary.

Mr. FitzPatrick's base salary was $250,000 per year and provides that he was eligible for an annual bonus of up to 100% of his base salary based on criteria determined by the compensation committee. We agreed to pay Mr. FitzPatrick an amount equal to $125,000 plus 50% of his actual bonus for 2001 if he continues to work for us for three months following the expiration of his agreement to facilitate a transition to Mr. Stephenson. We also reimbursed The Hampstead Group, L.L.C. for the amount of Mr. Fitzpatrick's annual compensation paid by Hampstead during the period from January 1, 2001 to May 1, 2001, since Mr. FitzPatrick worked as our interim Chief Financial Officer on a full-time basis during that period prior to the effectiveness of his employment agreement.

If Mr. FitzPatrick's employment is terminated by us without cause or if he resigns for good reason, in either event before January 31, 2002, he will be entitled to payment of his base salary through January 31, 2002. Mr. FitzPatrick is required to execute a release of claims against us as a condition to the payment of severance benefits and his use of our confidential information and trade secrets is subject to customary restraints.

SUSAN A. KOVACH SEVERANCE AGREEMENT

We entered into a separation agreement and full and final release of claims with Susan A. Kovach, pursuant to which Ms. Kovach resigned as our Senior Vice President and General Counsel effective as of April 6, 2001. Pursuant to the agreement, Ms. Kovach received payment of an immediate lump sum payment of $291,426.67 and a payment of $175,000 in substantially equal installments over a period of twelve (12) months. The lump sum payment was reduced by the $44,600.09 in outstanding principal and accrued interest on a loan that we made to Ms. Kovach in August 25, 1999. Ms. Kovach received a payment of $113,500 in exchange for the extinguishment of all of her rights with respect to the dividend equivalent rights for 227,500 shares of our common stock and she was fully vested in $381.89 in deferred compensation plan units and in 257 shares of our unvested common stock from a January 4, 1999 grant. Ms. Kovach's vested and unvested deferred compensation units, valued at $954.72, were paid in a single lump sum within five (5) days of her resignation.

Ms. Kovach is required to be available to consult with us on litigation matters pending at the time of her resignation, until such matters are finally resolved. Ms. Kovach is subject to customary restrictions regarding her use of

our proprietary information, a covenant not to compete and a covenant not to solicit our customers or employees for one year following her resignation date. Ms. Kovach also released us from any claims.

F. SCOTT KELLMAN RETENTION, SEVERANCE AND RELEASE AGREEMENT

We entered into a retention, severance and release agreement with F. Scott Kellman, our former Chief Operating Officer, effective as of October 9, 2001, which provides that Mr. Kellman will continue his employment with us until January 31, 2002 or such earlier date specified by us. Mr. Kellman's employment will end on this resignation date. Mr. Kellman will be paid his regular base salary through January 31, 2002, and if he remains employed through the resignation date, he will receive a minimum cash bonus of $150,000 payable on February 1, 2002, that may be increased by an additional $150,000 if specified performance objectives are reached. In addition, if Mr. Kellman remains employed through the resignation date he will also receive a retention bonus of $930,000 to be paid on February 1, 2002.

We will pay Mr. Kellman's premiums for eligible health care insurance benefits, less required employee contributions for premiums, through December 31, 2002. As a condition to payment of the amounts under the retention grant, Mr. Kellman is required to execute a comprehensive release of claims against us. If we terminate Mr. Kellman for cause, he will not be entitled to any payments under the agreement.

If any of the payments to Mr. Kellman are subject to an excise tax on "excess parachute payments" under the Internal Revenue Code, he will be entitled to receive a payment in an amount that puts him in the same after-tax position as if no excise tax had been imposed. Mr. Kellman has agreed to maintain the confidentiality of our information for a period of two (2) years after the resignation date.

LAURENCE D. RICH RETENTION, SEVERANCE AND RELEASE AGREEMENT

We entered into a retention, severance and release agreement with Laurence D. Rich effective as of August 1, 2001, which provides that Mr. Rich will continue his employment until January 31, 2002 or such earlier date specified by us. Mr. Rich's employment will end on this resignation date. Mr. Rich will be paid his regular base salary through January 31, 2002, and, if he remains employed through the resignation date, he will receive a minimum cash bonus of $117,500 payable on February 1, 2002, that may be increased by an additional $87,500 if specified performance objectives are reached. In addition, if Mr. Rich remains employed through the resignation date he will also receive a retention bonus of $530,000 to be paid on February 1, 2002. We will pay Mr. Rich's premiums for eligible heath care insurance benefits, less required employee contributions for premiums, through December 31, 2002. As a condition to payment of the amounts under the retention agreement, Mr. Rich is required to execute a comprehensive release of claims against us. If we terminate Mr. Rich's employment for cause, he will not be entitled to any payments under the agreement.

If any of the payments to Mr. Rich are subject to an excise tax on "excess parachute payments" under the Internal Revenue Code, he will be entitled to receive a payment in an amount that puts him in the same after-tax position as if no excise tax had been imposed. Mr. Rich has agreed to maintain the confidentiality of our information for a period of two (2) years after his termination of employment.

RETENTION, SEVERANCE, AND RELEASE AGREEMENTS FOR OTHER EMPLOYEES

In August, 2001, we entered into retention, severance, and release agreements with a total of 24 of our employees (excluding Mr. Kellman and Mr. Rich) who were not expected to work for us in our future headquarters in Maryland. Pursuant to these agreements, each employee agrees to continue his or her employment with us until January 31, 2002, or such earlier date as we specify. Each such employee's employment will end on his or her respective resignation date. Pursuant to the agreement, each employee will be paid his or her regular base salary through January 31, 2002, and, if he or she remains employed though the resignation date, the employee will receive a specified minimum cash bonus payable on February 1, 2002, that may be increased by a specified amount if performance objectives are satisfied. In addition, if the employee remains employed through the resignation date, the employee will also receive a specified retention bonus to be paid in equal monthly installments beginning on February 1, 2002 over a specified retention bonus period. The maximum total amount of all mandatory bonuses, performance bonuses, and retention bonuses are $275,785, $243,935, and $495,490, respectively.

During the retention bonus period, we will pay the employee's premiums for eligible health care insurance benefits, less required employee contributions for premiums, and we will also provide outplacement services for a reasonable period of time after the resignation date. As a condition to the payment of these severance benefits, the employee is required to execute a comprehensive release of

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claims against us. If we terminate the employee's employment for cause, the employee will not be entitled to any severance benefits under the agreement.

ESSEL W. BAILEY, JR. SEVERANCE AGREEMENT

On July 18, 2000, we entered into a consulting and severance agreement with Essel W. Bailey, Jr. under which Mr. Bailey resigned as Chairman and Chief Executive Officer of our company. Mr. Bailey's resignation and the severance agreement became effective as of July 14, 2000.

Under the terms of the severance agreement, Mr. Bailey received payment of his regular base salary through the effective date of his resignation and a lump-sum severance payment equal to $1,555,000. The severance agreement provides that Mr. Bailey is fully vested in his deferred compensation plan and in 59,708 shares of his restricted stock. Mr. Bailey's deferred compensation units, valued at $249,510 and the value of his account under our terminated director's retirement plan were transferred to an account in his name. The agreement also provided that Mr. Bailey would be fully vested in the remaining 15,831 shares of his restricted stock if our common stock reached a per share value of at least $10 for ten consecutive business days, or an average price of $10 over a period of thirty consecutive business days during the period from July 11, 2000 to February 10, 2001. These vesting requirements were not met and these shares were cancelled. The severance agreement also provides that Mr. Bailey's unvested options to purchase 85,000 shares of our common stock terminated on his resignation date. The agreement permits Mr. Bailey to transfer shares he purchased under the borrowing program back to us in satisfaction of his debt under the borrowing program. See "Certain Transactions--Borrowing Program." The severance agreement provides Mr. Bailey with an office and secretarial support, health insurance and long-term disability insurance for a period of 24 months following his resignation date. The severance agreement provides that if Mr. Bailey incurs an excise tax under the Internal Revenue Code, we will pay additional compensation necessary to put him in the same after-tax position as if no excise tax had been imposed.

Under the terms of the severance agreement, Mr. Bailey provided consulting services to us for 12 months following his resignation. Mr. Bailey agrees not to compete with us or solicit any of our customers or employees for 24 months following his resignation. In exchange for the consulting services and his agreement not to compete with us or solicit our customers or employees, Mr. Bailey received compensation equal to $147,500 per month for twelve months. Mr. Bailey also agreed not to disclose confidential information and trade secrets for long as protected by applicable law.

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PRINCIPAL STOCKHOLDERS

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

- each of our directors and the named executive officers appearing in the table under "Executive Compensation--Compensation of Executive Officers," except for those executive officers no longer employed by the Company;
- each of the four new executive officers who have joined the Company since June 2001;
- all directors and executive officers as a group, except for those executive officers no longer employed by the Company; and
- all persons known to us to be the beneficial owner of more than 5% of our outstanding common stock.

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

<Table>
<Caption>

	COMMON STOCK		
	BEFORE THE RIGHTS OFFERING AND EXPLORER INVESTMENT	AFTER THE RIGHTS OFFERING AND EXPLORER INVESTMENT(15)	SERIES A PREFERRED

BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF CLASS(1)	NUMBER OF SHARES	PERCENT OF CLASS(16)	NUMBER OF SHARES	PERCENT OF CLASS(18)
DIRECTORS AND EXECUTIVE OFFICERS:						
C. Taylor Pickett	50,000(2)	0.1%	73,256	0.1%	--	--
Robert O. Stephenson	1,000	*	1,466	*	--	--
Daniel J. Booth	--	*	--	*	--	--
R. Lee Crabill	--	*	--	*	--	--
Thomas W. Erickson	54,407(3)	0.1%	56,302	0.1%	--	--
Richard M. FitzPatrick	--	*	--	*	--	--
F. Scott Kellman	39,888(4)(5)	0.1%	58,442	0.1%	--	--
Laurence D. Rich	13,114(6)	*	19,214	*	--	--
Thomas F. Franke	39,682(7)(8)	0.1%	57,985	0.1%	4,000	*
Harold J. Kloosterman	64,837(8)(9)	0.2%	94,840	0.2%	--	--
Bernard J. Korman	366,307(8)	1.0%	536,528	1.0%	200	*
Edward Lowenthal	8,707(8)(10)	*	12,602	*	--	--
Christopher W. Mahowald	4,407(8)	*	6,302	*	--	--
Donald J. McNamara	17,695,627(8)(11)(12)	48.1%	25,934,794	48.1%	3,600(17)	*
Daniel A. Decker	17,332,977(8)(12)	47.1%	25,403,467	47.1%	--	--
Stephen D. Plavin	4,407(8)	*	6,302	*	--	--
Directors and executive officers as a group (16 persons)	18,346,790(13)	49.9%	26,864,335	49.8%	7,800	*
5% BENEFICIAL OWNERS:						
Merrill Lynch & Co. Inc. (on behalf of Merrill Lynch Asset Management Group) World Financial Center, North Tower 250 Vesey Street New York, NY 10381	1,136,750(14)	3.1%	1,665,471	3.1%		
Hampstead Investment Partners III, L.P. (through Explorer Holdings, L.P.) 4200 Texas Commerce Tower West 2200 Ross Avenue Dallas, TX 75201	17,328,572(12)	47.1%	25,139,563	46.6%		

<Caption>

BENEFICIAL OWNER	SERIES B PREFERRED NUMBER OF SHARES	SERIES B PREFERRED PERCENT OF CLASS(19)
DIRECTORS AND EXECUTIVE OFFICERS:		
C. Taylor Pickett	--	--
Robert O. Stephenson	--	--
Daniel J. Booth	--	--
R. Lee Crabill	--	--
Thomas W. Erickson	--	--
Richard M. FitzPatrick	--	--
F. Scott Kellman	--	--
Laurence D. Rich	--	--
Thomas F. Franke	--	--
Harold J. Kloosterman	--	--
Bernard J. Korman	1,300	*
Edward Lowenthal	--	--
Christopher W. Mahowald	--	--
Donald J. McNamara	4,300	*
Daniel A. Decker	--	--

Stephen D. Plavin.....	--	--
Directors and executive officers as a group (16 persons).....	5,600	*
5% BENEFICIAL OWNERS:		
Merrill Lynch & Co. Inc. (on behalf of Merrill Lynch Asset Management Group) World Financial Center, North Tower 250 Vesey Street New York, NY 10381.....		
Hampstead Investment Partners III, L.P. (through Explorer Holdings, L.P.) 4200 Texas Commerce Tower West 2200 Ross Avenue Dallas, TX 75201.....		

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* Less than 0.10%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(15) Assumes full exercise of subscription rights by each stockholder in the rights offering. If none of the subscription rights are exercised in the

rights offering, Explorer would beneficially own 34,451,860 shares, or 63.9%, of our common stock, represented by 553,850 shares of common stock, 1,048,420 shares of Series C preferred stock and 500,000 shares of Series D preferred stock, depending on whether or not we have obtained shareholder approval for Explorer's investment at the time of the investment.

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

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

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

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

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AFFILIATE RELATIONSHIPS AND TRANSACTIONS

EXPLORER

Hampstead, through its affiliate Explorer, indirectly owns 1,048,722 shares of Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our outstanding voting power. Daniel A. Decker, our Chairman of the Board, is a member of Hampstead. Donald J. McNamara, the Chairman of Hampstead, is one of our directors. In connection with this rights offering and Explorer's investment, we have agreed to amend certain documents currently in effect between Explorer and us. For a description of our existing agreements with Explorer and proposed modifications, see "Modifications to Agreements with Explorer" beginning on page 44.

OMEGA WORLDWIDE

FLEET CREDIT GUARANTY. We guaranteed repayment of borrowings of our affiliate, Omega Worldwide, Inc., pursuant to a revolving credit facility with a bank group, of which Fleet Bank, N.A. acts as agent in exchange for an initial 1% fee and an annual facility fee of 0.25%. At December 31, 2000, borrowings of $2,850,000 were outstanding under Omega Worldwide's revolving credit facility. Omega Worldwide's credit agreement required scheduled payments to be made until fully repaid in June 2001. Under this agreement, no further borrowings may be made by Omega Worldwide under its revolving credit facility. We were required to provide collateral in the amount of up to $8,800,000 related to the guarantee of Omega Worldwide's obligations. Upon repayment by Omega Worldwide of the remaining outstanding balance under its revolving credit facility, the subject collateral was released in connection with the termination of our guarantee.

OPPORTUNITY AGREEMENT. We and Omega Worldwide have entered into an opportunity agreement to provide each other with rights to participate in transactions and make investments. The opportunity agreement provides that each company will offer the other a right of first refusal to participate in transactions or investments of which it becomes aware. In addition, both companies agree to jointly pursue certain transactions and investments upon the request of either company. The terms upon which each of us elect to participate in any transaction or investment will be negotiated in good faith and must be mutually acceptable to our respective boards of directors, with the affirmative votes of the independent directors of each of the boards of directors. The opportunity agreement has a term of ten years and automatically renews for successive five-year terms, unless terminated.

SERVICES AGREEMENT. We and Omega Worldwide have entered into a services agreement which provides for the allocation of indirect costs incurred by us to Omega Worldwide. The allocation of indirect costs has been based on the relationship of assets under our management to the combined total of those assets and assets under Omega Worldwide's management. Upon expiration of this agreement on June 30, 2000, we entered into a new agreement requiring quarterly payments from Omega Worldwide of $37,500 for the use of offices and administrative and financial services provided by us. Upon the reduction of our

accounting staff, the service agreement was renegotiated again on November 1, 2000 requiring quarterly payments from Omega Worldwide of $32,500. Costs allocated to Omega Worldwide for 2000 and 1999 were $404,000 and $754,000, respectively. The former services agreement has expired and Omega Worldwide is paying monthly invoices for services rendered.

OTHER

BORROWING PROGRAM. On January 14, 1998, the Board of Directors adopted a program pursuant to which we agreed to lend funds to employees and directors to enable them to purchase our common stock through the exercise of stock options. The goal of the borrowing program was to increase ownership of our common stock by employees and directors, and, as a result, to foster a proprietary feeling among employees and directors and to further align the interests of employees and directors with those of our other stockholders. The maximum amount that an employee was permitted to borrow under the borrowing program depended on the employee's salary level, with the maximum loan amount

for employees at the lower end of the salary range being $20,000, and the maximum loan amount for employees at the upper end of the salary range being $300,000. The maximum loan amount for directors was $300,000. Each loan carried interest at our borrowing cost, as determined by our management. Interest was payable quarterly, and all principal and accrued and unpaid interest was due five years from the date of the loan. Upon receipt by an employee of a cash bonus from us, the employee was obligated to make a principal reduction payment equal to 10% of the amount of the cash bonus. The loans are secured by pledges of the stock purchased with the proceeds of the loans. As long as a loan is not in default, the borrower may vote the shares purchased and is entitled to receive all dividends paid on the shares. At January 1, 2000, the following loans were outstanding to executive officers and non-employee directors:

<Table>
<Caption>

NAME OF DIRECTOR OR EXECUTIVE OFFICER	AMOUNT BORROWED AS OF JANUARY 1, 2000
<S>	<C>
Essel W. Bailey, Jr.	$195,707
James E. Eden	$262,587
James P. Flaherty	$262,632
Thomas F. Franke	$262,587
Harold J. Kloosterman	$262,587
Bernard J. Korman	$300,000
Edward Lowenthal	$187,472
Robert L. Parker	$299,955
David A. Stover	$296,847

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As of January 1, 2000, the outstanding aggregate principal balance of loans made under the borrowing program to employees who are not directors or executive officers was $201,088. On July 31, 2000, Messrs. Bailey, Eden, Flaherty, Franke, Kloosterman, Korman, Lowenthal, Parker and Stover each surrendered 7,664; 12,000; 8,333; 12,000; 12,000; 12,000; 6,999; 12,739; and 11,703 shares of common stock, respectively in exchange for forgiveness of $191,803; $262,587; $255,171; $262,587; $262,587; $300,000; $187,472; $299,955; and $294,118, respectively, of debt, incurred by each of them under the borrowing program. As of December 31, 2000, no loans were outstanding under the borrowing program for our directors or executive officers. We do not currently expect that any loans will be made pursuant to the borrowing program in the future.

LEASE FROM CIRCLE PARTNERS. We leased 5,823 square feet of office space at 905 West Eisenhower Circle, Suite 110, Ann Arbor, Michigan 48103, from Circle Partners, a general partnership whose general partners are Essel W. Bailey, Jr., our former President and Chief Executive Officer, and Thomas F. Franke, a director. During 1998, we moved our principal executive offices to 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 and entered into a sublease agreement with respect to 1,900 square feet of the Eisenhower space on December 14, 1998. We entered into a second sublease agreement with respect to an additional 3,000 square feet of the Eisenhower space in July 1999. The lease expired, concurrently with the expiration of the subleases, on October 31, 2000. Rent payments totaling $77,198 were made to Circle Partners in 2000. Rent income on the subleases in 2000 was $65,509.

RELOCATION LOAN. In connection with the 1994 relocation of F. Scott Kellman, our former Chief Operating Officer, from the Philadelphia metropolitan area to Ann Arbor, Michigan, we loaned him $220,000 to enable him to purchase a home in Ann Arbor. At January 1, 2000 the outstanding principal balance on the loan was $67,000. The loan was secured by a lien on Mr. Kellman's residence, and bore interest at 7.05% per annum. Mr. Kellman paid the balance of the mortgage in full on January 29, 2001.

LOAN TO OAKWOOD. On December 30, 1998, we made a $6,000,000 loan to Oakwood Living Centers of Massachusetts, Inc., an affiliate of Oakwood Living

Centers, Inc., of which James E. Eden, a former director of our company, also is Chairman and Chief Executive Officer. The loan is secured by

a second mortgage lien on six skilled nursing facilities located in Massachusetts, bears interest at 14% per annum and currently is past due and the borrower is paying interest at the default rate of 17%.

STOVER SEVERANCE AGREEMENT. On June 15, 2000, we entered into a consulting and severance agreement with David A. Stover, our former Chief Financial Officer, pursuant to which Mr. Stover resigned as an officer of our company. Mr. Stover's resignation and severance agreement was effective as of June 15, 2000.

Under the terms of the severance agreement, Mr. Stover received payment of his regular base salary for thirty days after the effective date of his resignation and a lump-sum severance payment equal to $348,667. The agreement provided that Mr. Stover was fully vested in his restricted stock awards for which there were no performance requirements, stock options and deferred compensation units. In addition, the dollar value of Mr. Stover's deferred compensation units under our deferred compensation arrangement were to be paid to Mr. Stover in a lump sum payment pursuant to the terms of the plan. The severance agreement permitted Mr. Stover to transfer shares he purchased under the borrowing program back to us in satisfaction of his debt under the borrowing program.

Under the terms of the severance agreement, Mr. Stover will provide consulting services to us for one year following his resignation in exchange for compensation equal to $348,667 payable in twelve equal monthly installments.

DESCRIPTION OF CAPITAL STOCK

We are offering shares of our common stock, par value $0.10 per share, to be issued upon the exercise of rights given to stockholders of record as of January 22, 2002.

Our authorized capital stock currently consists of 100,000,000 shares of our common stock, par value $0.10 per share, 2,300,000 shares of Series A preferred stock, par value $1.00 per share, 2,000,000 shares of Series B preferred stock, par value $1.00 per share, 2,000,000 shares of Series C preferred stock, par value $1.00 per share, and 1,000,000 shares of Series D preferred stock, par value $1.00 per share. As of December 31, 2001, we have 19,998,896 shares of our common stock, 2,300,000 shares of our Series A preferred stock, 2,000,000 shares of our Series B preferred stock, 1,048,420 shares of our Series C preferred stock, and no shares of our Series D preferred stock issued and outstanding. Our common stock, Series A preferred stock and Series B preferred stock are listed on the New York Stock Exchange. We intend to apply to list for trading on the New York Stock Exchange any additional shares of our common stock which are issued and sold hereunder.

COMMON STOCK

All shares of our common stock participate equally in dividends payable to stockholders of our common stock when and as declared by our Board of Directors and in net assets available for distribution to stockholders of our common stock on liquidation or dissolution, have one vote per share on all matters submitted to a vote of the stockholders and do not have cumulative voting rights in the election of directors. All issued and outstanding shares of our common stock are, and our common stock offered hereby will be upon issuance, validly issued, fully paid and nonassessable. Holders of our common stock do not have preference, conversion, exchange or preemptive rights. Our common stock is listed on the New York Stock Exchange under the symbol "OHI."

DIVIDENDS ON COMMON STOCK. In February 2001, we suspended payment of all dividends on all common stock and preferred stock. We do not know when or if we will resume dividend payments on our common stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our $108 million of debt maturing in the first half of 2002 has been repaid, and in any event, all accrued and unpaid dividends on our Series A, B and C preferred stock must be paid in full before dividends on our common stock can be resumed. We have made sufficient distributions to satisfy the distribution requirements under the REIT rules of the Internal Revenue Code of 1986 to maintain our REIT status for 2000 and expect to satisfy the requirements under the REIT rules for 2001.

On March 30, 2001 our Board of Directors approved payment of the accrued Series C dividend from November 15, 2000 and the associated waiver fee by

issuing 48,420 shares of Series C preferred Stock to Explorer on April 2, 2001. Dividends paid in stock to a specific class of stockholders, such as our payment of our Series C preferred stock in April 2001, constitute dividends eligible for the 2001 dividends paid deduction. Additionally, and as specifically authorized by the Internal Revenue Code, dividends declared by September 15, 2002 and paid by December 31, 2002 may be elected to be treated as a distribution of 2001 taxable income.

SERIES A PREFERRED STOCK

The following description of the terms of the Series A preferred stock sets forth certain general terms and provisions of the Series A preferred stock. The description of certain provisions of the Series A preferred stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Restatement, as amended, and the Board of Directors' resolutions or articles supplementary relating to the Series A preferred stock.

GENERAL. Under the Articles of Restatement, our Board of Directors is authorized without further stockholder action to provide for the issuance of up to an aggregate of 10,000,000 shares of our

preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights and qualifications, limitations or restrictions thereon, including, but not limited to, dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, and the liquidation preferences as will be stated in the resolutions providing for the issuance of a series of such stock, adopted, at any time or from time to time, by our Board of Directors. The shares of Series A preferred stock are fully paid and nonassessable and have no preemptive rights.

RANK. The Series A preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding-up of our company, rank:

- senior to all classes or series of our common stock, and to all equity securities ranking junior to the Series A preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up of our company;

- on a parity with the Series B preferred stock, the Series C preferred stock, the Series D preferred stock, if issued, and all other equity securities we issue, the terms of which specifically provide that such equity securities rank on a parity with the Series A preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up of our company; and

- junior to all of our existing and future indebtedness.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF RESTATEMENT. See "Redemption and Business Combination Provisions" for a description of certain provisions of our Articles of Restatement, including provisions relating to redemption rights and provisions, which may have certain anti-takeover effects.

DIVIDEND RIGHTS. Holders of shares of the Series A preferred stock are entitled to receive, when and as declared by our Board of Directors, or a duly authorized committee, out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 9.25% per annum of the liquidation preference discussed below per share, equivalent to a fixed annual amount of $2.31 per share. Dividends on the Series A preferred stock are cumulative from the date of original issue and are payable quarterly in arrears for each quarterly dividend period ended April 30, July 31, October 31 and January 31, on or before the 15th day of May, August, November and February respectively of each year or, if not a business day, the next succeeding business day. The first dividend was paid on August 15, 1997 with respect to the period commencing on the date of issue and ending on July 31, 1997. Any dividend payable on Series A preferred stock for any partial period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable record date which will be the last day of the preceding calendar month prior to the applicable payment date of the dividend or such other date designated by our Board of Directors that is not more than 30 nor less than 10 days prior to the date of the dividend payment. No dividends on shares of Series A preferred stock will be declared by our Board of Directors or paid or set apart for payment by us at such time as the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment is restricted or prohibited by law. Notwithstanding the foregoing, dividends on the Series A preferred stock will accrue whether or not we have earnings, whether or not

there are funds legally available for payment on such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series A preferred stock will not bear interest and holders of the Series A preferred stock will not be entitled to any distributions in excess of full cumulative distributions described above. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any other series of

preferred stock ranking, as to dividends, on a parity with or junior to the Series A preferred stock other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series A preferred stock as to dividends and upon liquidation for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series A preferred stock for past dividend periods and the then current dividend period. When dividends are not paid in full, or a sum sufficient for such payment is not so set apart, upon the Series A preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with Series A preferred stock, all dividends declared upon the Series A preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series A preferred stock will be declared pro rata so that the amount of dividends declared per share of Series A preferred stock and any other series of preferred stock will in all cases bear to each other the same ratio that the accrued dividends per share of the Series A preferred stock and such other series of preferred stock bear to each other, but not including any accrual in respect of unpaid dividends for prior dividend periods if the preferred stock does not have a cumulative dividend bear to each other. Except as provided above, unless full cumulative dividends on the Series A preferred stock have been or contemporaneously are declared and paid or declared and a sum sufficient for payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividend, other than in shares of common stock or other shares of capital stock ranking junior to the Series A preferred stock as to dividends and liquidation, will be declared or paid or set aside for payment nor will any other distribution be declared or made upon the common stock, or any other class or series of our capital stock ranking junior to or on a parity with the Series A preferred stock as to dividends or upon liquidation, nor will any shares of our common stock, or any other shares of our capital stock ranking junior to or on a parity with the Series A preferred stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration, or any monies paid to or made available for a sinking fund for the redemption for any such shares, by us except by conversion into or exchange for other capital stock ranking junior to the Series A preferred stock as to dividends and upon liquidation or redemption or for the purpose of preserving our qualification as a real estate investment trust under the Internal Revenue Code. Holders of shares of Series A preferred stock will not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series A preferred stock as provided above. Any dividend payment made on shares of Series A preferred stock will be first credited against the earliest accrued but unpaid dividends due with respect to such shares which remain payable.

LIQUIDATION PREFERENCE. In the event of any liquidation, dissolution or winding up of our company, whether voluntary or involuntary, the holders of Series A preferred stock will be entitled to receive out of our assets legally available for distribution to stockholders, the amount of $25 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of our common stock or any other class or series of our capital stock that ranks junior to the Series A preferred stock as to liquidation rights. If, upon any voluntary or involuntary liquidation, dissolution or winding up our company, the amounts payable with respect to the Series A preferred stock and any other shares of our preferred stock ranking as to any such distribution on a parity with Series A preferred stock are not paid in full, the holders of the Series A preferred stock and of such other shares of our preferred stock will share ratably in any such distribution of our assets in proportion to the full respective preferential amounts and accrued and unpaid dividends to which they are entitled. After payment to the holders of the preferred stock of each series of the full preferential amounts of the liquidating distribution and accrued and unpaid dividends to which they are entitled, the holders of each such series of the preferred stock will be entitled to no further participation in any distribution of our assets. If liquidating distributions have been made in full to all holders of shares of Series A preferred stock, our remaining assets will be distributed among the holders of junior stock, according to their respective rights and preferences and

in each case according to their respective number of shares. For such purposes, the consolidation or merger of us with or into any other corporation, or the sale, lease or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our company.

REDEMPTION. On and after July 1, 2002, Series A preferred stock may be redeemed, in whole or from time to time in part, at our option and may not be subject to mandatory redemption pursuant to a sinking fund or otherwise, in each case upon terms, at the time and at a redemption price of $25 per share plus all accrued and unpaid dividends thereon without interest. The shares of the Series A preferred stock redeemed will be restored to the status of authorized but unissued shares of our preferred stock. In the event that fewer than all of the outstanding shares of Series A preferred stock are to be redeemed, whether by mandatory or optional redemption, the number of shares to be redeemed will be determined by lot or pro rata, subject to rounding to avoid fractional shares, as we may determine or by any other method as we may determine in our sole discretion to be equitable. From and after the redemption date, unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any, dividends will cease to accumulate on the shares of Series A preferred stock called for redemption and all rights of the holders thereof, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, will cease. Unless full cumulative dividends on all shares of Series A preferred stock will have been or contemporaneously are declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series A preferred stock will be redeemed unless all outstanding shares of Series A preferred stock are simultaneously redeemed and we will not purchase or otherwise acquire directly or indirectly any shares of Series A preferred stock, except by exchange for our capital stock ranking junior to the Series A preferred stock as to dividends and upon liquidation; provided, however, that the foregoing will not prevent our purchase of excess shares in order to insure that we continue to meet the requirements for qualification as a REIT, or the purchase or acquisition of shares of Series A preferred stock pursuant to a purchase or exchange offer made on the same terms to all holders of all outstanding shares of Series A preferred stock. So long as no dividends are in arrears, we will be entitled at any time to repurchase shares of Series A preferred stock in open market transactions duly authorized by the Board of Directors and in compliance with the applicable law.

CONVERSION RIGHTS. The shares of Series A preferred stock are not convertible into common stock.

VOTING RIGHTS. Except as indicated below or except as required by law, holders of the Series A preferred stock will not be entitled to vote for any purpose. So long as any shares of Series A preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series A preferred stock outstanding at the time, given in person or by proxy, either in writing or at a meeting, voting separately as a class, amend, alter or repeal the provisions of the Articles of Restatement or the articles supplementary relating to the Series A preferred stock, whether by merger, consolidation or otherwise so as to materially and adversely affect any right, preference, privilege or voting power of the Series A preferred stock or the holders thereof; including without limitation, the creation of any series of preferred stock ranking senior to the Series A preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up. However, so long as the Series A preferred stock (or any equivalent class or series of stock issued by the surviving corporation in any merger or consolidation to which we become a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such event will not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series A preferred stock. Any increase in the amount of the authorized preferred stock or the creation or issuance of any other series of preferred stock or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series A preferred stock with respect to payment of dividends or the distribution of assets upon

liquidation, dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. Whenever dividends on any shares of Series A preferred stock are in arrears for 18 or more months, the number of directors then constituting the Board of Directors will be increased by two, if not already increased by a reason of a similar arrearage pursuant to similar rights of any other preferred stock on parity with the Series A Preferred Stock. The holders of such shares of Series A preferred stock, voting separately as a class with any other preferred stock on parity with the Series A preferred stock, if such stock has like voting rights that are then exercisable, will be entitled to vote separately as a class in order to fill the vacancies thereby created for the election of a total of two additional directors at a special meeting called by the holders of record of such stock, and at each subsequent annual meeting until all dividends accumulated on such shares of preferred stock for the past dividend period and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. Each director elected pursuant to these voting rights, as a qualification for election as such, and regardless of how elected, must submit to our Board of Directors a duly executed, valid, binding and enforceable letter of resignation from the Board of Directors, to be effective upon the date upon which all dividends accumulated on such shares of preferred stock for the past dividend periods and the dividend

for the then current dividend period have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment, whereupon the terms of office of all persons elected pursuant to these voting rights will terminate upon the effectiveness of their respective letters of resignation, and the number of directors then constituting the Board of Directors will be reduced accordingly. If and when all accumulated dividends and the dividend for the then current dividend period on the Series A preferred stock have been paid in full or declared and set aside for payment in full, the holders thereof will be divested of the foregoing voting rights, subject to revesting in the event of each and every Series A dividend default, and, if all accumulated dividends and the dividend for the then current dividend period have been paid for all preferred stock with like voting power in full or set aside for payment in full the term of office of each director so elected will terminate. Any director elected pursuant to these voting rights may be removed at any time with or without cause by, and will not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series A preferred stock when they have the voting rights described above, voting separately as a class with other preferred stock on parity with the Series A preferred stock with like voting rights that are then exercisable. So long as a Series A dividend default continues, any vacancy in the office of a director elected pursuant to these voting rights may be filled by written consent of the director elected pursuant to these voting rights remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series A preferred stock when they have the voting rights described above, voting separately as a class with other preferred stock on parity with the Series A preferred stock with like voting rights that are then exercisable. The directors elected pursuant to these voting rights will each be entitled to one vote per director on any matter.

SERIES B PREFERRED STOCK

The following description of the terms of the Series B preferred stock sets forth general terms and provisions of the Series B preferred stock. The description of provisions of the Series B preferred stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Restatement, and the Board of Directors' resolutions or Articles Supplementary relating to the Series B preferred stock.

GENERAL. Under the Articles of Restatement, our Board of Directors is authorized without further stockholder action to provide for the issuance of up to an aggregate of 10,000,000 shares of our preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights and qualifications, limitations or restrictions thereon, including, but not limited to, dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, and

the liquidation preferences as will be stated in the resolutions providing for the issuance of a series of such stock, adopted, at any time or from time to time, by our Board of Directors. The shares of Series B preferred stock are fully paid and nonassessable and have no preemptive rights.

RANK. The Series B preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding-up of our company, rank:

- senior to all classes or series of our common stock, and to all equity securities ranking junior to the Series B preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up of our company;

- on a parity with the Series A preferred stock, the Series C preferred stock, the Series D preferred stock, if issued, and all other equity securities we issue, the terms of which specifically provide that such equity securities rank on a parity with the Series B preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up of our company; and

- junior to all of our existing and future indebtedness.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF RESTATEMENT. See "Redemption and Business Combination Provisions" for a description of certain provisions of our Articles of Restatement, including provisions relating to redemption rights and provisions, which may have certain anti-takeover effects.

DIVIDEND RIGHTS. Holders of shares of the Series B preferred stock are entitled to receive, when and as declared by our Board of Directors, or a duly authorized committee, out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 8.625% per annum of the liquidation preference per share equivalent to a fixed annual amount of $2.156 per share. Dividends on the Series B preferred stock are cumulative from the date of original issue and are payable in arrears for each period ended July 31, October 31, January 31, and April 30 on or before the 15th day of August, November, February and May of each year, or, if not a business

day, the next succeeding business day. The first dividend was paid on August 15, 1998 with respect to the period ending on July 31, 1998. Any dividend payable on Series B preferred stock for any partial period will be computed on a basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable record date, which will be the last day of the preceding calendar month prior to the applicable dividend payment date or such other date designated by our Board of Directors that is not more than 30 days nor less than 10 days prior to such dividend payment date. No dividends on shares of Series B preferred stock will be declared by our Board of Directors or paid or set apart for payment by us at such time as the terms and provisions of any agreement of our company, including any agreement relating to our indebtedness, prohibit such declaration, payment or setting apart for payments or provide that such declaration, payment or setting apart for payment will constitute a breach thereof or a default thereunder, or if such declaration or payment is restricted or prohibited by law. Notwithstanding the foregoing, dividends on the Series B preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment on such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series B preferred stock will not bear interest and holders of the Series B preferred stock will not be entitled to any distributions in excess of the full cumulative distributions described above. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any of our other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series B preferred stock (other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series B preferred stock as to the dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such

payment on the Series B preferred stock for all past dividend periods and the then current dividend period. When dividends are not paid in full, or a sum sufficient for such full payment is not so set apart, upon the Series B preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series B preferred stock, all dividends declared upon the Series B preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series B preferred stock will be declared pro rata so that the amount of dividends declared per share of Series B preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share of the Series B preferred stock and such other series of preferred stock, which will not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend, bear to each other. Except as provided above, unless full cumulative dividends on the Series B preferred stock have been or contemporaneously are declared and paid or declared in a sum sufficient for payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividend, other than in shares of common stock or other shares of our capital stock ranking junior to the Series B preferred stock as to dividends and upon liquidation, will be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the common stock, or any other class or series of our capital stock ranking junior to or on a parity with the Series B preferred stock as to dividends or upon liquidation, nor will any shares of our common stock, or any other shares of our capital stock ranking junior to or on a parity with the Series B preferred stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration or any monies to be paid to or made available for a sinking fund for the redemption for such shares by us, except by conversion into or exchange for other capital stock ranking junior to the Series B preferred stock as to dividends and upon liquidation or redemption for the purposes of preserving our qualification as a real estate investment trust under the Internal Revenue Code. Holders of shares of Series B preferred stock will not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series B preferred stock as provided above. Any dividend payment made on shares of Series B preferred stock will be first credited against the earliest accrued but unpaid dividends due with respect to such shares which remain payable.

LIQUIDATION PREFERENCE. In the event of any liquidation, dissolution or winding up of our company, whether voluntary or involuntary, the holders of Series B preferred stock will be entitled to receive out of our assets legally available for distribution to stockholders, the amount of $25 per share plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of our common stock or any other class or series of our capital stock that ranks junior to the Series B preferred stock in liquidation rights. If, upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the amounts payable with respect to the Series B preferred stock and any other shares of our preferred stock ranking as to any such distribution on a parity with Series B preferred stock are not paid in full, the holders of the Series B preferred stock and of such other shares of our preferred stock will share ratably in any such distribution of our assets in proportion to the full respective

preferential amounts and accrued and unpaid dividends to which they are entitled. After payment to the holders of the preferred stock of each series of the full preferential amounts of the liquidating distribution and accrued and unpaid dividends to which they are entitled, the holders of each such series of the preferred stock will be entitled to no further participation in any distribution of our assets. If liquidating distributions have been made in full to all holders of shares of our preferred stock, our remaining assets will be distributed among the holders of junior stock, according to their respective rights and preferences and in each case according to their respective number of shares. For such purposes, the consolidation or merger of us with or into any other corporation, or the sale, lease or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our company.

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REDEMPTION. On and after July 1, 2003, the Series B preferred stock may be redeemed, in whole or from time to time in part, at our option, and may not be subject to mandatory redemption pursuant to a sinking fund or otherwise, in each case upon terms, at the time and a redemption price of $25 per share plus all accrued and unpaid dividends thereon without interest. The shares of the Series B preferred stock redeemed will be restored to the status of authorized but unissued shares of our preferred stock. In the event that fewer than all of the outstanding shares of Series B preferred stock are to be redeemed, whether by mandatory or optional redemption, the number of shares to be redeemed will be determined by lot or pro rata, subject to rounding to avoid fractional shares, as we may determine or by any other method as we may determine in our sole discretion to be equitable. From and after the redemption date, unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any, dividends will cease to accumulate on the shares of Series B preferred stock called for redemption and all rights of the holders thereof, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, will cease. Unless full cumulative dividends on all shares of Series B preferred stock will have been or contemporaneously are declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series B preferred stock will be redeemed unless all outstanding shares of Series B preferred stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series B preferred stock except by exchange for our capital stock ranking junior to the Series B preferred stock as to dividends and upon liquidation; provided, however, that the foregoing will not prevent our purchase of shares of Series B preferred stock in excess of 9.9% of the value of our outstanding capital stock in order to insure that we continue to meet the requirements for qualification as a REIT, or the purchase or acquisition of shares of Series B preferred stock pursuant to a purchase or exchange offer made on the same terms to all holders of all outstanding shares of Series B preferred stock. So long as no dividends are in arrears, we will be entitled at any time to repurchase shares of Series B preferred stock in open market transactions duly authorized by the Board of Directors and in compliance with the applicable law.

CONVERSION RIGHTS. The shares of Series B preferred stock are not convertible into common stock.

VOTING RIGHTS. Except as indicated below or except as required by law, holders of the Series B preferred stock will not be entitled to vote for any purpose. So long as any shares of Series B preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series B preferred stock outstanding at the time, given in person or by proxy, either in writing or at a meeting, voting separately as a class, amend, alter or repeal the provisions of the Articles of Restatement or the articles supplementary relating to the Series B preferred stock, whether by merger, consolidation or otherwise so as to materially and adversely affect any right, preference, privilege or voting power of the Series B preferred stock or the holders thereof, including without limitation, the creation of any series of preferred stock ranking senior to the Series B preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up. However, so long as the Series B preferred stock or any equivalent class or series of stock issued by the surviving corporation in any merger or consolidation to which we becomes a party remains outstanding with the terms thereof materially unchanged, the occurrence of any such event will not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series B preferred stock. Any increase in the amount of the authorized preferred stock or the creation or issuance of any other series of preferred stock or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series B preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. Whenever dividends on any shares of Series B preferred stock are in arrears for 18 or more months, the number of directors then constituting the Board of Directors will be increased by two if not already increased by a reason of a similar arrearage pursuant to similar rights of any other preferred stock on parity with the Series B preferred stock. The holders of such

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shares of Series B preferred stock, voting separately as a class with any other preferred stock on a parity with the Series A preferred stock, if such stock has like voting rights that are then exercisable, will be entitled to vote separately as a class, in order to fill the vacancies thereby created for the election of a total of two additional directors at a special meeting called by the holders of record of such stock, and at each subsequent annual meeting until all dividends accumulated on such shares of preferred stock for the past dividend period and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. Each director elected pursuant to these voting rights, as a qualification for election as such and regardless of how elected must submit to our Board of Directors a duly executed, valid, binding and enforceable letter of resignation from the Board of Directors, to be effective upon the date upon which all dividends accumulated on such shares of preferred stock for the past dividend periods and the dividend for the then current dividend period have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment, whereupon the terms of office of all persons elected pursuant to these voting rights will terminate upon the effectiveness of their respective letters of resignation, and the number of directors then constituting the Board of Directors will be reduced accordingly. If and when all accumulated dividends and the dividend for the then current dividend period on the Series B preferred stock shall have been paid in full or declared and set aside for payment in full, the holders thereof will be divested of the foregoing voting rights subject to revesting in the event of each and every Series B dividend default and, if all accumulated dividends and the dividend for the then current dividend period have been paid for all preferred stock with like voting power in full or set aside for payment in full, the term of office of each director so elected will terminate. Any director elected pursuant to these voting rights may be removed at any time with or without cause by, and will not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series B preferred stock when they have the voting rights described above, voting separately as a class with other preferred stock on parity with the Series A preferred stock with like voting rights that are then exercisable. So long as a Series B dividend default shall continue, any vacancy in the office of a director elected pursuant to these voting rights may be filled by written consent of the director elected pursuant to these voting rights remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B preferred stock when they have the voting rights described above, voting separately as a class with other preferred stock on parity with the Series A preferred stock with like voting rights that are then exercisable. The directors elected pursuant to these voting rights will each be entitled to one vote per director on any matter.

SERIES C PREFERRED STOCK

The following description of the terms of the Series C preferred stock sets forth the general terms and provisions of the Series C preferred stock. The description of the provisions of the Series C preferred stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Restatement, and the Board of Directors' resolutions or articles supplementary relating to the Series C preferred stock. As part of Explorer's investment, our stockholders will be asked to approve the adoption of Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock, which will alter certain terms and provisions of the Series C preferred stock. The changes that would result from the adoption of the Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock are described below but the description does not purport to be complete and is subject to and qualified in its entirety to the Form of Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock.

GENERAL. Under the Articles of Restatement, our Board of Directors is authorized without further stockholder action to provide for the issuance of up to an aggregate of 10,000,000 shares of our preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights and qualifications, limitations or restrictions thereon,

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including, but not limited to, dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, and the liquidation preferences as will be stated in the resolutions providing for the issuance of a series of such stock, adopted, at any time or from time to time, by our Board of Directors. The shares of Series C preferred stock are fully paid and nonassessable and have no preemptive rights. The articles supplementary relating to the Series C preferred stock authorize us to issue up to 2,000,000 shares of the Series C preferred stock at an original issuance price of $100 per share. However, the number of authorized shares of Series C preferred stock may increase automatically if we pay any dividend in shares of Series C preferred stock.

RANK. The Series C preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank: senior to our common stock and to all other equity securities that by their terms rank junior to the Series C preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company; on a parity with our outstanding Series A preferred stock, Series B preferred stock, Series D preferred stock, if issued, and any other equity securities that may be issued by us that have terms which specifically provide that such equity securities will rank on a parity with respect to dividend rights or rights upon liquidation dissolution or winding up of our company; junior to all of our existing and future indebtedness. Any of our convertible debt securities will rank senior to the Series C preferred stock prior to conversion.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF RESTATEMENT. See "Redemption and Business Combination Provisions" for a description of provisions of our Articles of Restatement, including provisions relating to redemption rights and certain provisions, which may have anti-takeover effects.

DIVIDEND RIGHTS. Holders of shares of the Series C preferred stock are entitled to receive dividends at the greater of:

- 10% per annum of the liquidation preference discussed below per share, which is equivalent to a fixed annual amount of $10.00 per share; and

- the amount per share declared or paid by us on our common stock based on the number of shares of common stock into which the shares of Series C preferred stock are then convertible.

Assuming that quarterly dividends on our common stock are recommenced at the rate of $0.25 per share, each share of Series C preferred stock would receive a quarterly dividend of $4.00 or an annual dividend of $16.00. Dividends on each share of the Series C preferred stock are cumulative commencing from the date of issuance. Dividends are payable in arrears for each dividend period ended July 31, October 31, January 31 and April 30 on or before the relevant dividend payment date, which will be the 15th day of August, November, February and May of each year. The first dividend was paid on November 15, 2000, with respect to the period commencing on the date of first issuance of Series C preferred stock and ending on October 31, 2000. Any dividend payable on shares of the Series C preferred stock for any partial period will be prorated for the partial period based on the actual number of days elapsed commencing with and including the date of issuance of such shares through the end of the dividend period. For any dividend periods ending after February 1, 2001, dividends are payable in cash. Dividends on shares of Series C preferred stock will not be declared by the Board of Directors or paid or set apart for payment if the terms of any agreement to which we are a party, including any agreement relating to our indebtedness, prohibit the declaration or payment of dividends on the Series C preferred stock or provide that such declaration or payment would constitute a breach or default under the agreement, or if the payment is restricted or prohibited by law. Dividends on the Series C preferred stock will also accrue whether or not we have earnings or other funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series C preferred stock will not bear interest. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any other series of preferred stock ranking, as to dividends, on a parity with or

junior to the Series C preferred stock, other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series C preferred stock as to dividends and upon liquidation, for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series C preferred stock for all past dividend periods and the then current dividend period. When dividends are not paid in full upon the Series C preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series C preferred stock, all dividends declared upon the Series C preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series C preferred stock shall be declared pro rata so that the amount of dividends declared per share of Series C preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share of the Series C preferred stock and such other series of preferred stock, bear to each other, not including any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend, bear to each other. Unless full cumulative dividends on the Series C preferred stock have been or contemporaneously are declared and paid in full or declared and a sum sufficient for the payment thereof has been set aside, no dividends, other than any other shares of our capital stock ranking junior to or on a parity with the Series C preferred stock as to dividends or upon liquidation, may be paid or declared upon the common stock or any other class or series of our capital stock ranking junior to or on a parity with the Series C preferred stock as to dividends, nor will any shares of common stock or any other shares of our capital stock ranking junior to or on a parity with the

Series C preferred stock as to dividends or liquidation be redeemed, purchased or otherwise acquired for any consideration or any monies be paid to or made available for a sinking fund for the redemption of such shares by us, except for certain limited exceptions such as dividends paid for the purpose of preserving our qualification as a real estate investment trust under the Internal Revenue Code. Any dividend payment made on shares of the Series C preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

LIQUIDATION PREFERENCE. Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of shares of Series C preferred stock will be entitled to be paid the liquidation preference out of our assets legally available for distribution to our stockholders before any distribution of assets is made to holders of common stock or any other class or series of our capital stock that ranks junior to the Series C preferred stock as to liquidation rights. After payment of the full amount of the liquidation preference, plus any accrued and unpaid dividends to which they are entitled, the holders of Series C preferred stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other corporation with or into us in a manner that constitutes a change in control, or the sale, lease or conveyance of all or substantially all of our property or business, shall be deemed to constitute a liquidation, dissolution or winding up of the company. The "liquidation preference" with respect to each share of Series C preferred stock means an amount equal to the original issue price ($100 per share), plus any accrued but unpaid dividends.

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

VOTING RIGHTS. Each holder of shares of Series C preferred stock will be entitled to a number of votes equal to the number of shares of common stock into which the shares of Series C preferred stock held by such holder could then be converted. The holders of Series C preferred stock will vote together as a single class with holders of common stock, except as expressly required by law. The holders of Series C preferred stock will have no separate class or series vote on any matter except as expressly required by law or as otherwise set forth in the articles supplementary related to the Series C preferred

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stock. Whenever dividends on any shares of Series C preferred stock are in arrears for four or more dividend periods, the number of directors then constituting the Board of Directors will be increased, if necessary, by such number that would, if the number were added to the number of directors already designated by the holders of the Series C preferred stock, whether pursuant to the Stockholders Agreement between us and Explorer or otherwise, constitute a majority of the Board of Directors. The holders of the shares of Series C preferred stock, voting separately as a class with any other preferred stock on a parity with the Series C preferred stock, if such stock has like voting rights that are then exercisable, will be entitled to vote separately as a class to elect the additional preferred stock directors until such time as all dividends accumulated on such shares of Series C preferred stock and any preferred stock that ranks on a parity with the Series C preferred stock for the past dividend periods and the dividend for the then current dividend period have been fully paid, at which time the additional preferred stock directors elected pursuant to the rights described above are required to resign. In any election of such additional preferred stock directors, each holder of shares of Series C preferred stock or shares of preferred stock that ranks on a parity with the Series C preferred stock will be entitled to one vote for each $1.00 amount of liquidation preference attributable to the shares of preferred stock held. So long as any shares of Series C preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series C preferred stock outstanding at the time, voting separately as a class together with any other classes of preferred stock adversely affected in the same manner, amend, alter or repeal the provisions of our Articles of Restatement or the articles supplementary related to the Series C preferred stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series C preferred stock, including the creation of any series of preferred stock ranking senior to the Series C preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, but not including the creation or issuance of preferred stock ranking on a parity with the Series C preferred stock. No holder of Series C preferred stock will be entitled to vote any shares of Series C preferred stock that would result in such holder and any of its affiliates or any group, as such term is used in Section 13(d)(3) of the Exchange Act, of which any of them is a member voting in excess of 49.9% of our then-outstanding voting stock. This provision does not apply to situations when the Series C preferred stock is entitled to vote separately as a class. ``Voting stock" means any shares of our capital stock that have the power to vote for the election of directors. If the Amended Series C Articles Supplementary are adopted, the holders of the Series C preferred stock will no longer have the special rights upon dividend

defaults described above. Instead, whenever dividends on any shares of Series C preferred stock are in arrears for four or more dividend periods, the Series C preferred stock will have the same special board election rights as the Series D preferred stock, described below. Under the amended Series C Articles Supplementary, the restriction limiting a holder of Series C preferred stock from voting in excess of 49.9% of our then outstanding voting stock will no longer exist.

CONVERSION. The holders of Series C preferred stock have the following conversion rights:

OPTIONAL CONVERSION. Subject to certain limitations, each share of Series C preferred stock, including all accrued and unpaid dividends thereon, may be converted at any time into common stock at the option of the holder of shares of the Series C preferred stock.

CONVERSION PRICE. Subject to certain limitations, each share of Series C preferred stock may be converted into the number of shares of common stock as is equal to the quotient obtained by dividing the original issue price for such share by the conversion price discussed below in effect at the time of conversion. The conversion price initially will be equal to the $6.25 per share of our common stock, subject to adjustment from time to time as provided in the supplementary articles related to the Series C preferred stock. The conversion price will be adjusted to reflect the economic impact of a stock split, stock combination, certain dividends paid in common stock, the issuance of additional common stock at a price less than the then fair market value and similar events.

SERIES D PREFERRED STOCK

The following description of the terms of the Series D preferred stock sets forth the general terms and provisions of the Series D preferred stock. The description of the provisions of the Series D preferred stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Restatement, and the Board of Directors' resolutions or the Form of Articles Supplementary for Series D Convertible Preferred Stock.

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

RANK. The Series D preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank (i) senior to our common stock and to all other equity securities that by their terms rank junior to the Series D preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company; (ii) on a parity with our outstanding Series A preferred stock, Series B preferred stock, Series C preferred stock and any other equity securities that may be issued by our company that have terms which specifically provide that such equity securities will rank on a parity with the Series D preferred stock; and (iii) junior to all existing and future indebtedness of Omega. Any of our Company's convertible debt securities will rank senior to the Series D preferred stock prior to conversion.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF RESTATEMENT. See "Redemption and Business Combination Provisions" for a description of certain provisions of our Articles of Restatement including provisions relating to redemption rights and provisions, which may have certain anti-takeover effects.

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

- 10% per annum of the liquidation preference, as discussed below, per share; and

- the amount per share declared or paid by us on our common stock based on

the number of shares of common stock into which the shares of Series D preferred stock are then convertible.

Dividends on each share of the Series D preferred stock will be cumulative commencing from the date of issuance. Dividends are payable in arrears for each dividend period ended July 31, October 31, January 31 and April 30 on or before the relevant dividend payment date, which will be the 15th day of August, November, February and May of each year. Any dividend payable on shares of the Series D preferred stock for any partial period will be prorated for the partial period based on the actual number of days elapsed commencing with and including the date of issuance of such shares through the end of the dividend period. Dividends will be payable at the election of the holders of a majority of the Series D preferred stock with respect to any period after June 30, 2002, and at the election of the Board of Directors with respect to any period on or prior to June 30, 2002, (i) by the issuance as of the relevant dividend payment date of additional shares of Series D preferred stock having an aggregate

liquidation preference equal to the amount of such accrued dividends, or (ii) in cash. If dividends are paid in additional shares of Series D preferred stock, the number of authorized shares of Series D preferred stock will be deemed, without further action, to be increased by the number of shares so issued. Dividends on shares of Series D preferred stock will not be declared by the Board of Directors or paid or set apart for payment if the terms of any agreement to which we are a party, including any agreement relating to our indebtedness, prohibits the declaration or payment of dividends on the Series D preferred stock or provides that such declaration, payment or setting aside for payment would constitute a breach thereof or default thereunder; provided, that in such case dividends on the Series D preferred stock will accrue. Dividends on the Series D preferred stock will also accrue whether or not we have earnings or other funds legally available for the payment of such dividends. Accrued but unpaid dividends on the Series D preferred stock will not bear interest. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series D preferred stock, other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series D preferred stock as to dividends and upon liquidation, for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series D preferred stock for all past dividend periods and the then current dividend period. When dividends are not paid in full upon the Series D preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock, all dividends declared upon the Series D preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock will be declared pro rata so that the amount of dividends declared per share of Series D preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share as the Series D preferred stock and such other series of preferred stock, which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend, bear to each other. Unless full cumulative dividends on the Series D preferred stock have been or contemporaneously are declared and paid in full or declared and a sum sufficient for the payment thereof is set apart for payment in full, no dividends, other than certain dividends payable in our capital stock, may be declared or paid upon our common stock, except for certain limited exceptions such as dividends paid for the purpose of preserving our qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. Any dividend payment made on shares of the Series D preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

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

REDEMPTION. The Series D preferred stock is not redeemable, subject, however, to certain restrictions on transfer and ownership, described in "Redemption and Business Combination

Provisions." In any event, Series D preferred stock may not be redeemed without the consent of the holders thereof.

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

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

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

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

REDEMPTION AND BUSINESS COMBINATION PROVISIONS

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

- by lot or other means deemed equitable by it, to call for the purchase from any of our stockholders a number of voting shares sufficient, in the opinion of our Board of Directors, to maintain or bring the direct or indirect ownership of voting shares of capital stock of such

beneficial owner to a level of no more than 9.9% of our outstanding voting shares of our capital stock, and

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

Further, any transfer of shares, options, warrants, or other securities convertible into voting shares that would create a beneficial owner of more than

9.9% of the outstanding voting shares will be deemed void ab initio and the intended transferee will be deemed never to have had an interest therein. Subject to the rights of the preferred stock described below, the purchase price for any voting shares of our capital stock so redeemed will be equal to the fair market value of the shares reflected in the closing sales prices for the shares, if then listed on a national securities exchange, or the average of the closing sales prices for the shares if then listed on more than one national securities exchange, or if the shares are not then listed on a national securities exchange, the latest bid quotation for the shares if then traded over-the-counter, on the last business day immediately preceding the day on which we send notices of such acquisitions, or, if no such closing sales prices or quotations are available, then the purchase price shall be equal to the net asset value of such stock as determined by our Board of Directors in accordance with the provisions of applicable law. The purchase price for shares of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock will be equal to the fair market value of the shares reflected in the closing sales price for the shares, if then listed on a national securities exchange, or if the shares are not then listed on a national securities exchange, the purchase price will, in the case of the Series A preferred stock and Series B preferred stock, be equal to the redemption price of such shares of Series A preferred stock and Series B preferred stock, respectively, and, in the case of the Series C preferred stock and Series D preferred stock, the purchase price will be equal to the liquidation preference of such shares of Series C preferred stock and Series D preferred stock, respectively. From and after the date fixed for purchase by our Board of Directors, the holder of any shares so called for purchase will cease to be entitled to distributions, voting rights and other benefits with respect to such shares, except the right to payment of the purchase price for the shares.

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

A "business combination" is defined in the Articles of Incorporation as:

- any merger or consolidation of our company with or into a related person;

- any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any "substantial part", as defined below, of our assets including, without limitation, any voting securities of a subsidiary to a related person;

- any merger or consolidation of a related person with or into our Company;

- any sale, lease, exchange, transfer or other disposition of all or any substantial part of the assets of a related person to our company;

- the issuance of any securities (other than by way of pro rata distribution to all stockholders) of our company to a related person; and

- any agreement, contract or other arrangement providing for any of the transactions described in the definition of business combination. The term "substantial part" is defined as more than 10% of the book value of our total assets as of the end of our most recent fiscal year ending prior to the time the determination is being made.

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The 80% voting requirement described above will not be applicable if (i) our Board of Directors has unanimously approved in advance the acquisition of our stock that caused a related person to become a related person or (ii) the business combination is solely between us and a wholly owned subsidiary. Our Board of Directors unanimously approved in advance Explorer's acquisition of our Series C preferred stock, which made Explorer a related person to us. Therefore, the 80% voting requirement is inapplicable to Explorer.

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

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

The foregoing provisions may have the effect of discouraging unilateral tender offers or other takeover proposals which certain stockholders might deem in their interests or in which they might receive a substantial premium. Our Board of Directors' authority to issue and establish the terms of currently authorized preferred stock, without stockholder approval, may also have the effect of discouraging takeover attempts. The provisions could also have the effect of insulating current management against the possibility of removal and could, by possibly reducing temporary fluctuations in market price caused by

accumulation of shares, deprive stockholders of opportunities to sell at a temporarily higher market price. However, our Board of Directors believes that inclusion of the business combination provisions in the Articles of Restatement may help assure fair treatment of stockholders and preserve our assets.

The foregoing summary of certain provisions of the Articles of Restatement does not purport to be complete or to give effect to provisions of statutory or common law. The foregoing summary is subject to, and qualified in its entirety by reference to, the provisions of applicable law and the Articles of Restatement, a copy of which is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

STOCKHOLDER RIGHTS PLAN

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

In connection with the adoption of the stockholder rights plan, our Board of Directors declared a dividend distribution of one right for each common share outstanding on May 24, 1999. The stockholder protection rights will not become exercisable unless a person acquires 10% or more of our common stock, or begins a tender offer that would result in the person owning 10% or more of our common stock. At that time, each stockholder protection right would entitle each stockholder other than the person who triggered the rights plan to purchase either our common stock or stock of an acquiring entity at a discount to the then market price. The plan was not adopted in response to any specific attempt to acquire control of our company. We amended the stockholder rights plan to exempt Explorer and any of its transferees that become a party to the stockholders' agreement we have with Explorer from being deemed an acquiring person for purposes of the plan.

TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A. is the transfer agent and registrar of the common stock and preferred stock.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

Powell, Goldstein, Frazer & Murphy LLP has rendered its opinion with respect to the material United States income tax consequences of the offering to the holders of the common stock upon the distribution of rights and to the holders of the rights upon their exercise, which opinion has been filed as an exhibit to the registration statement of which this prospectus is a part.

This opinion is based on provisions of the Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change, possibly on a retroactive basis.

This opinion is limited to those who hold the common stock, and will hold the rights and any shares acquired upon the exercise of rights as "capital assets" within the meaning of section 1221 of the Code. This opinion does not address all of the tax consequences that may be relevant to particular holders in light of their personal circumstances, or to holders who are subject to special rules under the federal income tax laws, (such as banks and other financial institutions, broker-dealers, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations and foreign taxpayers). In addition, this opinion does not include any description of the tax laws of any state, local or non-U.S. government that may be applicable to a particular holder.

HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THIS OFFERING, AS WELL AS THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN TAX LAWS.

CONSEQUENCES OF THE RIGHTS OFFERING

DISTRIBUTION OF RIGHTS. Holders of our common stock will not recognize taxable income for federal income tax purposes upon distribution of the rights.

STOCKHOLDER BASIS AND HOLDING PERIOD OF THE RIGHTS. Except as provided in the following sentence, the basis of the rights received by a stockholder as a

distribution with respect to such stockholder's common stock will be zero. If, however, either (i) the fair market value of the rights on their date of distribution is 15% or more of the fair market value (on the date of distribution) of the common stock with respect to which they are received or (ii) the stockholder properly elects, in his or her federal income tax return for the taxable year in which the rights are received, to allocate part of the basis of such common stock to the rights, then upon exercise of the rights, the stockholder's basis in such common stock will be allocated between the common stock and the rights in proportion to the fair market values of each on the date of distribution.

The holding period of a stockholder with respect to the rights received as a distribution on such stockholder's common stock will include the stockholder's holding period for the common stock with respect to which the rights were distributed.

LAPSE OF THE RIGHTS. Holders who allow the rights received by them in this offering to lapse will not recognize any gain or loss, and no adjustment will be made to the basis of the common stock, if any, they own.

EXERCISE OF THE RIGHTS; BASIS AND HOLDING PERIOD OF THE COMMON STOCK. Holders will not recognize any gain or loss upon the exercise of rights. The basis of the shares acquired through exercise of the rights will be equal to the sum of the subscription price for the rights and the holder's basis in such

rights, if any. The holding period for the shares acquired through exercise of the rights will begin on the date the rights are exercised.

SALE OF SHARES. The sale of shares acquired upon exercise of the rights will result in the recognition of gain or loss to the stockholder in an amount equal to the difference between the amount realized and the stockholder's basis in the shares. Gain or loss upon the sale of the shares will be long-term capital gain or loss if the holding period for the shares is more than one year.

TAXATION OF THE COMPANY

GENERAL. We have elected to be taxed as a real estate investment trust, or a REIT, under Sections 856 through 860 of the Code beginning with our taxable year ended December 31, 1992. We believe that we have been organized and operated in such a manner as to qualify for taxation as a REIT under the Code and we intend to continue to operate in such a manner, 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.

The sections of the Code that govern the Federal income tax treatment of a REIT are highly technical and complex. The following sets forth the material aspects of those sections. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

In the opinion of Argue Pearson Harbison & Myers, LLP whose opinion has been filed as an exhibit to the registration statement of which this prospectus is a part, we are organized in conformity with the requirements for qualification as a REIT, and our current and proposed method of operation will enable us to continue to meet the requirements for continued qualification and taxation as a REIT under the Code. This opinion is based on various assumptions and is conditioned upon certain representations made by us as to factual matters concerning our business and properties. Moreover, such qualification and taxation as a REIT depends upon our ability to meet, through actual annual operating results, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code discussed below, the results of which will not be reviewed by Argue Pearson Harbison & Myers, LLP on an ongoing basis. Accordingly, no assurance can be given that the various results of our operation for any particular taxable year will satisfy such requirements. Further, such requirements may be changed, perhaps retroactively, by legislative or administrative actions at any time. We have neither sought nor obtained any formal ruling from the Internal Revenue Service regarding our qualification as a REIT and presently have no plan to apply for any such ruling. See "--Failure to Qualify."

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. This treatment substantially eliminates the "double taxation" (that is, taxation at both the corporate and the stockholder level) that generally results from investment in a corporation. However, we will be subject to Federal income tax 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 have nonetheless 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 on transactions with a taxable REIT subsidiary, or TRS that are not conducted on an arm's-length basis. Eighth, if we acquire any asset, which 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, which is defined as the "recognition period", beginning on the date on which such asset was acquired by us, 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 we will make an election pursuant to Treasury Regulations. Section 1.337(d)-SST.

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. In order 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 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 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, however, directly perform certain services that are "usually or customarily rendered" in connection with the rental of space for occupance 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 noncustomary services to our tenants without tainting our rental income from the related properties.

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 a fixed percentage or 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.

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 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. We cannot assure you, however, that we can comply with the safe-harbor provisions or that we will avoid owning property that 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 will qualify 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 a REIT as the result of the REIT having bid in 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 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 markets a proper election to treat the property as foreclosure property.

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 if an extension is granted by the Secretary of the Treasury. 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 which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

Beginning on January 1, 2001, foreclosure property also includes any "qualified health care property," as defined in Code Section 856(a)(b) acquired by us as the result of the termination or expiration of a lease of such property. We may operate a qualified health care facility, acquired in this manner for two years or longer if an extension is granted. We own properties with respect to which we have made foreclosure property elections. Properties that are taken back in a foreclosure or bankruptcy and operated for our own account are treated as foreclosure properties for income tax purposes, pursuant to Internal Revenue Code Section 856(e). Gross income from foreclosure properties is "good income" for purposes of the annual REIT income tests. Once this election is made on the tax return, it is "good" for a period of three years, or until the properties are no longer operated for our own account. An election to extend the foreclosure status period for an additional three years can be made. In all cases of the foreclosure property, we utilize an independent contractor to conduct day-to-day operations in order to maintain REIT status. In certain cases we operate facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we utilize 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 will increase the risk that we will fail to qualify as a REIT. Through our 2000 taxable year, we have not paid any tax on our foreclosure property because those properties have been producing losses. However, in the future, our income from foreclosure property could be significant and we could be required to pay a significant amount of tax on that income.

HEDGING TRANSACTIONS. From time to time, we 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 purpose, or 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.

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.

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 not more 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 20% 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, the term "securities" does not include our stock in another REIT, our equity or debt securities of a qualified REIT subsidiary or TRS, or our equity interest in any partnership. The term "securities," however, generally includes our debt securities issued by another REIT or a partnership, except that debt securities of a partnership are not treated as securities for purposes of the 10% value test if we own at least a 20% profits interest in the partnership.

We may own up to 100% of the stock of one or more TRSs beginning on January 1, 2001. However, overall, no more than 20% 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 under the federal income tax laws. The non-qualifying portion of that mortgage loan will be equal to the portion of the loan amount that exceeds the value of the associated real property.

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. We have maintained and intend to continue to maintain adequate records of the value of our assets to ensure compliance with the asset tests, and to take such other action within 30 days after the close of any quarter as may be required to cure any noncompliance.

ANNUAL DISTRIBUTION REQUIREMENTS. 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 noncash 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.

Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar 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 we are the owner of such facilities and whether 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.

FAILURE TO QUALIFY

If we fail to qualify as a REIT in any taxable year, and the 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 in order to pay the resulting taxes.

OTHER TAX MATTERS

We own and operate a number of properties through qualified REIT subsidiaries (the "QRSs"). The QRSs are treated as qualified REIT subsidiaries under the Code. Code Section 856(i) provides that a corporation which 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 in this Prospectus under the heading "Taxation of the Company," 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, the 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 or indirectly, will be treated as our assets and gross income for purposes of applying the various REIT qualification requirements.

Tax legislation enacted in 1999 allows a REIT to own up to 100% of the stock of one or more TRSs, beginning on January 1, 2001. 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 20% 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. 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 tenants that are not conducted on an arm's-length basis. We have made TRS elections with respect to Bayside Street II, Inc. and one of our wholly-owned subsidiaries that owns all of the preferred stock of Omega Worldwide. Those entities will pay corporate income tax on their taxable income and their after-tax next income will be available for distribution to us.

STATE AND LOCAL TAXES

We may be subject to state or local taxes in other jurisdictions such as those in which we may be deemed to be engaged in activities or own property or other interests. The state and local tax treatment of us may not conform to the federal income tax consequences discussed above.

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PLAN OF DISTRIBUTION

We are offering shares of our common stock directly to you pursuant to this rights offering. We have not employed any brokers, dealers or underwriters in connection with the solicitation or exercise of subscription privileges in this rights offering and no commissions, fees or discounts will be paid in connection with it.

We will pay the fees and expenses of EquiServe, the subscription agent, and we have also agreed to indemnify the subscription agent from any liability it may incur in connection with the rights offering. We will also pay the fees and expenses of Bank One Trust Company, NA, the escrow agent and Georgeson Shareholder Communications, Inc., the information agent.

As soon as practicable after the record date, we will distribute the rights and copies of this prospectus to individuals who owned shares of our common stock on the record date. If you wish to exercise your rights and subscribe for new shares of common stock, you should follow the procedures described under "The Rights Offering--Procedure to Exercise Rights." The subscription rights generally are non-transferable; there are substantial restrictions on the transfer of the rights, as described under "The Rights Offering--Restrictions on Transferability of Rights."

Shares of Omega common stock received through the exercise of subscription rights will be traded on the NYSE under the symbol "OHI."

LEGAL MATTERS

The validity of the issuance of the securities offered in this offering will be passed upon for us by Powell, Goldstein, Frazer & Murphy LLP, Atlanta, Georgia.

EXPERTS

Ernst & Young, LLP, independent auditors, have audited our consolidated financial statements and schedules at December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, as set forth in their report. We have included our consolidated financial statements and schedules in the prospectus and registration statement in reliance on the report of Ernst & Young LLP, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 to register with the Commission the rights and the shares of our common stock to be issued upon the exercise of the rights. This prospectus is part of that registration statement. As allowed by the SEC's rules, this prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement.

We file annual, quarterly and other information with the SEC. You may read and copy any reports, statements and other information we file at the SEC's public reference room at 450 Fifth Street, N.W. Washington, D.C. 20549. Please call (800) SEC-0330 for further information on the public reference rooms. Our filings will also be available to the public from commercial document retrieval services and at the web site maintained by the SEC at http://www.sec.gov.

Also, we will provide to you, free of charge, any of our documents filed with the Securities and Exchange Commission. To get your free copies, please call or write:

Omega Healthcare Investors, Inc.
9690 Deereco Road
Suite 100
Timonium, Maryland 21093
Attn: Corporate Secretary
(410) 561-5726

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FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this prospectus may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure you that our assumptions and expectations will prove to have been correct. Important factors that could cause our actual results to differ materially from our expectations are disclosed in this prospectus, including factors disclosed under "Risk Factors" beginning on page 8. These forward-looking statements are subject to various risks, uncertainties and assumptions including, among other things:

- our ability to dispose of assets held for sale on a timely basis and at appropriate prices;
- uncertainties relating to the operation of our owned and operated assets, including those relating to reimbursement by third party payors, regulatory matters and occupancy levels;
- the ability of our operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages, and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors' obligations;
- our ability to negotiate appropriate modifications to the terms of our credit facilities;
- the availability and cost of capital;
- regulatory and other changes in the healthcare sector;
- our ability to manage, re-lease, or sell our owned and operated facilities;
- competition in the financing of healthcare facilities;
- the effect of economic and market conditions generally and, particularly, in the healthcare industry;
- changes in interest rates;
- the amount and yield of any additional investments;
- changes in tax laws and regulations affecting real estate investment trusts; and
- changes in the ratings of our debt securities.

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

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Omega Healthcare Investors, Inc.

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

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

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

/s/ Ernst & Young LLP

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

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<Table>
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	DECEMBER 31,	
	2000	1999
<S>	<C>	<C>
ASSETS		

Real estate properties		
Land and buildings at cost	$ 710,542	$ 746,915
Less accumulated depreciation	(89,870)	(67,929)
Real estate properties--net	620,672	678,986
Mortgage notes receivable--net	206,710	213,617
	827,382	892,603
Other investments--net	53,242	75,460
	880,624	968,063
Assets held for sale--net	4,013	36,406
Total Investments	884,637	1,004,469
Cash and cash equivalents	7,172	4,105
Accounts receivable	10,497	9,664
Other assets	9,338	10,845
Operating assets for owned properties	36,807	9,648
Total Assets	$ 948,451	$1,038,731
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Revolving lines of credit	$ 185,641	$ 166,600
6.95% Unsecured Notes due 2002	125,000	125,000
6.95% Unsecured Notes due 2007	100,000	100,000
Unsecured Notes due 2000	--	81,381
Other long-term borrowings	24,161	33,383
Subordinated convertible debentures	16,590	48,405
Accrued expenses and other liabilities	18,002	14,818
Operating liabilities for owned properties	14,744	12,063
Total Liabilities	484,138	581,650
Shareholders' equity:		
Preferred Stock $1.00 par value:		
Authorized--10,000 shares Issued and outstanding--2,300 shares Class A with an aggregate liquidation preference of $57,500	57,500	57,500
Issued and outstanding--2,000 shares Class B with an aggregate liquidation preference of $50,000	50,000	50,000
Issued and outstanding--1,000 shares Class C with an aggregate liquidation preference of $100,000	100,000	--
Common stock $.10 par value:		
Authorized--100,000 shares Issued and outstanding--20,038 shares in 2000 and 19,877 shares in 1999	2,004	1,988
Additional paid-in capital	438,552	447,304
Cumulative net earnings	182,548	232,105
Cumulative dividends paid	(365,654)	(331,341)
Stock option loans	--	(2,499)
Unamortized restricted stock awards	(607)	(526)
Accumulated other comprehensive income (loss)	(30)	2,550
Total Shareholders' Equity	464,313	457,081
Total Liabilities and Shareholders' Equity	$ 948,451	$1,038,731

</Table>

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<Table>
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	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Revenues			
Rental income	$ 67,308	$ 76,389	$ 72,072
Mortgage interest income	24,126	36,369	30,399
Other investment income--net	6,594	6,814	5,971
Nursing home revenues of owned and operated assets	175,559	26,223	--
Miscellaneous	2,206	2,334	872
	275,793	148,129	109,314
Expenses			
Depreciation and amortization	23,265	24,211	21,542

Interest	42,400	42,947	32,436
General and administrative	6,425	5,231	4,852
Legal	2,467	386	155
State taxes	195	503	358
Severance and consulting agreement costs	4,665	--	--
Provision for loss on mortgages and notes receivable	15,257	--	--
Provision for impairment	61,690	19,500	6,800
Nursing home expenses of owned and operated assets	178,975	25,173	--
	335,339	117,951	66,143
(Loss) earnings before gain (loss) on assets sold	(59,546)	30,178	43,171
Gain (loss)on assets sold--net	9,989	(10,507)	2,798
Gain on distribution of Omega Worldwide, Inc.	--	--	30,240
Net (loss) earnings	(49,557)	19,671	76,209
Preferred stock dividends	(16,928)	(9,631)	(8,194)
Net (loss) earnings available to common	$(66,485)	$ 10,040	$ 68,015
(Loss) earnings per common share:			
Net (loss) earnings per share--basic	$ (3.32)	$ 0.51	$ 3.39
Net (loss) earnings per share--diluted	$ (3.32)	$ 0.51	$ 3.39
Dividends declared and paid per common share	$ 1.00	$ 2.80	$ 2.68
Weighted Average Shares Outstanding, Basic	20,052	19,877	20,034
Weighted Average Shares Outstanding, Diluted	20,052	19,877	20,041
Other comprehensive income (loss):			
Unrealized Gain (Loss) on Omega Worldwide, Inc.	$ (2,580)	$ 1,789	$ 761
Total comprehensive (loss) income	$(52,137)	$ 21,460	$ 76,970

</Table>

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<Table>
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	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	PREFERRED STOCK	CUMULATIVE NET EARNINGS
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1997 (19,475 shares)	$1,947	$439,214	$ 57,500	$136,225
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of $38.112 per share) and amortization of deferred stock compensation		42		
Dividend Reinvestment Plan (58 shares)	6	1,826		
Conversion of debentures, net of issue costs (522 shares)	52	13,810		
Stock options exercised (151 shares)	15	3,780		
Acquisition of real estate (8 shares)	1	282		
Stock option loans from directors, officers and employees				
Shares purchased and retired (156 shares)	(15)	(4,515)		
Issuance of preferred stock		(2,000)	50,000	
Net earnings for 1998				76,209
Distribution of common shares of Omega Worldwide, Inc.				
Common dividends paid ($2.68 per share)				
Preferred dividends paid (Series A of $2.313 per share and Series B of $1.078 per share)				
Unrealized Gain on Omega Worldwide, Inc.				
Balance at December 31, 1998 (20,057 shares)	2,006	452,439	107,500	212,434
Issuance of common stock:				
Grant of restricted stock (1 share at an average of $29.709 per share) and amortization of deferred stock compensation		270		
Dividend Reinvestment Plan (113 shares)	11	2,370		
Acquisition of real estate (8 shares)	1	301		
Payments on stock option loans from directors, officers and employees				
Shares purchased and retired (320 shares)	(30)	(8,076)		
Net earnings for 1999				19,671

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

</Table>

See accompanying notes.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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	CUMULATIVE DIVIDENDS	UNAMORTIZED RESTRICTED STOCK AWARDS	STOCK OPTION LOANS	ACCUMULATED OTHER COMPREHENSIVE INCOME
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1997 (19,475 shares).....	$(165,824)	$ (841)		
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of $38.112 per share) and amortization of deferred stock compensation.....		380		
Dividend Reinvestment Plan (58 shares).....				
Conversion of debentures, net of issue costs (522 shares).....				
Stock options exercised (151 shares).....				
Acquisition of real estate (8 shares).....				
Stock option loans from directors, officers and employees.....			$(2,863)	
Shares purchased and retired (156 shares).....				
Issuance of preferred stock.....				
Net earnings for 1998.....				
Distribution of common shares of Omega Worldwide, Inc.....	(39,062)			
Common dividends paid ($2.68 per share).....	(53,693)			
Preferred dividends paid (Series A of $2.313 per share and Series B of $1.078 per share).....	(7,475)			
Unrealized Gain on Omega Worldwide, Inc.....				$ 761
Balance at December 31, 1998 (20,057 shares).....	(266,054)	(461)	(2,863)	761
Issuance of common stock:				
Grant of restricted stock (1 share at an average of $29.709 per share) and amortization of deferred stock compensation.....		(65)		
Dividend Reinvestment Plan (113 shares)				
Acquisition of real estate (8 shares)				
Payments on stock option loans from directors, officers and employees.....			67	
Shares purchased and retired (320 shares).....			297	
Net earnings for 1999.....				
Common dividends paid ($2.80 per share).....	(55,655)			
Preferred dividends paid (Series A of $2.313 per share and Series B of $2.156 per share).....	(9,632)			
Unrealized Gain on Omega Worldwide, Inc.....				1,789
Balance at December 31, 1999 (19,877 shares).....	(331,341)	(526)	(2,499)	2,550
Issuance of common stock:				
Grant of restricted stock (187 shares at an average of $6.378 per share) and amortization of deferred stock compensation.....		(81)		
Dividend Reinvestment Plan (74 shares).....				

Shares surrendered for stock option loan cancellation (100 shares)			2,499	
Issuance of preferred stock				
Net loss for 2000				
Common dividends paid ($1.000 per share)	(20,015)			
Preferred dividends paid and/or declared (Series A of $2.313 per share, Series B of $2.156 per share and Series C of $0.25 per share)	(14,298)			
Unrealized Gain on Omega Worldwide, Inc.				(2,580)
Balance at December 31, 2000 (20,038 shares)	$(365,654)	$ (607)	$ --	$ (30)

</Table>

See accompanying notes.

<Page>

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<Table>
<Caption>

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

</Table>

See accompanying notes.

<Page>
OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

CONSOLIDATION

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

REAL ESTATE INVESTMENTS

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

OWNED & OPERATED ASSETS AND ASSETS HELD FOR SALE

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

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

<Page>
OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
IMPAIRMENT OF ASSETS

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

LOAN IMPAIRMENT POLICY

When management identifies an indication of potential loan impairment, such

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

CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE--OWNED AND OPERATED ASSETS

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

INVESTMENTS IN EQUITY SECURITIES

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

DEFERRED FINANCING COSTS

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

NON-COMPETE AGREEMENTS AND GOODWILL

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

<Page>

NOTE 1--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
years. Non-compete agreements, which have cost of $4,982,000 became fully amortized and were eliminated in 1999 by a charge to accumulated amortization. Due to the diminished value of the related real estate assets, management has determined that the goodwill is entirely impaired and has written off the balance of $2,356,000 in 2000. Accumulated amortization was $-0- and $3,363,000 at December 31, 2000 and 1999, respectively.

REVENUE RECOGNITION

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

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

FEDERAL AND STATE INCOME TAXES

As a qualified real estate investment trust, the Company will not be subject to Federal income taxes on its income, and no provisions for Federal income taxes have been made. To the extent that we have foreclosure income from our owned and operated assets we will incur federal tax at a rate of 35%. To date

our owned and operated assets have generated losses, and therefore, no provision for federal income tax is necessary. The reported amounts of the Company's assets and liabilities as of December 31, 2000 are less than the tax basis of assets by approximately $21 million.

STOCK BASED COMPENSATION

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

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

ACCOUNTING ESTIMATES

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

NOTE 1--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
RISKS AND UNCERTAINTIES

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

NOTE 2--PROPERTIES

LEASED PROPERTY

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

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

<Table>
<Caption>

	DECEMBER 31,	
	2000	1999
	(IN THOUSANDS)	
<S>	<C>	<C>
Buildings	$553,183	$655,588
Land	26,758	30,517
	579,941	686,105
Less accumulated depreciation	(72,190)	(67,115)
Total	$507,751	$618,990

</Table>

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

<Table>
<Caption>

	(IN THOUSANDS)

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

</Table>

<Page>

NOTE 2--PROPERTIES (CONTINUED)
OWNED AND OPERATED PROPERTY

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

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

<Table>
<Caption>

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

</Table>

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

<Table>
<Caption>

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

</Table>

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

<Table>

2001	$ 4,318
2002	4,318
2003	4,318
2004	3,335
2005	2,221
Thereafter	855
	$19,365

</Table>

ASSETS SOLD OR HELD FOR SALE

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

assets to their fair value, less cost of disposal. During

<Page>

NOTE 2--PROPERTIES (CONTINUED)

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

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

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

Following is a summary of the impairment reserve:

<Table>

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

</Table>

<Page>

NOTE 3--MORTGAGE NOTES RECEIVABLE

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

<Table>
<Caption>

	2000	1999
	(IN THOUSANDS)	
<S>	<C>	<C>
Gross mortgage notes--unimpaired.....	$204,550	$213,617
Gross mortgage notes--impaired.....	7,031	--
Reserve for uncollectable loans.....	(4,871)	--
Net mortgage notes at December 31.....	$206,710	$213,617

</Table>

Mortgage notes receivable relate to 63 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to

facilities located in 13 states, operated by 12 independent healthcare operating companies.

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

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

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

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

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

NOTE 3--MORTGAGE NOTES RECEIVABLE (CONTINUED)

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

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

<Table>
<Caption>

	DECEMBER 31,	
	2000	1999
	(IN THOUSANDS)	
<S>	<C>	<C>
Participating mortgage note due 2007; interest at 16.00% payable monthly (excluding 1.0% deferred interest).....	$ 58,800	$ 58,800
Participating mortgage note due 2003; interest at 10.55% payable monthly.....	37,500	37,500
Participating mortgage note due 2008; interest at 10.08% payable monthly.....	12,000	12,000
Convertible participating mortgage note due 2001; monthly interest payments at 16.16% with principal due at maturity.....	8,932	8,932
Convertible participating mortgage note due 2016, monthly interest payments at 13.50%.....	8,114	8,127
Mortgage notes due 2015; monthly payments of $189,004, including interest at 11.01%.....	16,199	16,656

Mortgage note due 2010; monthly payment of $124,826, including interest at 11.50%.....	12,805	12,825
Mortgage note due 2006; monthly payment of $107,382, including interest at 11.50%.....	11,025	11,035
Other mortgage notes.....	19,527	20,975
Other convertible participating mortgage notes.....	15,287	15,297
Other participating mortgage notes.....	6,521	11,470
Total mortgages--net.....	$206,710	$213,617

</Table>

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

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

<Page>

NOTE 3--MORTGAGE NOTES RECEIVABLE (CONTINUED)

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

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

NOTE 4--OTHER INVESTMENTS

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

<Table>
<Caption>

	AT DECEMBER 31,	
	2000	1999
<S>	<C>	<C>
Assets leased by United States Postal Service-net.....	$22,416	$22,672
Notes Receivable.....	24,550	27,548
Allowance for loss on notes receivable.....	(8,995)	(1,460)
Equity Securities of Omega Worldwide Inc.....	5,435	8,015
Equity Securities of Principal Healthcare Finance Limited.....	1,615	1,615
Equity Securities of Principal Healthcare Finance Trust...	1,266	1,266
Other.....	6,955	15,804
Total Other Investments.....	$53,242	$75,460

</Table>

NOTE 5--CONCENTRATION OF RISK

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

Investing in long-term healthcare facilities involves certain risks stemming from government legislation and regulation of operators of the facilities. The

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

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

NOTE 5--CONCENTRATION OF RISK (Continued)
perform their obligations, the Company may be required to do so in order to maintain the value of its investments.

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

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

NOTE 6--LEASE AND MORTGAGE DEPOSITS

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

NOTE 7--BORROWING ARRANGEMENTS

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

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

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

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OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--BORROWING ARRANGEMENTS (CONTINUED)
The following is a summary of the Company's long-term borrowings:

<Table>
<Caption>

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

</Table>

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

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

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

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OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--BORROWING ARRANGEMENTS (CONTINUED)
Assuming none of the Company's borrowing arrangements are refinanced, converted or prepaid prior to maturity, required principal payments for each of the five years following December 31, 2000 and the aggregate due thereafter are set forth below:

<Table>

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

</Table>

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

NOTE 8--FINANCIAL INSTRUMENTS

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

<Table>
<Caption>

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

</Table>

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

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

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

NOTE 8--FINANCIAL INSTRUMENTS (CONTINUED)
earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

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

NOTE 9--RETIREMENT ARRANGEMENTS

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

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

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

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

NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS

SERIES C PREFERRED STOCK

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

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

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

<Page>

NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS (CONTINUED)
Company's Voting Securities. If dividends on the Series C Preferred Stock are in arrears for four quarters, the holders of the Series C Preferred Stock, voting separately as a class (and together with the holder of Series A and Series B preferred if and when dividends on such series are in arrears for six or more quarters and special class voting rights are in effect with respect to the Series A and Series B preferred), will be entitled to elect directors who, together with the other directors designated by the holders of Series C Preferred Stock, would constitute a majority of the Company's Board of Directors.

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

upon expiration of the Initial Growth Equity Commitment, Explorer will have the option to provide up to an additional $50.0 million to fund growth for an additional twelve month period (the "Increased Growth Equity Commitment"). Draws under the Increased Growth Equity Commitment will be subject to the same conditions as applied to the Growth Equity Commitment and the common stock so issued will be priced in the same manner described above.

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

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

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

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NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS (CONTINUED)

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

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

SERIES A AND SERIES B CUMULATIVE PREFERRED STOCK

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

STOCKHOLDER RIGHTS PLAN

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

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

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

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NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS (CONTINUED)
STOCK OPTIONS AND STOCK PURCHASE ASSISTANCE PLAN

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

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

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

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

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NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS (CONTINUED)

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

<Table>
<Caption>

	STOCK OPTIONS	
		WEIGHTED

	NUMBER OF SHARES	EXERCISE PRICE	AVERAGE PRICE
<S>	<C>	<C>	<C>
Outstanding at December 31, 1997	710,726	$ 19.866 - $34.795	$29.265
Granted during 1998	84,000	28.938 - 37.205	35.342
Exercised	(151,200)	19.866 - 30.210	23.605
Canceled	(67,599)	24.215 - 35.500	33.462
Outstanding at December 31, 1998	575,927	19.866 - 37.205	31.144
Granted during 1999	101,500	15.250 - 30.188	27.483
Canceled	(312,164)	28.938 - 36.676	33.099
Outstanding at December 31, 1999	365,263	15.250 - 37.205	28.542
Granted during 2000	1,109,500	5.688 - 7.750	6.268
Canceled	(307,699)	6.125 - 37.205	28.885
Outstanding at December 31, 2000	1,167,064	$ 5.688 - 37.205	$ 7.276

</Table>

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

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

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

<Page>

NOTE 10--STOCKHOLDERS' EQUITY AND STOCK OPTIONS (CONTINUED)

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

NOTE 11--RELATED PARTY TRANSACTIONS

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

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

until the October dividend is paid. (See note 15--Subsequent Events)

In 1995, the Company sponsored the organization of Principal Healthcare Finance Limited ("Principal"), an Isle of Jersey company, whose purpose is to invest in nursing homes and long-term care facilities in the United Kingdom. Prior to the April 2, 1998 contribution to Omega Worldwide, Inc. ("Worldwide") as explained below, the Company had invested $30.7 million in Principal, of which $23.8 million was represented by a L15 million subordinated note due December 31, 2000, and $6.9 million was represented by an equity investment. The Company had also provided investment advisory and management services to Principal and had advanced temporary loans to Principal from time to time.

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

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NOTE 11--RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

NOTE 12--DIVIDENDS

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

<Page>

NOTE 12--DIVIDENDS (CONTINUED)
stockholders. Per share distributions by the Company were characterized in the following manner for income tax purposes:

<Table>
<Caption>

	2000	1999	1998
<S>	<C>	<C>	<C>
COMMON			
Ordinary income	$ --	$2.100	$2.275
Return of capital	1.000	0.700	0.191
Long-term capital gain	--	--	0.214
Total dividends paid	$1.000	$2.800	$2.680
COMMON NON-CASH			
Return of capital	$ --	$ --	$0.461
Long-term capital gain	--	--	1.529
Total non-cash distribution	$ --	$ --	$1.990
SERIES A PREFERRED			
Ordinary income	$2.313	$2.313	$2.313
SERIES B PREFERRED			
Ordinary income	$2.156	$2.156	$1.078

</Table>

<Page>

NOTE 13--SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

<Table>
<Caption>

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Increase (decrease) in cash from changes in operating assets and liabilities:			
Operating assets, including $517 and $2,896 transferred to held for sale in 1999 and 1998, respectively	$1,306	$ (568)	$(8,183)
Accrued interest	(3,751)	589	(70)
Other liabilities	2,465	(5,550)	4,273
	$ 20	$(5,529)	$(3,980)
Other non-cash investing and financing transactions:			
Acquisition of real estate:			
Value of real estate acquired	$ --	$ 302	$ 283
Common stock issued	--	(302)	(283)
Common stock issued for conversion of debentures	--	--	13,862
Interest paid during the period	44,221	41,015	31,464

</Table>

NOTE 14--LITIGATION

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

On June 20, 2000, the Company and its chief executive officer, chief financial officer and chief operating officer were named as defendants in certain litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York. In the complaint, Mr. Dickerman contends that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar

allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The cases have been consolidated, and Mr. LeBorys has been named lead plaintiff. The plaintiffs seek unspecified damages. The Company has reported the litigation to its directors and officers liability insurer. The Company believes that the litigation is without merit and is defending vigorously. The Company's Motion to Dismiss was filed with the Court on February 16, 2001.

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

NOTE 14--LITIGATION (CONTINUED)
and is a guarantor of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company is defending vigorously and on December 5, 2000, filed counterclaims against Madison and the guarantors, including Mr. Dickerman, seeking repayment of approximately $8.5 million that Madison owes the Company.

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

NOTE 15--SUBSEQUENT EVENTS

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

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

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

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

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

NOTE 15--SUBSEQUENT EVENTS (CONTINUED)

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

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

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

NOTE 16--SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summarizes quarterly results of operations for the years ended

<Table>
<Caption>

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(IN THOUSANDS, EXCEPT PER SHARE)			
<S>	<C>	<C>	<C>	<C>
2000				
Revenues	$57,214	$70,448	$74,010	$74,121
(Loss) earnings before gain (loss) on assets sold	3,018	4,637	(64,984)	(2,217)
Net (loss) earnings available to common	610	12,680	(70,797)	(8,978)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions	$ 0.15	$ 0.23	$ (3.24)	$ (0.11)
Diluted (loss) earnings before gain (loss) on asset dispositions	0.15	0.23	(3.24)	(0.11)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings	$ 0.03	$ 0.63	$ (3.53)	$ (0.45)
Diluted net (loss) earnings	0.03	0.63	(3.53)	(0.45)
Cash dividends paid on common stock	0.50	--	0.25	0.25

</Table>

<Page>

NOTE 16--SUMMARY OF QUARTERLY RESULTS (UNAUDITED) (CONTINUED)

<Table>
<Caption>

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(IN THOUSANDS, EXCEPT PER SHARE)			
<S>	<C>	<C>	<C>	<C>
1999				
Revenues	$30,177	$30,914	$40,971	$46,067
(Loss) earnings before gain (loss) on assets sold	12,825	13,010	12,355	(8,012)
Net (loss) earnings available to common	10,417	10,602	9,947	(20,926)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions	$ 0.64	$ 0.66	$ 0.62	$ (0.40)
Diluted (loss) earnings before gain (loss) on asset dispositions	0.64	0.65	0.62	(0.40)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings	$ 0.52	$ 0.53	$ 0.50	$ (1.05)
Diluted net (loss) earnings	0.52	0.53	0.50	(1.05)
Cash dividends paid on common stock	0.70	0.70	0.70	0.70

</Table>

- ----------

Note: During the three-month periods ended March 31, 2000, September 30, 2000

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

NOTE 17--CONSULTING AND SEVERANCE AGREEMENTS

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

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

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

<Page>

NOTE 18--SEGMENT INFORMATION

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

<Table>
<Caption>

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

</Table>

<Table>

<Caption>

	FOR THE YEAR ENDED DECEMBER 31, 2000			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$112,758	$ 26,223	$ --	$ 138,981
Operating Expenses	--	(25,173)	--	(25,173)
Net operating income	112,758	1,050	--	113,808
Adjustments to arrive at net income:				
Other revenues	--	--	9,148	9,148
Interest expense	--	--	(42,947)	(42,947)
Depreciation and amortization	(21,204)	(814)	(2,193)	(24,211)
General and administrative	--	--	(5,231)	(5,231)
Legal	--	--	(386)	(386)
State Taxes	--	--	(503)	(503)
Severance and consulting agreement costs	--	--	--	--
Provision for uncollectable mortgages and notes receivable	--	--	--	--
	(21,204)	(814)	(42,112)	(64,130)
Income before gain on assets sold and impairment charges	91,554	236	(42,112)	49,678
Provision for impairment	--	(19,500)	--	(19,500)
Loss on assets sold--net	--	(10,507)	--	(10,507)
Preferred dividends	--	--	(9,631)	(9,631)
Net loss available to common	$ 91,554	$ (29,771)	$(51,743)	$ 10,040
Total Assets	$841,558	$ 106,050	$ 91,123	$1,038,731

</Table>

<Page>

NOTE 18--SEGMENT INFORMATION (CONTINUED)

<Table>
<Caption>

	FOR THE YEAR ENDED DECEMBER 31, 1998			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$102,471	$ --	$ --	$ 102,471
Operating Expenses	--	--	--	--
Net operating income	102,471	--	--	102,471
Adjustments to arrive at net income:				
Other revenues	--	--	6,843	6,843
Interest expense	--	--	(32,436)	(32,436)
Depreciation and amortization	(19,838)	--	(1,704)	(21,542)
General and administrative	--	--	(4,852)	(4,852)
Legal	--	--	(155)	(155)
State Taxes	--	--	(358)	(358)
Severance and consulting agreement costs	--	--	--	--
Provision for uncollectable mortgages and notes receivable	--	--	--	--
	(19,838)	--	(32,662)	(52,500)
Income before gain on assets sold and impairment charges	82,633	--	(32,662)	49,971
Provision for impairment	--	(6,800)	--	(6,800)
Gain on assets sold--net	2,798	--	--	2,798
Gain on distribution of Omega Worldwide, Inc.	--	--	30,240	30,240
Preferred dividends	--	--	(8,194)	(8,194)
Net loss available to common	$ 85,431	$ (6,800)	$(10,616)	$ 68,015
Total Assets	$936,414	$ 35,289	$ 65,504	$1,037,207

	========	=========	========	==========

</Table>

<Page>

NOTE 18--SEGMENT INFORMATION (CONTINUED)

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

<Table>
<Caption>

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(IN THOUSANDS)	
<S>	<C>	<C>
REVENUES(1)		
Medicaid	$108,082	$16,636
Medicare	31,459	4,861
Private & Other	36,018	4,726
Total Revenues	175,559	26,223
EXPENSES		
Administration	34,264	4,925
Property & Related	11,701	1,675
Patient Care Expenses	120,444	17,393
Total Expenses	166,409	23,993
Contribution Margin	9,150	2,230
Management Fees	8,778	1,180
Rent	3,788	--
EBITDA(2)	$ (3,416)	$ 1,050

</Table>

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

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

<Page>

NOTE 18--SEGMENT INFORMATION (CONTINUED)

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

<Table>
<Caption>

	DECEMBER 31,	
	2000	1999
	(IN THOUSANDS)	
<S>	<C>	<C>
ASSETS		
Cash	$ 5,364	$ --
Accounts Receivable	30,030	9,588
Other Current Assets	5,098	60
Total Current Assets	40,492	9,648
Investment in leasehold	1,679	--
Land and Buildings	130,601	60,810
Less Accumulated Depreciation	(17,680)	(814)
Land and Buildings--Net	112,921	59,996
TOTAL ASSETS	$155,092	$69,644

	========	=======
LIABILITIES		
Accounts Payable	$ 8,636	$ 3,962
Other Current Liabilities	6,108	8,101
Total Current Liabilities	14,744	12,063
TOTAL LIABILITIES	$ 14,744	$12,063
	========	=======

</Table>

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

<Page>

NOTE 19--EARNINGS PER SHARE

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

<Table>
<Caption>

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Numerator:			
(Loss) earnings before gain (loss) on assets sold	$(59,546)	$ 30,178	$43,171
Preferred stock dividends	(16,928)	(9,631)	(8,194)
Numerator for (loss) earnings available to common before gain (loss) on assets sold--basic and diluted	(76,474)	20,547	34,977
Gain (loss) on assets sold--net	9,989	(10,507)	2,798
Gain on distribution of Omega Worldwide, Inc.	--	--	30,240
Numerator for net loss (earnings) per share--basic and diluted	(66,485)	10,040	68,015
Denominator:			
Denominator for net loss (earnings) per share--basic	20,052	19,877	20,034
Effect of dilutive securities:			
Stock option incremental shares	--	--	7
Denominator for net loss (earnings) per share--diluted	20,052	19,877	20,041

</Table>

<Table>
<Caption>

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
Net (loss) earnings per share--basic:			
(Loss) earnings before gain (loss) on assets sold	$ (3.82)	$ 1.04	$ 1.74
(Loss) gain on assets sold--net	0.50	(0.53)	1.65
Net (loss) earnings per share--basic	$ (3.32)	$ 0.51	$ 3.39
Net (loss) earnings per share--diluted:			
(Loss) earnings before gain (loss) on assets sold	$ (3.82)	$ 1.04	$ 1.74
(Loss) gain on assets sold--net	0.50	(0.53)	1.65
Net (loss) earnings per share--diluted	$ (3.32)	$ 0.51	$ 3.39

</Table>

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

<Page>

<Table>

<Caption>

DESCRIPTION(1)	ENCUMBRANCES	INITIAL COST TO COMPANY: BUILDINGS AND LAND IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPAIRMENT	GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD(6): BUILDINGS AND LAND IMPROVEMENTS TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Sun Healthcare Group, Inc.:					
Alabama (LTC)		$ 23,584,957			$ 23,584,957
California (LTC, RH)	(4)(5)	65,912,924			65,912,924
Florida (LTC)		10,796,688			10,796,688
Florida (LTC)		10,700,000			10,700,000
Idaho (LTC)		600,000			600,000
Illinois (LTC)		4,900,000			4,900,000
Illinois (LTC)		3,942,726			3,942,726
Indiana (LTC)		3,000,000			3,000,000
Louisiana (LTC)		4,602,574			4,602,574
Massachusetts (LTC)		8,300,000			8,300,000
North Carolina (LTC)	(4)	19,970,418			19,970,418
North Carolina (LTC)	(5)	2,739,021			2,739,021
Ohio (LTC)	(4)(5)	11,884,567			11,884,567
Tennessee (LTC)	(2)	7,942,374			7,942,374
Texas (LTC)		9,415,056			9,415,056
Washington (LTC)	(4)	5,900,000			5,900,000
West Virginia (LTC)	(4)(5)	24,793,444			24,793,444
		218,984,749			218,984,749
Integrated Health Services, Inc.:					
Florida (LTC)	(5)	10,000,000			10,000,000
Florida (LTC)		29,000,000			29,000,000
Illinois (LTC)	(5)	14,700,000			14,700,000
New Hampshire (LTC)	(5)	5,800,000			5,800,000
Ohio (LTC)	(5)	16,000,000			16,000,000
Pennsylvania (LTC)	(5)	14,400,000			14,400,000
Pennsylvania (LTC)		5,500,000			5,500,000
Washington (LTC)		10,000,000			10,000,000
		105,400,000			105,400,000
Advocat, Inc.:					
Alabama (LTC)	(4)	11,638,797	707,998		12,346,795
Arkansas (LTC)	(4)	37,887,832	1,473,599		39,361,431
Kentucky (LTC)	(4)	14,897,402	1,816,000		16,713,402
Ohio (LTC)	(4)	5,854,186			5,854,186
Tennessee (LTC)	(2)	9,542,121			9,542,121
West Virginia (LTC)	(4)	5,283,525	502,338		5,785,863
		85,103,863	4,499,935		89,603,798

<Caption>

DESCRIPTION(1)	(7) ACCUMULATED DEPRECIATION	DATE OF RENOVATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENTS IS COMPUTED
<S>	<C>	<C>	<C>	<C>
Sun Healthcare Group, Inc.:		1964-1995		
Alabama (LTC)	$ 2,549,186		March 31, 1997	33 years
California (LTC, RH)	5,913,927		October 8, 1997	33 years
Florida (LTC)	1,166,963		March 31, 1997	33 years
Florida (LTC)	1,182,106		February 28, 1997	33 years
Idaho (LTC)	66,286		February 28, 1997	33 years
Illinois (LTC)	673,130		August 30, 1996	30 years
Illinois (LTC)	426,151		March 31, 1997	33 years
Indiana (LTC)	412,120		August 30, 1996	30 years
Louisiana (LTC)	497,470		March 31, 1997	33 years
Massachusetts (LTC)	916,961		February 28, 1997	33 years
North Carolina (LTC)	3,936,793		June 4, 1994	39 years
North Carolina (LTC)	250,496		October 8, 1997	33 years
Ohio (LTC)	1,070,766		October 8, 1997	33 years
Tennessee (LTC)	1,569,783		September 30, 1994	30 years
Texas (LTC)	1,017,629		March 31, 1997	33 years
Washington (LTC)	650,949		March 31, 1997	33 years
West Virginia (LTC)	2,196,026		October 8, 1997	33 years

	24,496,742			
Integrated Health Services, Inc.:		1979-1993		
Florida (LTC)	792,958	January 13, 1998	33 years	
Florida (LTC)	2,361,040	March 31, 1998	33 years	
Illinois (LTC)	1,221,821	January 13, 1998	33 years	
New Hampshire (LTC)	495,564	January 13, 1998	33 years	
Ohio (LTC)	1,268,733	March 31, 1998	33 years	
Pennsylvania (LTC)	1,230,365	January 13, 1998	33 years	
Pennsylvania (LTC)	436,127	March 31, 1998	33 years	
Washington (LTC)	2,118,746	September 1, 1996	20 years	
	9,925,354			
Advocat, Inc.:		1972-1994		
Alabama (LTC)	3,015,242	August 14, 1992	31.5 years	
Arkansas (LTC)	9,842,102	August 14, 1992	31.5 years	
Kentucky (LTC)	2,798,615	July 1, 1994	33 years	
Ohio (LTC)	970,874	July 1, 1994	33 years	
Tennessee (LTC)	2,449,079	August 14, 1992	31.5 years	
West Virginia (LTC)	975,555	July 1, 1994	33 years	
	20,051,467			

</Table>

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<Table>
<Caption>

DESCRIPTION(1)	ENCUMBRANCES	INITIAL COST TO COMPANY: BUILDINGS AND LAND IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPAIRMENT	GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD(6): BUILDINGS AND LAND IMPROVEMENTS TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Vencor Operating, Inc.:					
Arizona (LTC)		24,029,032	44,924	(6,603,745)	17,470,211
Indiana (LTC)		8,383,671	100,914	(1,820,624)	6,663,961
Texas (LTC)		27,141,483	84,323		27,225,806
		59,554,186	230,161	(8,424,369)	51,359,978
Genesis Health Ventures, Inc.:					
Connecticut (LTC)		28,483,164	185,670	(4,787,084)	23,881,750
Massachusetts (LTC)		34,559,901	421,567	(10,506,822)	24,474,646
		63,043,065	607,237	(15,293,906)	48,356,396
Alterra Healthcare Corporation:					
Colorado (AL)		2,583,440			2,583,440
Indiana (AL)		11,641,805			11,641,805
Kansas (AL)		3,418,670			3,418,670
Ohio (AL)		3,520,747			3,520,747
Oklahoma (AL)		3,177,993			3,177,993
Tennessee (AL)		4,068,652			4,068,652
Washington (AL)		5,673,693			5,673,693
		34,085,000			34,085,000
Alden Management Services, Inc.:					
Illinois (LTC)		31,000,000	305,756		31,305,756
Atrium Living Centers, Inc.:					
Indiana (LTC)		25,693,563	47,216	(12,846,628)	12,894,151
Indiana (LTC)		6,456,391	26,464	(2,773,242)	3,709,613
		32,149,954	73,680	(15,619,870)	16,603,764
TLC Healthcare, Inc.:					
Illinois (LTC)	(5)	1,274,703			1,274,703
Illinois (LTC)	(5)	5,118,775			5,118,775
Ohio (LTC)	(5)	2,804,347			2,804,347
Texas (LTC)	(5)	4,942,000			4,942,000
Texas (LTC)	(5)	6,557,143			6,557,143
Texas (LTC)	(5)	2,442,858			2,442,858
		23,139,826			23,139,826
USA Healthcare, Inc.:					
Iowa(LTC)		14,344,797	168,000		14,512,797
Iowa(LTC)		2,700,000			2,700,000

	17,044,797	168,000		17,212,797

<Caption>

DESCRIPTION(1)	(7) ACCUMULATED DEPRECIATION	DATE OF RENOVATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENTS IS COMPUTED
<S>	<C>	<C>	<C>	<C>
Vencor Operating, Inc.:		1980-1994		
Arizona (LTC)	1,327,091		December 31, 1998	33 years
Indiana (LTC)	1,997,691		December 23, 1992	31.5 years
Texas (LTC)	3,165,920		December 1, 1993	39 years
	6,490,702			
Genesis Health Ventures, Inc.:				
Connecticut (LTC)	1,143,510		July 14, 1999	33 years
Massachusetts (LTC)	1,373,516		July 14, 1999	33 years
	2,517,026			
Alterra Healthcare Corporation:				
Colorado (AL)	115,241		June 14, 1999	33 years
Indiana (AL)	519,313		June 14, 1999	33 years
Kansas (AL)	152,499		June 14, 1999	33 years
Ohio (AL)	157,052		June 14, 1999	33 years
Oklahoma (AL)	141,763		June 14, 1999	33 years
Tennessee (AL)	181,493		June 14, 1999	33 years
Washington (AL)	253,090		June 14, 1999	33 years
	1,520,451			
Alden Management Services, Inc.:		1978		
Illinois (LTC)	6,378,152		September 30, 1994	30 years
Atrium Living Centers, Inc.:				
Indiana (LTC)	5,621,697		September 30, 1994	25 years
Indiana (LTC)	2,233,127		November 1, 1992	31.5 years
	7,854,824			
TLC Healthcare, Inc.:		1972-1996		
Illinois (LTC)	72,217		January 7, 1999	33 years
Illinois (LTC)	228,336		June 1, 1999	33 years
Ohio (LTC)	154,298		January 7, 1999	33 years
Texas (LTC)	220,451		June 30, 1999	33 years
Texas (LTC)	627,086		September 5, 1997	33 years
Texas (LTC)	198,479		March 4, 1998	33 years
	1,500,867			
USA Healthcare, Inc.:		1974-1997		
Iowa(LTC)	1,267,902		October 7, 1997	33 years
Iowa(LTC)	370,908		August 30, 1996	30 years
	1,638,810			

</Table>

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<Caption>

DESCRIPTION(1)	ENCUMBRANCES	INITIAL COST TO COMPANY: BUILDINGS AND LAND IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPROVEMENTS	COST CAPITALIZED SUBSEQUENT TO ACQUISITION: IMPAIRMENT	GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD(6): BUILDINGS AND LAND IMPROVEMENTS TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Pinon Management, Inc.:					
Colorado (LTC)		14,170,968	109,931		14,280,899
Washington N & R, LLC.:					
Missouri (LTC)	(5)	12,152,174			12,152,174
Peak Medical of Idaho, Inc.:					
Idaho (LTC)	(5)	10,500,000			10,500,000
HQM of Floyd County, Inc.:					
Kentucky (LTC)	(5)	10,250,000			10,250,000
Safe Harbor Florida Health Care					

Properties, Inc.:					
Florida (LTC)		8,150,000	866		8,150,866
Meadowbrook Healthcare of North Carolina:					
North Carolina (AL)	(3)	7,500,000		(1,939,476)	5,560,524
Liberty Assisted Living Center:					
Florida (AL)		5,994,730	760		5,995,490
Eldorado Care Center, Inc. & Magnolia Manor, Inc.:					
Illinois (LTC)		5,100,000			5,100,000
Kansas & Missouri, Inc.:					
Kansas (LTC)		2,500,000			2,500,000
		$745,823,312	$5,996,326	($41,277,621)	$710,542,017

<Caption>

DESCRIPTION(1)	(7) ACCUMULATED DEPRECIATION	DATE OF RENOVATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENTS IS COMPUTED
<S>	<C>	<C>	<C>	<C>
Pinon Management, Inc.:				
Colorado (LTC)	817,633		December 31, 1998	33 years
Washington N & R, LLC.:				
Missouri (LTC)	690,758		January 7, 1999	33 years
Peak Medical of Idaho, Inc.:				
Idaho (LTC)	544,512		March 26, 1999	33 years
HQM of Floyd County, Inc.:				
Kentucky (LTC)	358,673		June 30, 1997	33 years
Safe Harbor Florida Health Care Properties, Inc.:		1984		
Florida (LTC)	1,384,872		September 13, 1993	39 years
Meadowbrook Healthcare of North Carolina:				
North Carolina (AL)	1,444,027		September 30, 1994	31.5 years
Liberty Assisted Living Center:				
Florida (AL)	1,464,958		September 30, 1994	27 years
Eldorado Care Center, Inc. & Magnolia Manor, Inc.:		1995-1998		
Illinois (LTC)	276,157		February 1, 1999	33 years
Kansas & Missouri, Inc.:				
Kansas (LTC)	513,922		September 30, 1994	30 years
	$89,869,907			

</Table>

<Page>

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

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

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

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

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

<Table>
<Caption>

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

</Table>

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

<Table>
<Caption>

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

</Table>

<Page>

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

<Table>
<Caption>

DESCRIPTION (1)	INTEREST RATE	FINAL MATURITY DATE	PERIODIC PAYMENT TERMS	PRIOR LIENS	FACE AMOUNT OF MORTGAGES
<S>	<C>	<C>	<C>	<C>	<C>
Michigan (13 LTC facilities).....	17.00%	August 13, 2007	Interest payable at 16.00% payable monthly	None	$ 58,800,000
North Carolina (3 LTC facilities).....			Deferred interest at 1% accrues monthly and is payable at maturity of the note		
Florida (4 LTC facilities).....	11.50%	February 28, 2010	Interest plus $2,200 of principal payable monthly	None	12,891,500
Florida (2 LTC facilities).....	11.50%	June 4, 2006	Interest payable monthly	None	11,090,000
Texas (6 LTC facilities).....	9.00% to 10.00%	various	Interest plus $57,000 of principal payable monthly	None	8,106,487
Tennessee (2 LTC facilities).....	16.16%	April 29, 2001	Interest payable monthly	None	8,932,000
Tennessee (2 LTC facilities).....	11.56% to 13.50%	August 1, 2016	Interest payable monthly	None	12,650,000
Ohio (6 LTC facilities).....	11.01%	January 1, 2015	Interest plus $42,500 of principal payable monthly	None	18,238,752
Georgia (2 LTC facilities).....	10.08%	March 13, 2008	Interest payable monthly	None	12,000,000
Florida (5 LTC facilities) Texas (2 LTC facilities).....	10.55%	December 3, 2003	Interest payable monthly	None	37,500,000
Other Mortgage Notes: Various.....	9.00% to 14.14%	2002 to 2012	Interest payable monthly Quarterly amortization of $50,000 commencing in the year 2002	None	37,503,181

$217,711,920

==========

<Caption>

DESCRIPTION (1)	CARRYING AMOUNT OF MORTGAGES(2) (3)	PRINCIPAL AMOUNT OF LOANS SUBJECT TO DELINQUENT INTEREST
<S>	<C>	<C>
Michigan (13 LTC facilities).....	$58,800,000	$58,800,000(4)
North Carolina (3 LTC facilities).....		
Florida (4 LTC facilities).....	12,804,956	
Florida (2 LTC facilities).....	11,024,884	
Texas (6 LTC facilities).....	5,951,566	
Tennessee (2 LTC facilities).....	8,932,000	
Tennessee (2 LTC facilities).....	12,613,539	
Ohio (6 LTC facilities).....	16,198,689	
Georgia (2 LTC facilities).....	12,000,000	
Florida (5 LTC facilities)		
Texas (2 LTC facilities).....	37,500,000	
Other Mortgage Notes:		
Various.....	30,883,936	$ 5,882,009(5)
	$206,709,570	

</Table>

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

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

<Table>
<Caption>

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

</Table>

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

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

<Page>

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

<Table>
<Caption>

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(UNAUDITE	(SEE NOTE)
<S>	<C>	<C>
ASSETS		
Real estate properties		
Land and buildings at cost	$ 701,370	$710,542
Less accumulated depreciation	(101,861)	(89,870)
Real estate properties--net	599,509	620,672
Mortgage notes receivable--net	185,861	206,710
	785,370	827,382
Other investments	47,818	53,242
	833,188	880,624
Assets held for sale--net	7,377	4,013
Total Investments	840,565	884,637
Cash and cash equivalents	14,145	7,172
Accounts receivable	6,881	10,497
Other assets	3,789	9,338
Operating assets for owned properties	45,885	36,807
Total Assets	$ 911,265	$948,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving lines of credit	$ 203,641	$185,641
Unsecured borrowings	199,641	225,000
Other long-term borrowings	22,755	24,161
Subordinated convertible debentures	--	16,590
Accrued expenses and other liabilities	16,708	18,002
Operating liabilities for owned properties	11,861	14,744
Total Liabilities	454,606	484,138
Preferred Stock	212,342	207,500
Common stock and additional paid-in capital	440,392	440,556
Cumulative net earnings	171,272	182,548
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(607)
Accumulated other comprehensive loss	(1,491)	(30)
Total Stockholders' Equity	456,659	464,313
Total Liabilities and Stockholders' Equity	$ 911,265	$948,451

</Table>

- --------------------------

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

See notes to condensed consolidated financial statements.

<Page>

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<Table>
<Caption>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
REVENUES				
Rental income	$ 14,936	$ 15,503	$ 45,686	$ 49,652
Mortgage interest income	5,130	5,888	16,343	17,800
Other investment income--net	1,374	534	3,640	4,277

Nursing home revenues of owned and operated assets.....	43,820	45,960	133,613	123,461
Miscellaneous.....	1,575	126	2,384	483
	66,835	68,011	201,666	195,673
EXPENSES				
Nursing home expenses of owned and operated assets.....	44,439	48,552	134,565	126,436
Depreciation and amortization.....	5,515	5,657	16,560	17,385
Interest.....	9,124	9,846	28,039	32,221
General and administrative.....	2,203	1,830	7,707	4,631
Legal.....	1,145	481	2,862	974
State taxes.....	126	15	339	241
Litigation settlement expense.....	--	--	10,000	--
Provision for impairment.....	--	49,849	8,381	54,349
Provision for uncollectable accounts.....	19	12,100	700	12,100
Severance, moving and consulting agreement costs.....	4,300	4,665	4,766	4,665
Charges for derivative accounting.....	561	--	1,113	--
	67,432	132,995	215,032	253,002
Loss before (loss) gain on assets sold and gain on early extinguishment of debt.....	(597)	(64,984)	(13,366)	(57,329)
(Loss) gain on assets sold--net	(1,485)	(109)	(873)	10,342
Gain on early extinguishment of debt.....	226	--	2,963	--
Net loss.....	(1,856)	(65,093)	(11,276)	(46,987)
Preferred stock dividends.....	(5,029)	(5,705)	(14,966)	(10,520)
Net loss available to common.....	$ (6,885)	$(70,798)	$(26,242)	$(57,507)
Loss per common share:				
Net loss per share--basic.....	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Net loss per share--diluted.....	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Net loss per common share before gain on early extinguishment of debt:				
Net loss per share--basic.....	$ (0.35)	$ (3.53)	$ (1.46)	$ (2.87)
Net loss per share--diluted.....	$ (0.35)	$ (3.53)	$ (1.46)	$ (2.87)
Dividends declared and paid per common share.....	$ --	$ 0.25	$ --	$ 0.75
Weighted Average Shares Outstanding, Basic.....	20,071	20,064	20,032	20,058
Weighted Average Shares Outstanding, Diluted.....	20,071	20,064	20,032	20,058
Other comprehensive loss:				
Unrealized Loss on Omega Worldwide, Inc.....	$ (814)	$ (1,745)	$ (567)	$ (2,944)
Unrealized Loss on Hedging Contracts.....	$ (458)	$ --	$ (894)	$ --
Total comprehensive loss.....	$ (3,128)	$(66,838)	$(12,737)	$(49,931)

</Table>

See notes to condensed consolidated financial statements.

<Page>

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

(IN THOUSANDS)

<Table>
<Caption>

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net loss.....	$(11,276)	$(46,987)
Adjustment to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization.....	16,560	17,385
Provision for impairment.....	8,381	54,349
Provision for collection losses.....	700	12,100
Loss (Gain) on assets sold--net.....	873	(10,342)
Gain on early extinguishment of debt.....	(2,963)	--
Other.....	3,291	2,078
Net change in accounts receivable for Owned & Operated assets--net.....	(8,120)	(17,087)

Net change in accounts payable for Owned & Operated assets	(3,776)	5,421
Net change in other Owned & Operated assets and liabilities	(97)	(12,723)
Net change in operating assets and liabilities	3,875	(3,383)
Net cash provided by operating activities	7,448	811
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds of revolving lines of credit--net	18,000	25,041
Payments of long-term borrowings	(43,355)	(121,447)
Receipts from Dividend Reinvestment Plan	29	430
Dividends paid	--	(22,253)
Proceeds from preferred stock offering	--	100,000
Deferred financing costs paid	(852)	(4,976)
Other	(45)	(9,339)
Net cash used in financing activities	(26,223)	(32,544)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of real estate investments--net	1,514	35,793
Fundings of other investments--net	1,444	(5,507)
Collection of mortgage principal	22,790	1,632
Net cash provided by investing activities	25,748	31,918
Increase in cash and cash equivalents	6,973	185
Cash and cash equivalents at beginning of period	7,172	4,105
Cash and cash equivalents at end of period	$ 14,145	$ 4,290

</Table>

See notes to condensed consolidated financial statements.

<Page>

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 2001

NOTE A--BASIS OF PRESENTATION

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

NOTE B--PROPERTIES

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

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

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

NOTE B--PROPERTIES (CONTINUED)

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

<Table>
<Caption>

FACILITY COUNT	PURCHASE / LEASEBACK	MORTGAGES	OWNED & OPERATED	TOTAL HEALTHCARE FACILITIES	HELD FOR SALE	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at June 30, 2001.....	129	57	63	249	9	258
Properties transferred to Held for Sale.....	--	--	(2)	(2)	2	--
Properties transferred to Owned & Operated.....	--	--	--	--	--	--
Properties Sold / Mortgages Paid.....	--	--	(1)	(1)	(1)	(2)
Properties Leased / Mortgages Placed.....	--	--	--	--	--	--
Properties transferred to Purchase/ Leaseback.....	2	(2)	--	--	--	--
Balance at September 30, 2001.....	131	55	60	246	10	256

<Caption>

GROSS INVESTMENT ($000'S)						
Balance at June 30, 2001.	$ 581,468	$ 180,768	$121,368	$ 883,604	$ 5,698	$889,302
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Properties transferred to Held for Sale.....	--	--	(2,230)	(2,230)	2,230	--
Properties transferred to Owned & Operated.....	--	--	--	--	--	--
Properties Sold / Mortgages Paid.....	--	--	(3,404)	(3,404)	(149)	(3,553)
Properties Leased / Mortgages Placed.....	--	9,360	--	9,360	--	9,360
Properties transferred to Purchase / Leaseback.....	3,900	(3,900)	--	--	--	--
Capex and other.....	--	(367)	268	(99)	(402)	(501)
Balance at September 30, 2001.....	$585,368	$185,861	$116,002	$887,231	$ 7,377	$894,608

</Table>

REAL ESTATE DISPOSITIONS

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

NOTES AND MORTGAGES RECEIVABLE

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

NOTE B--PROPERTIES (CONTINUED)
OWNED AND OPERATED ASSETS

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

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

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

<Table>
<Caption>

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

</Table>

NOTE B--PROPERTIES (CONTINUED)

<Table>
<Caption>

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	UNAUDITED (IN THOUSANDS)	
<S>	<C>	<C>
ASSETS		
Cash	$ 8,826	$ 5,364
Accounts Receivable--Net	38,150	30,030
Other Current Assets	6,013	5,098

Total Current Assets	52,989	40,492
Investment in leasehold	1,722	1,679
Land and Buildings	116,002	130,601
Less Accumulated Depreciation	(17,043)	(17,680)
Land and Buildings--Net	98,959	112,921
TOTAL ASSETS	$153,670	$155,092
LIABILITIES		
Accounts Payable	$ 4,861	$ 8,636
Other Current Liabilities	6,967	6,108
Total Current Liabilities	11,828	14,744
TOTAL LIABILITIES	$ 11,828	$ 14,744

</Table>

ASSETS HELD FOR SALE

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

<Page>

NOTE B--PROPERTIES (CONTINUED)

SEGMENT INFORMATION

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

<Table>
<Caption>

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 20,066	$ 43,820	$ --	$ 63,886
Operating Expenses	--	(44,439)	--	(44,439)
Net operating income (loss)	20,066	(619)	--	19,447
Adjustments to arrive at net income (loss):				
Other revenues	--	--	2,949	2,949
Depreciation and amortization	(4,273)	(1,018)	(224)	(5,515)
Interest expense	--	--	(9,124)	(9,124)
General and administrative	--	--	(2,203)	(2,203)
Legal	--	--	(1,145)	(1,145)
State Taxes	--	--	(126)	(126)
Litigation settlement expense	--	--	--	--
Provision for impairment	--	--	--	--
Provision for uncollectable accounts	(19)	--	--	(19)
Severance, moving and consulting agreement costs	--	--	(4,300)	(4,300)
Charges for derivative accounting	--	--	(561)	(561)
	(4,292)	(1,018)	(14,734)	(20,044)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	15,774	(1,637)	(14,734)	(597)
Loss on assets sold--net	--	(1,485)	--	(1,485)
Gain on early extinguishment of debt	--	--	226	226
Preferred dividends	--	--	(5,029)	(5,029)
Net income (loss) available to common	$ 15,774	$ (3,122)	$(19,537)	$ (6,885)

Total Assets	$686,411	$161,047	$ 63,807	$ 911,265

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	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 21,391	$ 45,960	$ --	$ 67,351
Operating Expenses	--	(48,552)	--	(48,552)
Net operating income (loss)	21,391	(2,592)	--	18,799
Adjustments to arrive at net income (loss):				
Other revenues	--	--	660	660
Depreciation and amortization	(4,302)	(967)	(388)	(5,657)
Interest expense	--	--	(9,846)	(9,846)
General and administrative	--	--	(1,830)	(1,830)
Legal	--	--	(481)	(481)
State Taxes	--	--	(15)	(15)
Provision for impairment	(1,940)	(47,909)	--	(49,849)
Provision for uncollectable accounts	(12,100)	--	--	(12,100)
Severance and consulting agreement costs	--	--	(4,665)	(4,665)
	(18,342)	(48,876)	(16,565)	(83,783)

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NOTE B--PROPERTIES (CONTINUED)

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	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Income (loss) before net loss on assets sold	3,049	(51,468)	(16,565)	(64,984)
Loss on assets sold--net	(109)	--	--	(109)
Preferred dividends	--	--	(5,705)	(5,705)
Net income (loss) available to common	$ 2,940	$(51,468)	$(22,270)	$ (70,798)
Total Assets	$719,848	$166,038	$ 78,803	$ 964,689

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	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 62,029	$133,613	$ --	$ 195,642
Operating Expenses	--	(134,565)	--	(134,565)
Net operating income (loss)	62,029	(952)	--	61,077
Adjustments to arrive at net income (loss):				
Other revenues	--	--	6,024	6,024
Depreciation and amortization	(12,941)	(2,950)	(669)	(16,560)

Interest expense	--	--	(28,039)	(28,039)
General and administrative	--	--	(7,707)	(7,707)
Legal	--	--	(2,862)	(2,862)
State Taxes	--	--	(339)	(339)
Litigation settlement expense	--	--	(10,000)	(10,000)
Provision for impairment	--	--	(8,381)	(8,381)
Provision for uncollectable accounts	(700)	--	--	(700)
Severance, moving and consulting agreement costs	--	--	(4,766)	(4,766)
Charges for derivative accounting	--	--	(1,113)	(1,113)
	(13,641)	(2,950)	(57,852)	(74,443)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	48,388	(3,902)	(57,852)	(13,366)
Loss on assets sold--net	--	(873)	--	(873)
Gain on early extinguishment of debt	--	--	2,963	2,963
Preferred dividends	--	--	(14,966)	(14,966)
Net income (loss) available to common	$ 48,388	$ (4,775)	$(69,855)	$ (26,242)
Total Assets	$686,411	$161,047	$ 63,807	$ 911,265

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NOTE B--PROPERTIES (CONTINUED)

<Table>
<Caption>

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000			
	CORE OPERATIONS	OWNED AND OPERATED AND ASSETS HELD FOR SALE	CORPORATE AND OTHER	CONSOLIDATED
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 67,452	$123,461	$ --	$ 190,913
Operating Expenses	--	(126,436)	--	(126,436)
Net operating income (loss)	67,452	(2,975)	--	64,477
Adjustments to arrive at net income (loss):				
Other revenues	--	--	4,760	4,760
Depreciation and amortization	(13,723)	(2,545)	(1,117)	(17,385)
Interest expense	--	--	(32,221)	(32,221)
General and administrative	--	--	(4,631)	(4,631)
Legal	--	--	(974)	(974)
State Taxes	--	--	(241)	(241)
Provision for impairment	(1,940)	(52,409)	--	(54,349)
Provision for uncollectable accounts	(12,100)	--	--	(12,100)
Severance and consulting agreement costs	--	--	(4,665)	(4,665)
	(27,763)	(54,954)	(39,089)	(121,806)
Income (loss) before gain on assets sold	39,689	(57,929)	(39,089)	(57,329)
Gain on assets sold--net	10,342	--	--	10,342
Preferred dividends	--	--	(10,520)	(10,520)
Net income (loss) available to common	$ 50,031	$(57,929)	$(49,609)	$ (57,507)
Total Assets	$719,848	$166,038	$ 78,803	$ 964,689

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NOTE C--CONCENTRATION OF RISK AND RELATED ISSUES

As of September 30, 2001, the Company's portfolio of domestic investments consisted of 246 healthcare facilities, located in 29 states and operated by 32 third-party operators. The Company's gross investments in these facilities totaled $887.2 million at September 30, 2001. This portfolio is made up of 129 long-term healthcare facilities and 2 rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 55 long-term healthcare facilities and 48 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for the Company's own account. In addition, 12

facilities subject to third-party leasehold interests are included in Other Investments. The Company also holds miscellaneous investments and closed healthcare facilities held for sale of approximately $55.2 million at September 30, 2001, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, a $7.7 million investment in Omega Worldwide, Inc., Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company and Principal Healthcare Finance Trust, an Australian Unit Trust, and $14.3 million of notes receivable.

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

NOTE C--CONCENTRATION OF RISK AND RELATED ISSUES (CONTINUED)

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

GOVERNMENT HEALTHCARE REGULATION, REIMBURSEMENTS AND INDUSTRY CONCENTRATION RISKS

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

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

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

POTENTIAL RISKS FROM BANKRUPTCIES

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

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

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

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

NOTE C--CONCENTRATION OF RISK AND RELATED ISSUES (CONTINUED)
RISKS RELATED TO OWNED AND OPERATED ASSETS

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

previously classified as held for sale were reclassified to "Owned and Operated Assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

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

RECENT DEVELOPMENTS

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

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

In November, 2001 we were informed by Integrated Health Services, Inc. that they were not intending to pay future rent and mortgage interest due. We hold three mortgages on properties owned by Integrated: a $37.5 million mortgage collateralized by seven facilities located in Florida and Texas; a $12 million mortgage, collateralized by two facilities located in Georgia; and a $4.9 million mortgage collateralized by one facility located in Florida. Annual contractual interest income on each of the mortgages is approximately $3.96 million, $1.25 million and $0.55 million, respectively. We also have a

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NOTE C--CONCENTRATION OF RISK AND RELATED ISSUES (CONTINUED)
lease with IHS for one property in the state of Washington, representing an investment of $10 million and annualized contractual revenue of $1.45 million. IHS rejected this lease on November 9, 2001.

We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Rent under the lease was paid for November, but no payments were made on the October mortgage interest due November 1. As of the date of this filing, no further payments have been made. Accordingly, no revenue was recorded for the mortgage for October through December. Current appraisals of the properties underlying the mortgage loans indicate collateral value in excess of the mortgage loan balances. Accordingly, we do not expect to record any reserves relative to these loans in the fourth quarter of 2001.

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

On March 30, 2001, we announced that affiliates of Alden Management, Inc. were delinquent in paying their lease and escrow payments on the four facilities they lease from us. During the month of April, Alden resumed regularly scheduled

lease payments to us, and began making payments on a schedule designed to bring their past due amounts current by August 2001. The facilities which Alden leases are located in the state of Illinois and derive approximately 90% of their revenues from Illinois Medicaid. Alden adhered to the schedule and was current with their rental payments to us through November. However, Alden has indicated to us that the State of Illinois has been behind in processing reimbursements under the Medicaid system.

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

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

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NOTE D--DIVIDENDS

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

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

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

NOTE E--EARNINGS PER SHARE

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

NOTE F--OMEGA WORLDWIDE, INC.

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

guarantee was terminated and the subject collateral was released.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Upon expiration of this agreement on June 30,

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NOTE F--OMEGA WORLDWIDE, INC. (CONTINUED)

2000, the Company entered into a new agreement requiring quarterly payments from Worldwide of $37,500 for the use of offices and certain administrative and financial services provided by the Company. Upon the reduction of the Company's accounting staff, the Service Agreement was renegotiated again on November 1, 2000 requiring quarterly payments from Worldwide of $32,500. Costs allocated to Worldwide for the three-month and nine-month periods ended September 30, 2001 were $32,500 and $97,500, respectively, compared with ($19,000) and $370,000 for the same periods in 2000.

NOTE G--LITIGATION

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

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

On December 29, 1998, Karrington Health, Inc. brought suit against the Company in the Franklin County, Ohio, Common Pleas Court (subsequently removed to the U.S. District Court for the Southern District of Ohio, Eastern Division) alleging that the Company repudiated and ultimately breached a financing contract to provide $95 million of financing for the development of 13 assisted living facilities. Karrington was seeking recovery of approximately $34 million in damages it alleged to have incurred as a result of the breach. On August 13, 2001, the Company paid Karrington $10 million to settle all claims arising from the suit, but without admission of any liability or fault by the Company, which liability is expressly denied. Based on the settlement, the suit has been dismissed with prejudice. The settlement was recorded in the quarter ended June 30, 2001.

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NOTE H--BORROWING ARRANGEMENTS

The Company has a $175 million secured revolving credit facility that expires on December 31, 2002. Borrowings under the facility bear interest at 2.5% to 3.25% over London Interbank Offered Rates ("LIBOR"), based on the Company's leverage ratio. Borrowings of approximately $129 million are

outstanding at September 30, 2001. Investments with a gross book value of approximately $240 million are pledged as collateral for this credit facility.

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

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

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

The recognition of $10 million of expense associated with the settlement of the lawsuit with Karrington Health, Inc. described in Note G above resulted in a violation of certain financial covenants in the loan agreements relating to the Company's secured credit facilities as of June 30, 2001. The Company previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under the Company's $175 million secured credit facility have extended their waiver through December 13, 2001 and the lenders under our $75 million secured credit facility extended their waiver through December 15, 2001. These covenant violations prevent the Company from drawing upon the otherwise remaining availability under both credit facilities until a permanent resolution is attained.

On December 21, 2001, we reached agreements with the lenders under both of our revolving credit facilities which include modifications and waivers to certain financial covenants including those with which we were not in compliance. In addition, certain other financial covenants will be either modified as eliminated going forward. As part of these agreement, the lenders extended their waivers through February 28, 2002. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer.

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

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

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NOTE H--BORROWING ARRANGEMENTS (CONTINUED)

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

NOTE I--EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The Company utilizes interest rate swaps to fix interest rates on variable

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

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

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

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

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NOTE I--EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)
FASB 144 ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

The Financial Accounting Standards Board recently issued SFAS 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The Company expects to adopt the new pronouncement effective January 1, 2002. This pronouncement supersedes FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED. The Company has not yet evaluated the impact of this pronouncement on its financial condition or results of operations.

NOTE J--SUBSEQUENT EVENTS

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

Explorer, which beneficially owns 1,048,420 shares of Omega's Series C Convertible Preferred Stock constituting approximately 45.5% of Omega's issued and outstanding Common Stock on an as converted basis, will not receive rights in the rights offering. Instead, the amount of Explorer's private placement is equal to Explorer's percentage interest in the aggregate amount of the proposed

$50.0 million offering. In addition, to the extent the Company's stockholders do not fully exercise their rights to purchase Common Stock in the rights offering, Explorer has committed to invest an additional amount equal to the exercise price of the unexercised rights.

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

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

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NOTE J--SUBSEQUENT EVENTS (CONTINUED)

covenants on terms acceptable to Omega and Explorer. There can be no assurance that the proposed offering will be consummated.

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

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

<Page>

ANNEX A

[SHATTUCK HAMMOND PARTNERS LLC LETTERHEAD]

October 29, 2001

The Committee of Independent Directors and
The Board of Directors
Omega Healthcare Investors, Inc.
900 Victors Way
Ann Arbor, MI 48108

Members of the Committee of Independent Directors and the Board of Directors:

We understand that Omega Healthcare Investors, Inc. ("OHI") has entered into an Investment Agreement (including the exhibits attached thereto), dated as of October 29, 2001 (the "Investment Agreement"), with Explorer Holdings, L.P. ("Explorer"). Explorer currently owns, and its only investment in OHI is, 1,048,420 shares of OHI's Series C Preferred Stock, constituting all the shares of that class presently outstanding (the "Preferred C") and representing approximately 45.5% of OHI's common stock on an as converted basis. Pursuant to the Investment Agreement as described in more detail below, among other things, Explorer will commit to invest, subject to certain conditions being satisfied or waived, up to $50.0 million (the "Capital Infusion Amount") in payment for OHI common stock or a newly created security, Series D Preferred stock of OHI ("Preferred D") (the "Explorer Investment"). The actual amount of the Explorer Investment will be equal to the difference between the Capital Infusion Amount and the gross proceeds received by OHI through a Rights Offering (the "Rights Offering") to OHI common stockholders other than Explorer (the "Unsubscribed Purchase Amount"). If all rights offered in the Rights Offering were exercised, we understand that the proportional ownership of OHI by stockholders other than Explorer and by Explorer on an as converted basis would, upon Explorer's payment of the Unsubscribed Purchase Amount and the issuance to it of shares of OHI common stock, remain approximately the same as such ownership on the date of this letter.

We understand that the price per common OHI share in the Rights Offering and the

price per common OHI share or the conversion price of the Preferred D to be paid by Explorer will be the same; i.e., not to exceed $2.92 per share as determined in accordance with the provisions of the Investment Agreement. Explorer's commitment to fund the Unsubscribed Purchase Amount is irrespective of the actual price per OHI common share at the time of the expiration of the Rights Offering.

This opinion to the Committee of Independent Directors and the Board of Directors of OHI addresses the fairness, from a financial point of view, to OHI of the financial terms of the Investment Agreement taken as a whole (the "Financial Terms of the Investment Agreement").

We further understand that the Investment Agreement, among other things, includes the following Financial Terms which are more fully set forth in the Investment Agreement:

- DISTRIBUTION OF RIGHTS: OHI will undertake a Rights Offering whereby each OHI common stockholder other than Explorer will receive a dividend of one right ("Right") for every 2.15 shares of OHI common stock owned by such stockholder on the record date. An OHI stockholder who exercises all of the Rights issued to him or her will maintain their proportional interest in OHI common stock on an as converted basis. Each Right will entitle the holder to purchase one share of OHI common stock at the Exercise Price as described below;

- EXPLORER INVESTMENT: Explorer will not receive any Rights pursuant to the Rights Offering. Explorer commits within ten days after the expiration date of the Rights Offering to purchase either OHI common stock or Preferred D shares for an aggregate amount equal to the Unsubscribed Purchase Amount. In this regard, if the issuance of OHI common stock has not been approved by OHI's stockholders at the time of the Explorer Investment, the Explorer

Investment will be in the form of Preferred D shares which will be substantially the same as the Preferred C and which will be automatically converted into OHI common stock upon the earlier of receipt of stockholder approval for the issuance of OHI common stock to Explorer and the date the New York Stock Exchange waives any requirement under its rules and policies for stockholder approval of the conversion of the Preferred D into OHI common stock. We understand that Explorer has agreed to vote its Preferred C shares in favor of stockholder approval;

- OVER-SUBSCRIPTION RIGHT: There will be no over-subscription right for unexercised Rights;

- TRANSFERABILITY AND TRADING OF RIGHTS: The Rights will not be transferable or assignable and will not trade as a separate security;

- EXERCISE PRICE: The exercise price of each Right (the "Exercise Price") is $2.92 determined in accordance with the terms of the Investment Agreement;

- CLOSING CONDITION: The closing of the Rights Offering and the Explorer Investment will be conditioned upon Fleet Bank, NA ("Fleet") and The Provident Bank: (i) amending their loan agreements with OHI in a manner and on terms and conditions satisfactory to each of OHI and Explorer in their respective sole discretion; (ii) waiving any then existing defaults as well as the right to assert a default based on OHI's current non-compliance with certain covenants; and (iii) with respect to Fleet, extending the current maturity date of its loan by no less than 12 months;

- TERMINATION: OHI will have the right to amend the terms of or terminate the Rights Offering at any time prior to the expiration of the subscription period in the Rights Offering;

- CONTROL OF OHI: In the event that upon consummation of the Rights Offering and the transactions contemplated by the Investment Agreement, Explorer holds more than 50% of the voting securities of OHI, Explorer will have voting control of OHI, the unrestricted right to vote the OHI voting securities which it holds and the power to designate a majority of the Directors of OHI subject to the following restrictions imposed by the Investment Agreement and any other limitation or restriction imposed by law: (i) a limitation on the number of Directors of OHI which Explorer can designate; (ii) so long as Explorer holds at least 15% of the voting securities of OHI, a commitment by Explorer to vote in favor of the election of three directors who are "independent" under the rules of the New York Stock Exchange and otherwise unaffiliated with Explorer and, upon the increase in the number of directors to ten, one additional person who

is unaffiliated with Explorer; and (iii) except in a transaction approved by a committee of the Board of OHI comprised entirely of independent directors and under certain limited circumstances, a prohibition against Explorer's acquiring beneficial ownership of more than 80% of the voting securities of OHI then issued and outstanding; and

- TRANSFERABILITY OF VOTING SECURITIES OWNED BY EXPLORER: Transfers by Explorer of its voting securities that cause the transferee's beneficial ownership to exceed 9.9% of OHI's total voting securities are subject to the transferee agreeing to be bound by certain provisions of the Amended and Restated Stockholders Agreement to be executed in connection with the closing of the Rights Offering (the "Amended and Restated Stockholders Agreement").

For the purposes of this opinion, we have:

(i) Reviewed the Investment Agreement (including the exhibits attached thereto) between OHI and Explorer, dated as of October 29, 2001;

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(ii) Reviewed the Investment Agreement between OHI and Explorer, dated as of May 11, 2000 and the First Amendment thereto, dated June 2, 2000;

(iii) Reviewed the Stockholders Agreement between OHI and Explorer, dated July 14, 2000, which will be superceded by the Amended and Restated Stockholders Agreement;

(iv) Reviewed the following documents filed by OHI with the Securities and Exchange Commission: Form 10-K for OHI for the year ended December 31, 2000; Forms 10-Q for the quarters ended March 31, and June 30, 2001; 2000 Annual Report; and Proxy Statement for the Annual Meeting of Stockholders, dated as of April 18, 2001;

(v) Reviewed various reports and analyses prepared by OHI management;

(vi) Discussed the business, operations, projections, capital structure and prospects of OHI with OHI's management;

(vii) Reviewed financial projections and other financial information prepared by OHI management for the years ending December 31, 2001 and 2002;

(viii) Reviewed Explorer's pro forma ownership of OHI under various assumptions related to the Rights Offering. With regard to this review, we noted that Explorer's current ownership in OHI common stock on an as converted basis is approximately 45.5% and based on various assumptions concerning the number of shares of OHI common stock which are purchased in the Rights Offering, Explorer's ownership of OHI's voting securities on as converted basis could exceed 50%;

(ix) Discussed with management of OHI (a) OHI's efforts to negotiate with its banks; (b) the financial implications for OHI if agreement for covenant waivers and a term extension were not reached with OHI's banks; (c) the importance to OHI of securing an equity or junior capital investment in order to potentially obtain such waivers and extensions; and (d) OHI's efforts to access alternative sources of capital including the timing and risk of closing associated with such alternative investments;

(x) Discussed with a principal of Explorer, among other things Explorer's: (a) timing of the Explorer Investment; (b) additional due diligence requirements; (c) definitive agreement requirements; and (d) ability to make the investment contemplated in the Investment Agreement without any additional approvals by Explorer's partners;

(xi) Reviewed publicly available financial and stock market data with respect to publicly-traded companies in lines of business we believe to be generally comparable to those of OHI;

(xii) Reviewed over a five year, twelve month and three month period ending October 26, 2001 the trading price history of OHI's common stock;

(xiii) Reviewed over the twelve month and three month period ending October 26, 2001 the trading price history of OHI's Series A Preferred Stock and Series B Preferred Stock;

(xiv) Reviewed the price and yield to maturity of OHI's senior unsecured debt;

(xv) Reviewed the trading performance and other data of selected

publicly-traded companies which have undertaken a rights offering since January 1, 2001;

(xvi) Reviewed the draft dated October 25, 2001 of OHI's Registration Statement on Form S-1; and

(xvii) Conducted such other studies, analyses, investigations and inquiries, and considered such other information, as we deemed relevant.

In rendering our opinion, we have assumed and relied upon the accuracy and completeness of all documents and other information supplied or otherwise made available to us by OHI or obtained by us from other sources, and we have relied upon the assurances of the management of OHI that they are unaware of any information or facts that would make the information provided to us incomplete or misleading. We have further assumed that the Investment Agreement, including but not limited to the Rights Offering, will not be amended after the date hereof. While we have discussed the information provided to us with management of OHI, we have not independently verified such information, undertaken an independent appraisal of the assets or liabilities (contingent or otherwise) of OHI or been furnished with any such appraisals of OHI. With respect to financial forecasts furnished to us by OHI, we have been advised by the management of OHI, and we have assumed, that they have been reasonably prepared and reflect management's best currently available estimates and judgment as to the expected future financial performance of such entities. The terms of our engagement did not include soliciting interest in an investment transaction from investors, and we have made no such solicitation.

Our opinion is necessarily based upon market, economic and other conditions that exist and can be evaluated as of the date of this letter, and on information available to us as of the date hereof. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein that may come or be brought to our attention after the date hereof.

As part of its investment banking business, Shattuck Hammond Partners LLC is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes. We have acted as financial advisor to the Committee of Independent Directors in connection with a review of other financing alternatives that might be available to OHI and a review of any proposals related to Explorer and will receive from OHI a fee for such services and an additional fee upon the delivery of this opinion.

The opinion expressed herein does not constitute a recommendation as to any action the Committee of Independent Directors, the Board of Directors or any stockholder of OHI should take in connection with the Investment Agreement. This opinion addresses only the fairness, from a financial point of view, of the Financial Terms of the Investment Agreement taken as a whole. Further, we express no opinion herein as to the structure, terms (other than the Financial Terms) or effect of any other aspect of the investment by Explorer or the Rights Offering, including, without limitation, the tax consequences thereof or the corporate governance changes occurring in connection therewith except to the extent that such changes constitute Financial Terms of the Investment Agreement.

Based upon and subject to the foregoing, it is our opinion, as investment bankers, that, as of the date hereof, the Financial Terms of the Investment Agreement taken as a whole are fair to OHI from a financial point of view.

Very truly yours,
/s/ Shattuck Hammond Partners LLC
Shattuck Hammond Partners LLC

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- ---

RIGHTS TO PURCHASE UP TO 9,400,000 SHARES

[LOGO]

COMMON STOCK

PROSPECTUS

, 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 31. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated expenses in connection with this offering.

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<S>	<C>
SEC Registration Fee	$ 6,810
NYSE Listing Fee	*
Subscription Agent Fee	37,500
Escrow Agent Fee	4,000
Printing and Engraving Costs	*
Legal Fees and Expenses	*
Accounting Fees and Expenses	*
Financial Adviser Fees	400,000
Miscellaneous	*
Total	*

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* To be supplied by amendment.

ITEM 32. SALES TO SPECIAL PARTIES.

Not Applicable.

ITEM 33. RECENT SALES OF UNREGISTERED SECURITIES.

On July 17, 2000, the Company received gross proceeds of $100 million from the issuance of 1,000,000 shares of Series C convertible preferred stock to Explorer, which were initially convertible into 16,000,000 shares of common stock. On April 2, 2001 the Company issued an additional 48,420 shares of Series C convertible preferred stock to Explorer, which are convertible into 774,722 shares of the Company's common stock, to satisfy accrued and unpaid dividends on the Series C preferred stock issued in July 2000 and the associated waiver fee, which had been deferred by agreement with Explorer from November 15, 2000 through April 2, 2001. The conversion price of the Series C convertible preferred stock is currently $6.25 per share. The shares of Series C preferred stock issued to Explorer on July 17, 2000 were sold in reliance upon the exemption from the registration provided by Section 4(2) of the Securities Act. The shares of Series C convertible preferred stock issued on April 2, 2001 were issued without registration under the Securities Act, because the issuance did not involve a sale within the meaning of the Securities Act and/or in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act. For more information about the terms of conversion see "Business" set forth in the Prospectus.

Proceeds from the July 17, 2001 issuance were used to repay outstanding debt.

ITEM 34. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Articles of Incorporation and Bylaws of the Registrant provide for indemnification of directors and officers to the full extent permitted by Maryland law.

Section 2-418 of the General Corporation Law of the State of Maryland generally permits indemnification of any director or officer with respect to any proceedings unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or the result of active or deliberate dishonesty;

(b) the director or officer actually received an improper personal benefit in money, property or services, or; (c) in the case of criminal proceedings, the director or officer had reasonable cause to believe that the act or omission was unlawful. The indemnity may include judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the director or officer in connection with the proceedings; provided, however, that if the proceeding is

one by, or in the right of, the corporation, indemnity is permitted only for reasonable expenses and not with respect to any proceeding in which the director shall have been adjudged to be liable to the corporation. The termination of any proceeding by judgment, order or settlement does not create a presumption that the director did not meet the requisite standard of conduct required for permitted indemnification. The termination of any proceeding by conviction, or plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the director or officer did not meet that standard of conduct.

The Company has entered into indemnity agreements with the officers and directors of the Company that provide that the Company will, subject to certain conditions, pay on behalf of the indemnified party any amount which the indemnified party is or becomes legally obligated to pay because of any act or omission or neglect or breach of duty, including any actual or alleged error or misstatement or misleading statement, which the indemnified party commits or suffers while acting in the capacity as an officer or director of the Company.

Insofar as indemnification for liabilities arising under the Securities Act is permitted to directors and officers of the Registrant pursuant to the above-described provisions, the Registrant understands that the Commission is of the opinion that such indemnification contravenes federal public policy as expressed in said act and therefore is unenforceable.

ITEM 35. TREATMENT OF PROCEEDS FROM STOCK BEING REGISTERED.

Not Applicable.

ITEM 36. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

INDEX TO EXHIBITS

<Table>
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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
3.1	Articles of Incorporation, as amended (Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended March 31, 1995)
3.2	Articles of Amendment to the Company's Articles of Incorporation, as amended (Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 1999)
3.3	Amended and Restated Bylaws, as amended April 20, 1999 (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated April 20, 1999)
4.1	Indenture dated December 27, 1993 (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated December 29, 1993)
4.2	First Supplemental Indenture dated January 23, 1996 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated January 19, 1996)
4.3	Form of Convertible Debenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
4.4	Form of Indenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
4.5	Form of Articles Supplementary for Series A Preferred Stock (Incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q for the quarterly period ended March 31, 1997)

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
4.6	Articles Supplementary for Series B Preferred Stock (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 27, 1998)
4.7	Form of Supplemental Indenture No. 1 dated as of June 1, 1998 relating to the 6.95% Notes due 2002 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated June 9, 1998)
4.8	Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent, including Exhibit A thereto (Form of Articles Supplementary relating to the Series A Junior

		Participating Preferred stock) and Exhibit B thereto (Form of Rights Certificate) (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 20, 1999)
	4.9	Amendment No. 1, dated May 11, 2000 to Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
	4.10	Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
	4.11	Stockholders Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
	4.12	Registration Rights Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.3 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
	4.13	Form of Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit B to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
	4.14	Form of Articles Supplementary for Series D Convertible Preferred Stock (Incorporated by reference to Exhibit C to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
	5.1+	Form of Opinion of Powell, Goldstein, Frazer & Murphy LLP
	8.1+	Form of Opinion of Powell, Goldstein, Frazer & Murphy LLP with respect to certain tax matters
	8.2	Form of Opinion of Argue Pearson Harbison & Myers, LLP with respect to certain tax matters*
	10.1	1993 Deferred Compensation Plan, effective March 2, 1993 (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1992)**
	10.2	Form of Note Exchange Agreement--10% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
	10.3	Form of Note Exchange Agreement--7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
	10.4	Form of Note Exchange Agreement--7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995)
	10.5	First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty between Delta Investors I, LLC and Sun Healthcare Group, Inc. and Delta Investors II, LLC and Sun Healthcare Group, Inc. (Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Form 8-K dated April 30, 1998)
	10.6	Agreement of Sale and Purchase dated May 12, 2000, by and between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
	10.7	Amended and Restated Investment Agreement, by and among Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit A of the Company's Proxy Statement dated June 16, 2000)

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.8	Indemnification Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit 10.12 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
10.9	Amended and Restated Advisory Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C., dated October 4, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.10	Loan Agreement by and among Omega Healthcare Investors, Inc.

		and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks, dated June 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
	10.11	Amendment No. 1 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks (Incorporated by reference to Exhibit 10.11 of the Company's Form 10-k for the year ended December 31, 2000)
	10.12	Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks (Incorporated by reference to Exhibit 10.12 of the Company's Form 10-k for the year ended December 31, 2000)
	10.13	Amendment No. 3 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks** (Incorporated by reference to Exhibit 10.13 of the Company's Form 10-k for the year ended December 31, 2000)
	10.14	2000 Stock Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
	10.15	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)**
	10.16	Consulting and Severance Agreement with Essel W. Bailey, Jr. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
	10.17	Compensation Agreement with F. Scott Kellman (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
	10.18	Compensation Agreement with Susan Kovach (Incorporated by reference to Exhibit 10.9 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
	10.19	Compensation Agreement with Laurence Rich (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
	10.20	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)
	10.21	Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein, dated August 16, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
	10.22	Amendment No. 1 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein (Incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2000)
	10.23	Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein (Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2000)
	10.24	Settlement and Restructuring Agreement by and among Omega Healthcare Investors, Inc. and Sterling Acquisition Corp, and Advocat, Inc., Diversicare Leasing Corp., Sterling Health Care Management Inc., Diversicare Management Services Co. and Advocat Finance, Inc. dated October 1, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.25	Consolidated Amended and Restated Master Lease by and among Sterling Acquisition Corp. and Diversicare Leasing Corporation, effective October 1, 2000 and dated November 8, 2000 (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarterly period ended September

	30, 2000)
10.26	Letter Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. regarding deferral of dividends and waiver of certain provisions of Articles Supplementary pertaining to Series C Preferred Stock (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q/A for the quarterly period ended September 30, 2000)
10.27	Management Services Agreement by and among Omega Healthcare Investors, Inc., Erickson Capital Group, Inc. and Thomas Erickson dated October 1, 2000 (Incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 2000)**
10.28	Agreement of Sale and Purchase between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia, Inc. dated May 12, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
10.29	Letter Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C. dated as of June 1, 2001 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2001)
10.30	Employment Agreement between Omega Healthcare Investors, Inc. and C. Taylor Pickett, dated June 12, 2001 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2001)
10.31	Investment Agreement, dated as of October 29, 2001, by and between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit A to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
10.32	Form of Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit D to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
10.33	Form of Amended and Restated Registration Rights Agreement (Incorporated by reference to Exhibit E to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
10.34	Amendment No. 2 to Rights Agreement (Incorporated by reference to Exhibit F to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
10.35	Employment Agreement between Omega Healthcare Investors, Inc. and R. Lee Crabill, Jr., dated July 30, 2001 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2001)
10.36	Employment Agreement between Omega Healthcare Investors, Inc. and Robert O. Stephenson, dated August 30, 2001 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2001)
10.37	Employment Agreement between Omega Healthcare Investors, Inc. and Daniel J. Booth, dated October 15, 2001 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended September 30, 2001)
10.38	Retention, Severance and Release Agreement between Omega Healthcare Investors, Inc. and F. Scott Kellman, dated October 9, 2001 (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarterly period ended September 30, 2001)
10.39	Retention, Severance and Release Agreement between Omega Healthcare Investors, Inc. and Laurence D. Rich, Dated August 1, 2001 (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarterly period ended September 30, 2001)
10.40	Amended and Restated Secured Promissory Note between Omega Healthcare Investors, Inc. and Professional Health Care Management, Inc. dated as of September 1, 2001 (Incorporated by reference to Exhibit 10.6 to the Company's 10-Q for the quarterly period ended September 30, 2001)

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.41	Settlement Agreement between Omega Healthcare Investors, Inc. Professional Health Care Management, Inc., Living Centers - PHCM, Inc., GranCare, Inc., and Mariner Post-Acute Network, Inc. dated as of September 1, 2001 (Incorporated by reference to Exhibit 10.7 to the Company's 10-Q for the

		quarterly period ended September 30, 2001)
	10.42	Amendment No. 4 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory thereto and Fleet Bank, N.A., as agent for such banks*
	10.43	Amendment No. 3 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein*
	21	Subsidiaries of the Registrant (Incorporated by reference to Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2000)
	23.1	Consent of Ernst & Young LLP*
	23.2	Form of Consent of Powell, Goldstein, Frazer & Murphy LLP (included in Exhibits 5.1 and 8.1)
	23.3	Form of Consent of Argue Pearson Harbison & Myers, LLP (included in Exhibit 8.2)
	99.1+	Form of Subscription Agreement
	99.2+	Form of Letter to Stockholders
	99.3+	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
	99.4+	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Company and Other Nominees

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+ Previously filed.

* Filed herewith.

** Management contract or compensatory plan, contract or arrangement.

*** To be filed by amendment.

ITEM 37. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

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(2) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of

any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to the Form S-11 Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Timonium, State of Maryland, on January 11, 2002.

OMEGA HEALTHCARE INVESTORS, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on January 11, 2002.

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SIGNATURE	TITLE
<C>	<S> <C>
/s/ C. TAYLOR PICKETT C. Taylor Pickett	Chief Executive Officer (Principal Executive Officer)
/s/ ROBERT O. STEPHENSON Robert O. Stephenson	Chief Financial Officer (Principal Financial and Accounting Officer)
* Daniel A. Decker	Director
* Thomas W. Erickson	Director
* Thomas F. Franke	Director
* Harold J. Kloosterman	Director
* Bernard J. Korman	Director

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SIGNATURE	TITLE
<C>	<S> <C>
* Edward Lowenthal	Director
* Christopher W. Mahowald	Director
* Donald J. McNamara	Director

	*	
	Stephen D. Plavin	Director

<table>
<tr><td>*By:</td><td>/s/ C. TAYLOR PICKETT
ATTORNEY-IN-FACT</td></tr>
</table>

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, as amended (Incorporated by reference to the Registrant's Form 10-Q for the quarterly period ended March 31, 1995)
3.2	Articles of Amendment to the Company's Articles of Incorporation, as amended (Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 1999)
3.3	Amended and Restated Bylaws, as amended April 20, 1999 (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated April 20, 1999)
4.1	Indenture dated December 27, 1993 (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated December 29, 1993)
4.2	First Supplemental Indenture dated January 23, 1996 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated January 19, 1996)
4.3	Form of Convertible Debenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
4.4	Form of Indenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
4.5	Form of Articles Supplementary for Series A Preferred Stock (Incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q for the quarterly period ended March 31, 1997)
4.6	Articles Supplementary for Series B Preferred Stock (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 27, 1998)
4.7	Form of Supplemental Indenture No. 1 dated as of June 1, 1998 relating to the 6.95% Notes due 2002 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated June 9, 1998)
4.8	Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent, including Exhibit A thereto (Form of Articles Supplementary relating to the Series A Junior Participating Preferred stock) and Exhibit B thereto (Form of Rights Certificate) (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 20, 1999)
4.9	Amendment No. 1, dated May 11, 2000 to Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
4.10	Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
4.11	Stockholders Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
4.12	Registration Rights Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.3 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
4.13	Form of Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit B to the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
4.14	Form of Articles Supplementary for Series D Convertible Preferred Stock (Incorporated by reference to Exhibit C to

	the Schedule 13D filed by Explorer Holdings, L.P. on October 30, 2001 on behalf of the Company)
5.1+	Form of Opinion of Powell, Goldstein, Frazer & Murphy LLP*
8.1+	Form of Opinion of Powell, Goldstein, Frazer & Murphy LLP with respect to certain tax matters*
8.2	Form of Opinion of Argue Pearson Harbison & Myers, LLP with respect to certain tax matters*

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.1	1993 Deferred Compensation Plan, effective March 2, 1993 (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1992)**
10.2	Form of Note Exchange Agreement--10% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
10.3	Form of Note Exchange Agreement--7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
10.4	Form of Note Exchange Agreement--7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995)
10.5	First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty between Delta Investors I, LLC and Sun Healthcare Group, Inc. and Delta Investors II, LLC and Sun Healthcare Group, Inc. (Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Form 8-K dated April 30, 1998)
10.6	Agreement of Sale and Purchase dated May 12, 2000, by and between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
10.7	Amended and Restated Investment Agreement, by and among Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit A of the Company's Proxy Statement dated June 16, 2000)
10.8	Indemnification Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit 10.12 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
10.9	Amended and Restated Advisory Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C., dated October 4, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.10	Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks, dated June 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
10.11	Amendment No. 1 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks (Incorporated by reference to Exhibit 10.11 of the Company's Form 10-k for the year ended December 31, 2000)
10.12	Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks (Incorporated by reference to Exhibit 10.12 of the Company's Form 10-k for the year ended December 31, 2000)
10.13	Amendment No. 3 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks** (Incorporated by reference to Exhibit 10.13 of the Company's Form 10-k for the year ended December 31, 2000)
10.14	2000 Stock Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
10.15	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)**
10.16	Consulting and Severance Agreement with Essel W. Bailey, Jr. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
10.17	Compensation Agreement with F. Scott Kellman (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**

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EXHIBIT NUMBER	DESCRIPTION
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10.18	Compensation Agreement with Susan Kovach (Incorporated by reference to Exhibit 10.9 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
10.19	Compensation Agreement with Laurence Rich (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)**
10.20	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)
10.21	Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein, dated August 16, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.22	Amendment No. 1 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein (Incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2000)
10.23	Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein (Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2000)
10.24	Settlement and Restructuring Agreement by and among Omega Healthcare Investors, Inc. and Sterling Acquisition Corp, and Advocat, Inc., Diversicare Leasing Corp., Sterling Health Care Management Inc., Diversicare Management Services Co. and Advocat Finance, Inc. dated October 1, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.25	Consolidated Amended and Restated Master Lease by and among Sterling Acquisition Corp. and Diversicare Leasing Corporation, effective October 1, 2000 and dated November 8, 2000 (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.26	Letter Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. regarding deferral of dividends and waiver of certain provisions of Articles Supplementary pertaining to Series C Preferred Stock (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q/A for the quarterly period ended September 30, 2000)
10.27	Management Services Agreement by and among Omega Healthcare Investors, Inc., Erickson Capital Group, Inc. and Thomas Erickson dated October 1, 2000 (Incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 2000)**
10.28	Agreement of Sale and Purchase between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia, Inc. dated May 12, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
10.29	Letter Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C. dated as of June 1, 2001 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2001)
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	October 30, 2001 on behalf of the Company)
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99.3+	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
99.4+	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Company and Other Nominees

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+ Previously filed.

* Filed herewith.

** Management contract or compensatory plan, contract or arrangement.

*** To be filed by amendment.

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EXHIBIT 8.2

[ARGUE PEARSON HARBISON & MYERS, LLP LETTERHEAD]

January , 2002

Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108

Re: Omega Healthcare Investors, Inc.
Qualification as
REAL ESTATE INVESTMENT TRUST

Ladies and Gentlemen:

We have acted as special tax counsel in connection with your proposed rights offering to raise $50 million in new equity capital. You have requested our opinion regarding certain U.S. federal income tax matters relating to the qualification of Omega Healthcare Investors, Inc. (the "Company") as a real estate investment trust.

The Company currently owns interests in healthcare facilities and associated personal property (the "Facilities"), and debt obligations secured by Facilities, directly and through qualified REIT subsidiaries. The Company also owns a 9.9% interest represented by 990,000 ordinary shares in Principal Healthcare Finance Limited, an Isle of Jersey Company, and an 8.0% interest in Principal Healthcare Finance Trust, an Australia Trust. In addition, the Company also owns 100% of the stock of a taxable REIT subsidiary, Omega TRS I, Inc. which holds 1,163,061 (9.45%) of the voting common stock of Omega Worldwide, Inc. ("OWWI") and 260,000 shares of preferred stock of OWWI, and 100% of the nonvoting preferred shares but with no interest in the common shares of Bayside Street II, Inc., also a taxable REIT subsidiary.

In connection with the opinions rendered below, we have examined the following:

1. The Company's Articles of Incorporation, as duly filed with the Department of Assessments and Taxation of the State of Maryland on March 31, 1992, as amended or supplemented by Articles of Amendment and Restatement dated April 16, 1995, Articles of Amendment dated April 26, 1995, Articles Supplementary dated April 25, 1997, Articles Supplementary dated April 23, 1998, Articles of Amendment filed July 19, 1999, and Articles Supplementary dated July 14, 2000;

2. The Company's Bylaws;

3. The minutes or drafts thereof of meetings of the Company's Board of Directors held from January 1, 1998 through September 17, 2001;

4. The Company's Registration Statement No, 333-72750 (Amendment No. 1) (the "Registration Statement");

5. Such other documents as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinions rendered below, we have assumed that:

1. Each of the documents referred to above has been duly authorized, executed, and delivered; is authentic, if an original, or is accurate, if a copy; and has not been amended except as indicated;

2. During its taxable year ending December 31, 1998 and subsequent taxable years, the Company has operated and will continue to operate in such a manner that makes and will

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continue to make the representations contained in a certificate, dated the date hereof and executed by a duly appointed officer of the Company (the "Officer's Certificate"), true for such years;

3. The Company will not make any amendments to its organizational documents, or the organizational documents of the Subsidiaries after the date of this opinion that would negatively affect its qualification as a real estate investment trust (a "REIT") for any taxable year;

4. No action will be taken by the Company or the Subsidiaries after the date hereof that would have the effect of altering the facts upon which the opinions set forth below are based;

5. All of the documents that we have reviewed will be complied with

without waiver;

6. Explorer Holdings, L.P., Explorer Holdings Level II, L.P. and Hampstead Investment Partners III, L.P. are partnerships for purposes of Section 544(a)(1) under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"); and

7. Yale University and The Board of Trustees of Leland Stanford University are not individuals under Section 542(a)(2) of the Internal Revenue Code.

In connection with the opinions rendered below, we have relied upon the correctness of the factual representations contained in the Officer's Certificate. After reasonable inquiry, we are not aware of any facts inconsistent with the representations set forth in the Officer's Certificate. We have relied on a letter from Explorer Holdings, L.P. regarding the ownership of Explorer Holdings, L.P. in the Company (the "Representation Letter"). We have assumed that the stock of the Company held by Explorer Holdings, L.P. and attributed to The State of Oregon Public Employees' Retirement Fund is treated under Section 856 (h)(3) as held directly by its beneficiaries in proportion to their actuarial interests in such fund.

Based on the documents and assumptions set forth above, and subject to the exceptions set forth herein, the representations set forth in the Officer's Certificate and the Representation Letter, we are of the opinion that:

(a) commencing with its taxable year ended December 31, 1998, the Company was organized and has operated in conformity with the requirements for qualifications as a REIT under the Internal Revenue Code,

(b) the transactions contemplated by the Registration Statement will not prevent the Company from continuing to operate in conformity with the requirements for qualifications as a REIT under the Internal Revenue Code.

We will not review on a continuing basis the Company's compliance with the documents or assumptions set forth above, or the representations set forth in the Officer's Certificate and the Representation Letter. Accordingly, no assurance can be given that the actual results of the Company's operations for its 2002 and subsequent taxable years will satisfy the requirements for qualification and taxation as a REIT.

This opinion does not take into account changes in value of the Company's outstanding stock after the date hereof.

The foregoing opinions are based on current provisions of the Code and the Treasury regulations thereunder (the "Regulations"), published administrative interpretations thereof, and published court decisions. The Internal Revenue Service has not issued Regulations or administrative interpretations with respect to various provisions of the Code relating to REIT qualification. No assurance can be given that the law will not change in a way that will prevent the Company from qualifying as a REIT.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other federal tax or other matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter.

We hereby consent to the use of this opinion as Exhibit 8.2 and to the use of our name in the section captioned "MATERIAL UNITED STATES INCOME TAX CONSIDERATIONS" in the Registration Statement. In giving this consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the Rules and Regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

DRAFT

EXHIBIT 10.42

AMENDMENT NO. 4 TO LOAN AGREEMENT

AMENDMENT NO. 4 TO LOAN AGREEMENT (this "FOURTH AMENDMENT"), made and executed this 21st day of December, 2001, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "BORROWER" and collectively, the "BORROWERS"),

The Banks that have executed the signature pages hereto (individually, a "BANK" and collectively, the "BANKS"); and

FLEET NATIONAL BANK, a national banking association, as Agent for the Banks (in such capacity, together with its successors in such capacity, the "AGENT").

PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated June 15, 2000 (as amended by (i) Amendment No. 1 to Loan Agreement dated August 15, 2000, (ii) Amendment No. 2 to Loan Agreement dated November 20, 2000, and (iii) Amendment No. 3 to Loan Agreement dated January 30, 2001, hereinafter referred to as the "LOAN AGREEMENT") with the Agent and the Banks; and

(B) The Borrowers have requested that the Banks and the Agent amend certain provisions of the Loan Agreement, and the Banks and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. DEFINITIONS. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. CERTAIN AMENDMENT TO THE LOAN AGREEMENT.

2.1. Article 1 of the Loan Agreement (Definitions) is hereby deleted in its entirety and the following is substituted therefor:

"ARTICLE 1 DEFINITIONS.

SECTION 2.1. DEFINED TERMS.

As used in this Agreement, the following terms shall have the following meanings:

'ACCRUED CATCH-UP DIVIDENDS': the aggregate accrued but undeclared dividends on Omega's Series A, Series B and Series C Preferred Stock during the period commencing February 1, 2000 through the first date thereafter (the "CATCH-UP DATE") on which Omega shall have declared a dividend on any of such Series A, Series B or Series C Preferred Stock.

'ADDITIONAL COLLATERAL': as defined in subsection 4.1(c) hereof.

'ADDITIONAL COSTS': as defined in subsection 2.19(b) hereof.

'ADDITIONAL ELIGIBLE HEALTHCARE ASSET(S)': as of any date as of which such assets are to be determined, all Facilities of the Borrowers other than:

(i) any Facility which has a Fixed Charge Coverage of less than 1.00 to 1.00; and

(ii) any Facility, if the payment of any Lease Rental Expenses or Mortgage Expenses, as applicable, arising from such Facility, are delinquent in payment for thirty (30) days or more.

'ADDITIONAL EQUITY CONTRIBUTION': as defined in the Investment Agreement.

'ADJUSTED EBITDA': for any period, with respect to Omega on a consolidated basis, determined in accordance with GAAP, the sum of net income (or net loss) for such period PLUS the sum of all amounts treated as expenses for: (a) interest, (b) depreciation, (c) amortization, and (d) all accrued or paid taxes on or measured by income to the extent included in the determination of such net income (or net loss); provided, however, that net income (or net loss) shall be computed without giving effect to extraordinary losses or gains (it being acknowledged that non-cash gains or losses associated with or

resulting from property dispositions or non-cash impairment charges shall be treated as extraordinary); and provided further, however, that the calculation of Adjusted EBITDA (i) for any period during which an Investment or a Disposition was effected shall be determined on a pro forma basis as if such Investment or Disposition were effected on the first day of such period, and (ii) shall not include (A) a one time charge of $11,000,000 related to the settlement of the Karrington Lawsuit (including up to $1,000,000 in legal expenses incurred prior to the Amendment No. 4 Effective Date), (B) $5,000,000 constituting expenses related to the relocation of Omega's headquarters to Baltimore, Maryland, including severance costs incurred in connection therewith, (C) up to $31,000,000 in the aggregate for certain loss/impairment charges satisfactory to the Agent related to certain of Omega's investments, (D) $5,000,000 in the aggregate in connection with litigation settlement charges (in addition to settlement charges relating to the Karrington Lawsuit referred to in clause (A) above) and Medicare charges, (E) up to $12,000,000 in connection with the costs associated with collections of, and reserves taken against, accounts receivable associated with certain Facilities which are owned and operated by Omega and/or certain of its Subsidiaries, (F) up to $5,000,000 in the aggregate related to one time charges incurred by the Borrowers in connection with the termination of certain third party leases, and (G) non-cash charges related to changes in the effect of a change occurring in GAAP or in the application thereof on derivatives (FASB Statement No. 133); provided that with respect to all of the foregoing exclusions contained in clauses (A) through (G), the Borrowers shall submit to the Agent documentation in form and substance satisfactory to the Agent evidencing such exclusions.

'AFFECTED LOANS': as defined in Section 2.22 hereof.

'AFFECTED TYPE': as defined in Section 2.22 hereof.

'AFFILIATE': as to any Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), PROVIDED THAT, in any event: (a) any Person that owns directly or indirectly five (5%) percent or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or five (5%) percent or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person; and (b) each shareholder, director and officer of any Borrower shall be deemed to be an Affiliate of such Borrower.

'AGENCY FEE': as defined in subsection 2.8(c) hereof.

'ALTERNATE BASE RATE': for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16th of 1%) equal to the greater of (a) the Prime Rate in effect on such day, and (b) 0.5% plus the Federal Funds Rate in effect on such day.

'AMENDMENT FEE': as defined in subsection 2.8(a) hereof.

'AMENDMENT NO. 4': Amendment No. 4 to Loan Agreement dated December 21, 2001, by and among the Borrowers the Banks and the Agent.

'AMENDMENT NO. 4 EFFECTIVE DATE': the "Effective Date" as defined in Amendment No. 4.

'APPLICABLE MARGIN':

(i) as at any date of determination thereof through and including December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

<TABLE>
<CAPTION>

LEVERAGE RATIO	APPLICABLE MARGIN FOR PRIME RATE LOANS	APPLICABLE MARGIN FOR LIBOR LOANS
<S>	<C>	<C>
Greater than or equal to 5.0:1.0	1.00%	3.25%
Less than 5.0:1.0 but greater than or equal to 4.5:1.0	0.75%	3.00%

Less than 4.5:1.0 but greater than or equal to 4.0:1.0	0.50%	2.75%
Less than 4.0:1.0	0.25%	2.50%

</TABLE>

(ii) as at any date of determination thereof after December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

<TABLE>
<CAPTION>

LEVERAGE RATIO	APPLICABLE MARGIN FOR PRIME RATE LOANS	APPLICABLE MARGIN FOR LIBOR LOANS
<S>	<C>	<C>
Greater than or equal to 4.0:1.0	1.00%	3.25%
Less than 4.0:1.0	0.75%	3.00%

</TABLE>

The determination of the applicable percentage pursuant to the tables set forth above shall be made on a quarterly basis based on an examination of the financial statements of Omega delivered pursuant to and in compliance with Section 5.1 or Section 5.2 hereof, which financial statements, whether annual or quarterly, shall indicate that there exists no Default or Event of Default hereunder. Each determination of the Applicable Margin shall be effective as of the first day of the calendar month following the date on which the financial statements on which such determination was based were received by the Agent. In the event that financial statements for the four full fiscal quarters most recently completed prior to such date of determination have not been delivered to the Agent in compliance with Section 5.1 or 5.2 hereof, then the Agent may determine, in its reasonable judgment, the ratio referred to above that would have been in effect as at such date, and, consequently, the Applicable Margin in effect for the period commencing on such date. Notwithstanding anything to the contrary contained in this definition, during the period commencing on the date hereof through and including March 31, 2001, the Applicable Margin for Prime Rate Loans shall be 1.00% and the Applicable Margin for LIBOR Loans shall be 3.25%

'APPLICATION(S)': as defined in subsection 2.2(a)(iv) hereof.

'APPRAISAL': an appraisal providing an assessment of the fair market value (using the income and comparable sales approaches to valuation, where applicable) of a Facility (whether appraised on a stand-alone basis or "in bulk" together with similar Facilities, I.E. under a Master Lease), which appraisal is independently and impartially prepared by a nationally recognized appraiser or an appraiser acceptable to the Agent and having substantial experience in the appraisal of health care facilities and conforming to Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

'APPRAISED VALUE': with respect to any Facility, the value of such Facility reflected in the most recent Appraisal prepared with respect to such Facility.

'ARRANGEMENT FEE': as defined in subsection 2.8(c) hereof.

'ASSESSMENT RATE': at any time, the rate (rounded upwards, if necessary, to the nearest 1/100 of one (1%) percent) then charged by the Federal Deposit Insurance Corporation (or any successor) to the Reference Bank for deposit insurance for Dollar time deposits with the Reference Bank at the Principal Office as determined by the Reference Bank.

'ASSIGNMENT AND ACCEPTANCE': an agreement in the form of Exhibit B hereto.

'BENEFICIARY DOCUMENTS': as defined in subsection 2.2(c)(i) hereof.

'BONDS': collectively, the Senior Notes and the Debentures.

'BORROWER MORTGAGE(S)': as defined in subsection 2.10(a)(ii)

hereof.

'BORROWER SECURITY AGREEMENT': as defined in subsection 2.10(a)(i) hereof.

'BORROWING NOTICE': as defined in Section 2.3 hereof.

'BUSINESS DAY': any day other than Saturday, Sunday or any other day on which commercial banks in New York City are authorized or required to close under the laws of the State of New York.

'CAPITAL EXPENDITURES': for any period, the aggregate amount of all payments made or to be made during such period by any Person directly or indirectly for the purpose of acquiring, constructing or maintaining fixed assets, real property or equipment that, in accordance with GAAP, would be added as a debit to the fixed asset account of such Person, including, without limitation, all amounts paid or payable during such period with respect to Capitalized Lease Obligations and interest that are required to be capitalized in accordance with GAAP.

'CAPITALIZED LEASE': any lease, the obligations to pay rent or other amounts under which constitute Capitalized Lease Obligations.

'CAPITALIZED LEASE OBLIGATIONS': as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

'CASH': as to any Person, such Person's cash and cash equivalents, as defined in accordance with GAAP consistently applied.

'CERCLA': the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. section 9601, et seq., as amended from time to time.

'CLOSING DATE': the date specified in a written notice from the Agent on which the last of the conditions precedent to the obligations of the Banks to make the initial Credit Loan to be made hereunder has been fulfilled to the satisfaction of the Agent.

'CODE': the Internal Revenue Code of 1986, as it may be amended from time to time, and the regulations promulgated thereunder.

'COLLATERAL': all of the assets and properties covered by each of the respective Security Documents.

'COLLATERAL COVERAGE': as at the last day of any fiscal quarter, the ratio determined by dividing (x) the sum of Lease Rental Expense and Mortgage Expense payments received from Operators (other than from an Investment which as of the date thereof is delinquent for thirty (30) days or more in payments to the Borrowers (after the application of any security deposit with respect thereto)) by (y) all interest paid or payable on the Credit Loans: with respect to each of clause (x) and clause (y), determined with regard to four fiscal quarters of Omega ending on such day.

'COMMITMENT': as to each Bank, such Bank's Revolving Credit Commitment set forth opposite such Bank's name on the signature pages hereof under the caption "Revolving Credit Commitment" as such amount may be increased or reduced in accordance with the terms hereof.

'COMMITMENT FEE': as defined in subsection 2.8(b) hereof.

'COMMITMENT FEE PERCENTAGE':

(i) as at any date of determination thereof through and including December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

<TABLE>
<CAPTION>

LEVERAGE RATIO	COMMITMENT FEE PERCENTAGE
<S>	<C>
Greater than or equal to 5.0:1.0	0.50%
Less than 5.0:1.0 but	0.45%

greater than or equal to 4.5:1.0	
Less than 4.5:1.0 but greater than or equal to 4.0:1.0	0.35%
Less than 4.0:1.0	0.30%

(ii) as at any date of determination thereof after December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

LEVERAGE RATIO	COMMITMENT FEE PERCENTAGE
Greater than or equal to 4.0:1.0	0.50%
Less than 4.0:1.0	0.40%

The determination of the applicable percentage pursuant to the tables set forth above shall be made on a quarterly basis based on an examination of the financial statements of Omega delivered pursuant to and in compliance with Section 5.1 or Section 5.2 hereof, which financial statements, whether annual or quarterly, shall indicate that there exists no Default or Event of Default hereunder. Each determination of the Commitment Fee Percentage shall be effective as of the first day of the calendar month following the date on which the financial statements on which such determination was based were received by the Agent. In the event that financial statements for the four full fiscal quarters most recently completed prior to such date of determination have not been delivered to the Agent in compliance with Section 5.1 or 5.2 hereof, then the Agent may

determine, in its reasonable judgment, the ratio referred to above that would have been in effect as at such date, and, consequently, the Commitment Fee Percentage in effect for the period commencing on such date. Notwithstanding anything to the contrary contained in this definition, during the period commencing on the date hereof through and including March 31, 2001, the Commitment Fee Percentage shall be 0.50%.

'COMPLIANCE CERTIFICATE': a certificate in the form of Exhibit C annexed hereto, executed by the chief executive officer or chief financial officer of Omega to the effect that: (a) as of the effective date of the certificate, no Default or Event of Default under this Agreement exists or would exist after giving effect to the action intended to be taken by the Borrowers as described in such certificate, including, without limitation, that the covenants set forth in Section 6.9 hereof would not be breached after giving effect to such action, together with a calculation in reasonable detail, and in form and substance satisfactory to the Agent, of such compliance, and (b) the representations and warranties contained in Article 3 hereof are true and with the same effect as though such representations and warranties were made on the date of such certificate, except for changes in the ordinary course of business none of which, either singly or in the aggregate, have had a Material Adverse Effect.

'CONSTRUCTION INVESTMENT(S)': financing extended by Omega with respect to a Facility which is either under construction (i.e., has not received a certificate of occupancy) or in development (i.e., has received a certificate of occupancy or operating license within the preceding eighteen (18) months); provided, however, that a Facility will not be considered to be in development if at least three (3) calendar months have elapsed since the date on which the Facility received a certificate of occupancy and such Facility has a Fixed Charge Coverage of at least 1.10:1.00, with the Fixed Charge Coverage Ratio computed by reference to the most recent three (3) calendar month period.

'CONTROLLED GROUP': all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with Omega, are treated as a single employer under Section 414(b), 414(c) or 414(m) of the Code and Section 4001(a)(2) of ERISA.

'CREDIT LOAN(S)': as defined in Section 2.1 hereof.

'CREDIT PERIOD': the period commencing on the date of this Agreement and ending on the Revolving Credit Commitment Termination

Date.

'DEBENTURES': those certain Subordinated Debentures maturing on February 1, 2001.

'DEBT INSTRUMENT': as defined in subsection 8.4(a) hereof.

'DEFAULT': an event which with notice or lapse of time, or both, would constitute an Event of Default.

'DELTA': Delta Investors II, LLC, a Maryland limited liability company.

'DISPOSITION': the sale, lease, conveyance, transfer or other disposition of any Facility (whether in one or a series of transactions), including first mortgage notes receivable and sale-leaseback transactions.

'DOLLARS' and '$': lawful money of the United States of America.

'EBITDA': for any period, with respect to Omega on a consolidated basis, determined in accordance with GAAP, the sum of net income (or net loss) for such period PLUS, the sum of all amounts treated as expenses for: (a) interest, (b) depreciation, (c) amortization, and (d) all accrued or paid taxes on or measured by income to the extent included in the determination of such net income (or net loss); provided, however, that net income (or net loss) shall be computed without giving effect to extraordinary losses or gains.

'ELIGIBLE ASSIGNEE': a commercial bank or other financial institution organized under the laws of the United States of America or any state and having a combined capital and surplus of at least One Hundred Million ($100,000,000) Dollars.

'ELIGIBLE HEALTHCARE ASSETS': as of any date as of which such assets are to be determined, all Facilities of the Borrowers other than:

(i) any Facility which has a Fixed Charge Coverage of less than 1.25 to 1.00;

(ii) any Construction Investment;

(iii) any Facility which is subject to any Lien other than a Permitted Lien or a Mortgage;

(iv) any Facility, the Operator of which is acceptable to less than the Required Lenders (provided that the Operators listed on Exhibit 2 hereof constitute approved Operators);

(v) any Facility, if the Lease Rental Expense or Mortgage Expense, as the case may be, arising from such Facility, together with all such amounts arising from all other Facilities operated by the Operator of such Facility (including any Affiliates of such Operator but for purposes of this clause (v), neither Lyric Healthcare Holdings, Inc. nor Lyric Healthcare Holdings II, Inc. shall be considered an Affiliate of Integrated Health Services, Inc.) and included in the Collateral, exceeds twenty-five (25%) percent of the aggregate amount of Lease Rental Expense and Mortgage Expense arising from all of the Facilities comprising the Collateral (except that SunBridge Healthcare Corporation may operate Facilities which generate (A) up to thirty-three (33%) percent of the aggregate amount of Lease Rental Expense and Mortgage Expense arising from all of the Facilities comprising the Collateral); or (B) up to thirty-seven (37%) percent of the aggregate amount of Lease Rental Expense and Mortgage Expense arising from all of the Facilities comprising the Collateral in the event that the percentage increase above thirty-three (33%) percent is solely as a result of self-operative escalations contained in the Lease Rental Expense or the Mortgage Expense related to such Facilities);

(vi) any Facility, if the Lease Rental Expense or the Mortgage Expense arising from such Facility, together with the aggregate amount of Lease Rental Expense and Mortgage Expense arising from all other Facilities located in the State in which such Facility is located and included in the Collateral, exceeds twenty-five (25%) percent of the aggregate amount of

Lease Rental Expense and Mortgage Expense arising from all of the Facilities comprising the Collateral;

(vii) any Facility covered by a Mortgage, if the Mortgage Expense arising from such Facility, together with the Mortgage Expense arising from each other Facility covered by a Mortgage which is included in the Collateral, exceeds thirty-seven (37%) percent of the Lease Rental Expense and Mortgage Expense arising from all of the Facilities comprising the Collateral; and

(viii) any Facility covered by a Master Lease if the termination date of the Lease with respect to such Facility is earlier than the Revolving Credit Commitment Termination Date or any Facility covered by a mortgage if the maturity date of such Mortgage is earlier than the Revolving Credit Commitment Termination Date.

Notwithstanding clause (i) above, with respect to Pooled Facilities comprised of two (2) or more properties, any individual Facility which has a Fixed Charge Coverage of less than 1.25 to 1.00 may be included in the computation of Eligible Healthcare Assets if (1) the aggregate Fixed Charge Coverage of the Pooled Facilities which are to be treated as Eligible Healthcare Assets and of which such Facility is a part is greater than or equal to 1.25 to 1.00, and (2) each individual Facility which is a part of such Pooled Facilities which are to be treated as Eligible Healthcare Assets (other than SunBridge Care & Rehab for Lexington, SunBridge Care & Rehab for Coalinga and SunHealth Robert H. Ballard Rehab Hospital) has a Fixed Charge Coverage of not less than .50 to 1.00.

'EMPLOYEE BENEFIT PLAN': any employee benefit plan within the meaning of Section 3(3) of ERISA which is subject to ERISA and (a) is maintained for employees of Omega, or (b) with respect to which any Loan Party has any liability.

'ENVIRONMENTAL LAWS AND REGULATIONS': all federal, state and local environmental laws, regulations, ordinances, orders, judgments and decrees applicable to the Borrowers or any other Loan Party, or any of their respective assets or properties.

'ENVIRONMENTAL LIABILITY': any liability under any applicable Environmental Laws and Regulations for any disposal, release or threatened release of a hazardous substance pollutant or contaminant as those terms are defined under CERCLA, and any liability which would require a removal, remedial or response action, as those terms are defined under CERCLA, by any person or by any environmental regulatory body having jurisdiction over Omega and its Subsidiaries and/or any liability arising under any Environmental Laws and Regulations for Omega's or any Subsidiary's failure to comply with such laws and regulations, including without limitation, the failure to comply with or obtain any applicable environmental permit.

'ENVIRONMENTAL PROCEEDING': any judgment, action, proceeding or investigation pending before any court or governmental authority, with respect to Omega or any Subsidiary and arising under or relating to any Environmental Laws and Regulations.

'EQUITY CONTRIBUTION': as defined in subsection 4.1(d) hereof.

'ERISA': the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and the regulations promulgated thereunder.

'ERISA AFFILIATE': as applied to any Loan Party, any corporation, person or trade or business which is a member of a group which is under common control with any Loan Party, who together with any Loan Party, is treated as a single employer within the meaning of Section 414(b) - (o) of the Code and, if applicable, Section 4001(a)(14) and (b) of ERISA.

'EVENT OF DEFAULT': as defined in Article 8 hereof.

'FACILITY': a health care facility offering health care-related products and services, including any acute care hospital, rehabilitation hospital, nursing home, retirement center, long-term care facility, assisted living facility, or medical office building, and facilities directly related thereto.

'FEDERAL FUNDS RATE': for any day, the weighted average of the rates on overnight federal funds transactions with member banks of the Federal Reserve System arranged by federal funds brokers as published by the Federal Reserve Bank of New York for such day, or if such day is

not a Business Day, for the next preceding Business Day (or, if such rate is not so published for any such day, the average rate charged to the Agent on such day on such transactions as reasonably determined by the Agent).

'FEE(S)': as defined in subsection 2.8(e) hereof.

'FINANCIAL STATEMENTS': the audited Consolidated Balance Sheets of Omega and its Subsidiaries as of December 31, 1999 and the related audited Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for the fiscal year then ended, certified by Ernst & Young.

'FIXED CHARGE COVERAGE': with respect to any Facility, the ratio of: (x) pre-tax net income plus Mortgage Expense (but excluding therefrom any amounts relating to principal), Lease Rental Expense, depreciation and amortization on the Facility and actual management fees paid to any Operator of such Facility less an imputed management fee equal to four (4%) percent of the net revenues of the Facility, to (y) the sum of Lease Rental Expense and Mortgage Expense; all of the foregoing calculated as at any date of determination thereof by reference to the four (4) fiscal quarters ended on such date of determination and based upon the financial statements (or cost reports, as the case may be) provided to Omega by each Operator for such four (4) fiscal quarters of each Operator (or if such financial statements or cost reports have not been so delivered to Omega, then based upon the financial statements or cost reports covering the most recent available four (4) fiscal quarters of any such Operator.

'FLEET': Fleet National Bank, a national banking association, in its capacity as a Bank or L/C Issuer hereunder.

'FUNDED INDEBTEDNESS': as of any date of determination, all Indebtedness for borrowed money (which in any event does not include accounts payable and accrued liabilities) of Omega on a consolidated basis including, in any event, the Credit Loans.

'GAAP': generally accepted accounting principles, as in effect in the United States.

'GRADUATE SALE': as defined in subsection 2.8(a)(i)(B) hereof.

'GRANTORS': as defined in subsection 2.10(a)(i) hereof.

'HAZARDOUS MATERIALS': any toxic chemical, hazardous substances, contaminants or pollutants, medical wastes, infectious wastes, or hazardous wastes.

'HEALTHCARE ASSETS': as of any date as of which the amount thereof is to be determined, the aggregate amount equal to the sum of:

(i) the Appraised Value of each Facility owned entirely by a Borrower and leased to an Operator; plus

(ii) the lesser of the Appraised Value of any Facility encumbered by a Mortgage or the outstanding principal amount of the Mortgage which encumbers any such Facility.

'INDEBTEDNESS': with respect to any Person, all: (a) liabilities or obligations, direct and contingent, which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person at the date as of which Indebtedness is to be determined, including, without limitation, contingent liabilities that in accordance with such principles, would be set forth in a specific Dollar amount on the liability side of such balance sheet, and Capitalized Lease Obligations of such Person; (b) liabilities or obligations of others for which such Person is directly or indirectly liable, by way of guaranty (whether by direct guaranty, suretyship, discount, endorsement, take-or-pay agreement, agreement to purchase or advance or keep in funds or other agreement having the effect of a guaranty) or otherwise; (c) liabilities or obligations secured by Liens on any assets of such Person, whether or not such liabilities or obligations shall have been assumed by it; and (d) liabilities or obligations of such Person, direct or contingent, with respect to letters of credit issued for the account of such Person and bankers acceptances created for such Person.

'INITIAL COLLATERAL': as defined in subsection 4.1(c) hereof.

'INTEREST COVERAGE': as at the last day of any fiscal quarter, the ratio, determined by dividing Adjusted EBITDA by Interest Expense; all of the foregoing calculated by reference to the immediately preceding four (4) fiscal quarters of Omega ending on such date of

determination, but excluding interest on the Debentures and any other

Indebtedness repaid with the proceeds of the Equity Contribution, the Additional Equity Contribution, or the Second Additional Equity Contribution.

'INTEREST EXPENSE': for any period, on a combined basis, the sum of all interest paid or payable (excluding unamortized debt issuance costs) on all items of Indebtedness of Omega on a consolidated basis outstanding at any time during such period.

'INTEREST PERIOD': with respect to any LIBOR Loan, each period commencing on the date such Loan is made or converted from a Loan or Loans of another Type into a LIBOR Loan, or the last day of the next preceding Interest Period with respect to such Loan, and ending on the same day 1, 2, 3 or 6 months thereafter, as the Borrowers may select as provided in Section 2.3 hereof, except that each such Interest Period which commences on the last LIBOR Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last LIBOR Business Day of the appropriate subsequent calendar month.

Notwithstanding the foregoing: (a) each Interest Period that would otherwise end on a day which is not a LIBOR Business Day shall end on the next succeeding LIBOR Business Day (or, if such next succeeding LIBOR Business Day falls in the next succeeding calendar month, on the next preceding LIBOR Business Day); (b) with respect to LIBOR Loans, no more than six (6) Interest Periods for Credit Loans shall be in effect at the same time; (c) any Interest Period relating to a Credit Loan that commences before the Revolving Credit Commitment Termination Date shall end no later than the Revolving Credit Commitment Termination Date; and (d) notwithstanding clause (c) above, no Interest Period shall have a duration of less than one month. In the event that the Borrowers fail to select the duration of any Interest Period for any LIBOR Loan within the time period and otherwise as provided in Section 2.3 hereof, such LIBOR Loans will be automatically converted into a Prime Rate Loan on the last day of the preceding Interest Period for such LIBOR Loan.

'INTEREST RATE CONTRACTS': interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate insurance and other agreements or arrangements designed to provide protection against fluctuation in interest rates, in each case, in form and substance satisfactory to the Agent and, in each case, with counter-parties satisfactory to the Agent.

'INVESTMENT': a Facility or a Mortgage, individually or collectively, as the case may be.

'INVESTMENT AGREEMENT': the Investment Agreement dated as of May 11, 2000 by and between Omega and Explorer Holdings, L.P., a Delaware limited partnership.

'ISSUANCE REQUEST': as defined in subsection 2.2(a) hereof.

'JUNE 2002 NOTES': those certain 6.95% Senior Unsecured Notes in the original principal amount of $125,000,000, maturing June, 2002.

'KARRINGTON LAWSUIT': that certain lawsuit styled KARRINGTON HEALTH, INC. V. OMEGA HEALTHCARE INVESTORS, INC. originally filed in the Common Pleas Court of Franklin County, Ohio, and subsequently removed to the United States District Court for the Southern District of Ohio, Eastern Division, which lawsuit and all claims arising therefrom were settled in full by Omega on August 13, 2001 without admission of any liability or fault by Omega.

'LATEST BALANCE SHEET': as defined in subsection 3.9(a) hereof.

'L/C(S)': any irrevocable letter of credit issued by the L/C Issuer for the account of the Borrowers pursuant to subsection 2.2(a) hereof, in each case, as amended, supplemented or modified from time to time.

'L/C DOCUMENTS': as defined in subsection 2.2(a) hereof.

'L/C FEE': as defined in subsection 2.8(d) hereof.

'L/C FEE PERCENTAGE':

(i) as at any date of determination thereof through and including December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

<TABLE>
<CAPTION>

LEVERAGE RATIO	L/C FEE PERCENTAGE
<S>	<C>
Greater than or equal to 5.0:1.0	3.25%
Less than 5.0:1.0 but greater than or equal to 4.5:1.0	3.00%
Less than 4.5:1.0 but greater than or equal to 4.0:1.0	2.75%
Less than 4.0:1.0	2.50%

</TABLE>

(ii) as at any date of determination thereof after December 31, 2002, the applicable percentage set forth below opposite the Leverage Ratio as at such date of determination:

<TABLE>
<CAPTION>

LEVERAGE RATIO	L/C FEE PERCENTAGE
<S>	<C>
Greater than or equal to 4.0:1.0	3.25%
Less than 45.0:1.0	3.00%

</TABLE>

The determination of the applicable percentage pursuant to the tables set forth above shall be made on a quarterly basis based on an examination of the financial statements of Omega delivered pursuant to and in compliance with Section 5.1 or Section 5.2 hereof, which financial statements, whether annual or quarterly, shall indicate that there exists no Default or Event of Default hereunder. Each determination of the L/C Fee Percentage shall be effective as of the first day of the calendar month following the date on which the financial statements on which such determination was based were received by the Agent. In the event that financial statements for the four full fiscal quarters most

recently completed prior to such date of determination have not been delivered to the Agent in compliance with Section 5.1 or 5.2 hereof, then the Agent may determine, in its reasonable judgment, the ratio referred to above that would have been in effect as at such date, and, consequently, the L/C Fee Percentage in effect for the period commencing on such date. Notwithstanding anything to the contrary contained in this definition, during the period commencing on the date hereof through and including March 31, 2001, the L/C Fee Percentage shall be 3.25%.

'L/C ISSUER': Fleet in its individual capacity as issuer of L/Cs under this Agreement.

'L/C OBLIGATIONS': as at any date, an amount equal to: (a) the aggregate stated amount (reduced by any partial drawing) of all L/Cs, PLUS (b) all Unpaid Drawings.

'LEASE RENTAL EXPENSE': for any period and with respect to any Facility, the total amount payable during such period by the lessee of such Facility to any Borrower, including, without limitation, (a) base rent (as adjusted from time to time), plus (b) all incremental charges to which the Facility is subject under the lease relating thereto.

'LENDING OFFICE': with respect to each Bank, with respect to each Type of Loan, the Lending Office as designated for such Type of Loan below its name on the signature pages hereof or such other office of such Bank or of an affiliate of such Bank as it may from time to time specify to the Agent and the Borrowers as the office at which its Loans of such Type are to be made and maintained.

'LEVERAGE RATIO': as of any date of determination thereof, the quotient of (a) Funded Indebtedness as of such date DIVIDED by (b) Adjusted EBITDA for the period of four consecutive fiscal quarters

ending on, or most recently before, such date.

'LIBOR BASE RATE': with respect to any LIBOR Loan, for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/16 of one (1%) percent) quoted by the Reference Bank at approximately 11:00 a.m. London time (or as soon thereafter as practicable) two (2) LIBOR Business Days prior to the first day of such Interest Period as the rate at which the Reference Bank is offered deposits in the applicable Permitted Currency in the London interbank market where the LIBOR and foreign currency and exchange operations of the Reference Bank are customarily conducted, having terms of one (1), two (2), three (3) or six (6) months and in an amount comparable to the principal amount of the LIBOR Loan to be made by the Banks to which such Interest Period relates.

'LIBOR BUSINESS DAY': a Business Day on which dealings in Dollar deposits and pounds sterling are carried out in the London interbank market.

'LIBOR LOAN(S)': any Credit Loan the interest on which is determined on the basis of rates referred to in the definition of "LIBOR Base Rate" in this Article 1.

'LIBOR RATE': for any LIBOR Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of one (1%) percent) determined by the Agent to be equal to: (a) the LIBOR Base Rate for such Loan for such

Interest Period; DIVIDED BY (b) one (1) MINUS the Reserve Requirement for such Loan. The Agent shall use its best efforts to advise the Borrower of the LIBOR Rate as soon as practicable after each change in the LIBOR Rate; PROVIDED, HOWEVER, that the failure of the Agent to so advise the Borrower on any one or more occasions shall not affect the rights of the Banks or the Agent or the obligations of the Borrowers hereunder.

'LIEN': any mortgage, deed of trust, pledge, security interest, encumbrance, lien, claim or charge of any kind (including any agreement to give any of the foregoing), any conditional sale or other title retention agreement, any lease in the nature of any of the foregoing, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction.

'LOAN(S)': as defined in subsection 2.1(b) hereof. Loans of different Types made or converted from Loans of other Types on the same day (or of the same Type but having different Interest Periods) shall be deemed to be separate Loans for all purposes of this Agreement.

'LOAN DOCUMENTS': this Agreement, the Notes, the Security Documents, the L/C Documents, Amendment No. 4, all Interest Rate Contracts and all other documents executed and delivered in connection herewith or therewith, including all amendments, modifications and supplements of or to all such documents.

'LOAN PARTY': each Borrower and any other Person (other than the Banks and the Agent) which now or hereafter executes and delivers to any Bank or the Agent any Loan Document.

'LTV RATIO': as at any date of determination thereof, the ratio of (i) the aggregate principal amount of all Credit Loans then outstanding PLUS all L/C Obligations, at such date, to (ii) the Appraised Value of the Facilities comprising the Collateral at such date (which, in any event, shall not include any Facility, if the payment of any Lease Rental Expenses or Mortgage Expenses, as applicable, arising from such Facility, are delinquent in payment for thirty (30) days or more (AFTER THE APPLICATION OF ANY SECURITY DEPOSIT WITH RESPECT THERETO)).

'MANDATORY BORROWING': as defined in subsection 2.2(b)(ii) hereof.

'MASTER LEASE': any lease pursuant to which a Borrower leases to an Operator one or more Facilities.

'MATERIAL ADVERSE EFFECT': any fact or circumstance which (a) materially and adversely affects the business, operation, property or financial condition of the Borrowers taken as a whole, or (b) has a material adverse effect on the ability of the Borrowers to perform their respective obligations under this Agreement, the Notes or the other Loan Documents.

'MORTGAGE(S)': mortgages of real property constituting a Facility for which any Borrower is the mortgagee.

'MORTGAGE EXPENSE': for any period and with respect to any Facility, the total amount payable during such period by the mortgagor of such Facility to any Borrower, including, without limitation, (a) interest and principal (as adjusted from time to time) plus (b) all incremental charges to which the Facility is subject under the mortgage.

'MULTIEMPLOYER PLAN': a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which any Loan Party or any ERISA Affiliate is making, or is accruing an obligation to make, contributions or has made, or been obligated to make, contributions within the preceding six (6) years.

'NET ISSUANCE PROCEEDS': in respect of any issuance of Indebtedness or equity, the proceeds in Cash received by Omega or any of its Subsidiaries upon or simultaneously with such issuance, net of any payments of any outstanding Indebtedness and any direct costs of such issuance and any taxes paid or payable by the recipient of such proceeds.

'NET LOSS': with respect to any period, the excess, if any of: (i) the aggregate amount of expenses of Omega on a consolidated basis, over (ii) the aggregate amount of revenues of Omega on a consolidated basis, in each case, during such period, as to all of the foregoing, as determined in accordance with GAAP.

'NET PROCEEDS': in respect of any Disposition, the proceeds in Cash received by any of the Borrowers upon or simultaneously with such Disposition, net of (i) direct costs of such Disposition, (ii) any taxes paid or payable by the recipient of such proceeds, and (iii) amounts required to be applied to repay any Indebtedness secured by a lien on the asset which is the subject of the Disposition.

'NEW PROVIDENT LOAN AGREEMENT': that certain Loan Agreement dated on or about August 11, 2000 among Omega, certain of its Subsidiaries, the lenders party thereto and The Provident Bank, as Agent for such lenders, as the same may have been and may hereafter be amended from time to time during the term of this Agreement.

'NEW TYPE LOANS': as defined in Section 2.22 hereof.

'1997 LOAN AGREEMENT': the Second Amended and Restated Loan Agreement, dated September 30, 1997, by and among the Borrowers listed on Exhibit 1 thereto, the Agent and the banks party thereto, as amended from time to time.

'NOTE(S)': as defined in subsection 2.5(a) hereof.

'NRS': NRS Ventures, L.L.C., a Kentucky limited liability company.

'OBLIGATIONS': collectively, all of the Indebtedness of the Borrowers to the Banks (and affiliates thereof in connection with Interest Rate Contracts) and the Agent, whether now existing or hereafter arising, whether or not currently contemplated, including, without limitation, those arising under or in relation to the Loan Documents.

'OMEGA': Omega Healthcare Investors, Inc., a Maryland corporation.

'OMEGA'S FIXED COVERAGE RATIO': as at the last day of any fiscal quarter, with respect to the immediately preceding four (4) fiscal quarters of Omega ending on such date, the ratio of (x) Adjusted EBITDA, to (y) the sum of Interest Expense, and Cash dividends

'OPERATOR': (a) the lessee of any Facility owned or leased by a Borrower, and (b) the mortgagor of a Facility which is subject to a Mortgage to the extent that such entity controls the operation of the Facility.

'PAYOR': as defined in Section 2.16 hereof.

'PBGC': Pension Benefit Guaranty Corporation.

'PERMITTED LIENS': as to any Person: (a) pledges or deposits by such Person under workers' compensation laws, unemployment insurance laws, social security laws, or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness of such Person), or leases to which such

Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of Cash or United States Government Bonds to secure surety, appeal, performance or other similar bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent; (b) liens imposed by law, including without limitation, carriers', warehousemen's, materialmen's and mechanics' liens, or liens arising out of judgments or awards or judicial attachment liens against such Person with respect to which such Person at the time shall currently be prosecuting an appeal or proceedings for review; (c) liens for taxes not yet subject to penalties for non-payment and liens for taxes the payment of which is being contested as permitted by Section 6.6 hereof; (d) non-consensual liens that have been bonded within thirty (30) days after notice of such lien(s) by a Person (not an Affiliate of a Borrower) reasonably satisfactory to the Required Banks in an aggregate amount secured by all such liens not in excess of $5,000,000; and (e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of, others for rights of way, highways and railroad crossings, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, or Liens incidental to the conduct of the business of such Person or to the ownership of such Person's property that were not incurred in connection with Indebtedness of such Person, all of which Liens referred to in this clause (e) do not in the aggregate materially impair the value of the properties to which they relate or materially impair their use in the operation of the business taken as a whole of such Person, and as to all the foregoing only to the extent arising and continuing in the ordinary course of business.

'PERSON': an individual, a corporation, a partnership, a joint venture, a trust or unincorporated organization, a joint stock company or other similar organization, a government or any political subdivision thereof, a court, or any other legal entity, whether acting in an individual, fiduciary or other capacity.

'PLAN': at any time an employee pension benefit plan that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either: (a) maintained by Omega or any member of the Controlled Group for

employees of Omega, or by Omega for any other member of such Controlled Group, or (b) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which Omega or any member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

'POOLED FACILITIES': Facilities which are (i) leased by a Borrower to an Operator or Operators pursuant to a single Master Lease, or (ii) commonly owned by an Operator or Operators, the Mortgages on which are held by a Borrower to secure a single loan.

'POST-DEFAULT RATE': (a) in respect of any Loans, a rate per annum equal to: (i) if such Loans are Prime Rate Loans, two (2%) percent above the Alternate Base Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans, or (ii) if such Loans are LIBOR Loans, two (2%) percent above the rate of interest in effect thereon at the time of the Event of Default that resulted in the Post-Default Rate being instituted until the end of the then current Interest Period therefor and, thereafter, two (2%) above the Alternate Base Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans; and (b) in respect of other amounts payable by the Borrowers hereunder (other than interest), equal to two (2%) above the Alternate Base Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans.

'PRIME RATE': the variable per annum rate of interest so designated from time to time by Fleet as its prime rate. Notwithstanding the foregoing, the Borrowers acknowledge that the Prime Rate is a reference rate and Fleet may regularly make domestic commercial loans at rates of interest less than the rate of interest referred to in the preceding sentence. Each change in any interest rate provided for herein based upon the Prime Rate resulting from a change in the Prime Rate shall take effect at the time of such change in the Prime Rate.

'PRIME RATE LOANS': Loans that bear interest at a rate based upon the Alternate Base Rate.

'PRINCIPAL OFFICE': the office of Fleet presently located at 1185 Avenue of the Americas, New York, New York 10036.

'PROJECTIONS': (a) the annual cash flow projections relating

to Omega and its Subsidiaries for the years ending December 31, 2001 and 2002, and (b) the quarterly cash flow projections relating to Omega and its Subsidiaries for the period commencing April 1, 2000 through and including March 31, 2001, in each case including balance sheets and statements of operations (together with related assumptions) as furnished by Omega to the Agent.

'PROPERTY': any estate or interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

'QUARTERLY DATES': the first day of each October, January, April and July, the first of which shall be the first such day after the date of this Agreement, PROVIDED THAT, if any such date is not a LIBOR Business Day, the relevant Quarterly Date shall be the next succeeding LIBOR Business Day (or, if the next succeeding LIBOR Business Day falls

in the next succeeding calendar month, then on the next preceding LIBOR Business Day).

'REFERENCE BANK": a bank appearing on the display designated as page "LIBOR" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBOR page on that service for the purpose of displaying London interbank offered rates of major banks); provided, that, if no such offered rate shall appear on such display, "Reference Bank" shall mean a bank in the London interbank market as selected by the Agent.

'REGULATION D': Regulation D of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time.

'REGULATORY CHANGE': as to any Bank, any change after the date of this Agreement in United States federal, or state, or foreign, laws or regulations (including Regulation D and the laws or regulations that designate any assessment rate relating to certificates of deposit or otherwise (including the "Assessment Rate" if applicable to any Loan)) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks, including such Bank, of or under any United States federal, or state, or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

'REIT STATUS': with respect to any Person, (a) the qualification of such Person as a real estate investment trust under Sections 856 through 860 of the Code, and (b) the applicability to such Person and its shareholders of the method of taxation provided for in Sections 857 ET SEQ. of the Code.

'REQUIRED BANKS': at any time, Banks having at least 66-2/3% of the Total Revolving Credit Commitment hereunder, or if the Total Revolving Credit Commitment has been terminated at such time, Banks having at least 66-2/3% of the aggregate principal amount of Loans and L/C Obligations, in each case then outstanding.

'REQUIRED PAYMENT': as defined in Section 2.16 hereof.

'RESERVE REQUIREMENT': for any LIBOR Loans as to which interest is payable hereunder, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding One Billion ($1,000,000,000) Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against: (a) any category of liabilities which includes deposits by references to which the LIBOR Rate for LIBOR Loans is to be determined as provided in the definition of "LIBOR Base Rate" in this Article 1, or (b) any category of extensions of credit or other assets which include LIBOR Loans.

'REVOLVING CREDIT COMMITMENT': as to each Bank, the obligation of such Bank to make Credit Loans and/or participate in the Letter of Credit Documents issued on behalf of the Borrowers hereunder in the aggregate amount, if any, set forth opposite such Bank's name on the signature pages hereof under the caption "Revolving Credit Commitment" as such amount is subject to increase or reduction in accordance with

the terms hereof.

'REVOLVING CREDIT COMMITMENT TERMINATION DATE': December 31, 2003.

'SECOND ADDITIONAL EQUITY CONTRIBUTION': a contribution to the capital of Omega of not less than $50,000,000 in gross cash proceeds pursuant to documentation in form and substance satisfactory to the Agent.

'SECURITY DOCUMENTS': as defined in subsection 2.10(b) hereof.

'SENIOR NOTES': those certain Senior Unsecured Notes maturing July 15, 2000.

'SUBSIDIARY": with respect to any Person, any corporation, partnership, limited liability company, joint venture or other entity, whether now existing or hereafter organized or acquired: (a) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by such Person and/or one or more Subsidiaries of such Person, (b) in the case of a partnership, limited liability company or other entity, in which such Person is a general partner or managing member or of which a majority of the partnership or other equity interests are at the time owned by such Person and/or one or more of its Subsidiaries, or (c) in the case of a joint venture, in which such Person is a joint venturer and of which a majority of the ownership interests are at the time owned by such Person and/or one or more of its Subsidiaries. Unless the context otherwise requires, references in this Agreement to "Subsidiary" or "Subsidiaries" shall be deemed to be references to a Subsidiary or Subsidiaries of Omega.

'TANGIBLE NET WORTH': the sum of capital surplus, earned surplus and capital stock, MINUS deferred charges, intangibles and treasury stock, all as determined in accordance with GAAP consistently applied.

'TOTAL REVOLVING CREDIT COMMITMENT': the aggregate obligation of the Banks to make Credit Loans and/or issue or participate in the L/C Documents hereunder up to the aggregate amount of One Hundred Sixty Million ($160,000,000) Dollars, as such amount may be increased or reduced in accordance with the terms hereof.

'TYPE': refers to the characteristics of a Loan as a Prime Rate Loan or a LIBOR Loan for a particular Interest Period. All Prime Rate Loans are of the same Type. All LIBOR Loans with identical interest rates and Interest Periods are of the same Type. All other Loans are of different Types. Interest Periods are identical if they begin and end on the same days.

'UNPAID DRAWINGS': any payment or disbursement made by the L/C Issuer with respect to a L/C and not reimbursed by the Borrowers.

'UNUSED COMMITMENT': as at any date, for each Bank, the difference, if any, between: (a) the amount of such Bank's Revolving Credit Commitment, as in effect on such date, and (b) the then aggregate outstanding principal amount of all Credit Loans made by such Bank and such Bank's PRO RATA share of all L/C Obligations.

SECTION 1.2 GAAP.

Any accounting terms used in this Agreement that are not specifically defined herein shall have the meanings customarily given to them in accordance with GAAP as in effect on the date of this Agreement, except that references in Article 5 to such principles shall be deemed to refer to such principles as in effect on the date of the financial statements delivered pursuant thereto."

2.2. Article 2 of the Loan Agreement (Commitments; Loans; Letters of Credit; Collateral) is hereby deleted in its entirety and the following is substituted therefor:

"ARTICLE 2 COMMITMENTS; LOANS; LETTERS OF CREDIT; COLLATERAL.

SECTION 2.1. LOANS.

Each Bank hereby severally agrees, on the terms and subject to the conditions of this Agreement and Amendment No. 4, to make loans (individually a 'CREDIT LOAN', collectively, the 'CREDIT LOANS') to the Borrowers during the Credit Period to and including the Revolving Credit Commitment Termination Date in an aggregate principal amount at any one time outstanding up to, but not exceeding, the Revolving Credit

Commitment of such Bank as then in effect; PROVIDED, HOWEVER, that the sum of (x) the aggregate principal amount of Credit Loans, plus (y) L/C Obligations, in each case, at any one time outstanding, shall not exceed the Total Revolving Credit Commitment, as then in effect. Subject to the terms of this Agreement, including the borrowing limitation referred to above, during the Credit Period the Borrowers may borrow, repay and reborrow Credit Loans. The Credit Loans shall be in amounts up to an aggregate outstanding principal amount at any one time of One Hundred Sixty Million and 00/100 ($160,000,000.00) Dollars.

SECTION 2.2. LETTERS OF CREDIT.

(a) ISSUANCE.

(i) Subject to the terms and conditions of this Agreement, the Borrowers may request that the L/C Issuer, in its individual capacity, issue L/Cs to beneficiaries designated by the Borrowers pursuant to an Application and other documentation in form and substance satisfactory to the L/C Issuer (collectively, the 'L/C DOCUMENTS'). Each L/C shall be deemed to be a utilization of the Revolving Credit Commitment of each Bank in an amount equal to each Bank's PRO RATA share of the stated amount of each L/C.

(ii) Each L/C Document shall provide that drafts drawn thereunder shall be payable on sight (but in no event later than the Revolving Credit Commitment Termination Date). The maximum aggregate stated amount of L/C's issued and

outstanding at any one time hereunder shall not exceed Fifteen Million ($15,000,000) Dollars and all L/C's shall be denominated in Dollars.

(iii) The Borrowers shall give notice to the L/C Issuer of a request for issuance of any L/C not less than ten (10) Business Days prior to the proposed issuance date (which prescribed time period may be waived at the option of the L/C Issuer in the exercise of its sole discretion). Each such notice (an 'ISSUANCE REQUEST') shall specify: (1) the requested date of such issuance (which shall be a Business Day); (2) the maximum stated amount of such L/C; (3) the expiration date of such L/C; (4) the purpose of such L/C; (5) the name and address of the beneficiary of such L/C; and (6) the required documents under any such L/C.

(iv) Each L/C shall be issued by the L/C Issuer, subject to the payment by the Borrowers of the standard issuance fees and charges customarily imposed by the L/C Issuer in connection with the issuance thereof, pursuant to the L/C Issuer's standard form of application for such L/C Documents (each, an 'APPLICATION' and collectively, the 'APPLICATIONS') executed by the Borrowers. In the event that any term or condition set forth in any Application shall be inconsistent with the terms and conditions of this Agreement, the terms and conditions herein set forth shall prevail.

(v) Notwithstanding the foregoing, the L/C Issuer shall not be under any obligation to issue any L/C Document if at the time of such issuance any order, judgment or decree of any governmental authority or arbitrator shall purport by its terms to enjoin or restrain the L/C Issuer from issuing such L/C Documents or any requirement of law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from the issuance of letters of credit generally or any such L/C Documents in particular, or shall impose upon the L/C Issuer with respect to any L/C Documents any requirement (for which the L/C Issuer is not otherwise compensated) not in effect on the date hereof.

(b) REPAYMENT; MANDATORY BORROWINGS.

(i) The Borrowers shall be obligated pursuant to each Application to reimburse the L/C Issuer immediately in immediately available funds at the Principal Office for sight drafts drawn under any L/C Document.

(ii) If any drawing under a L/C shall not be reimbursed on the date when due, provided that an event of the type set forth in subsection 8.6(a) has not occurred, the Borrowers' reimbursement obligation in respect of such Unpaid Drawing shall be funded on such date with the borrowing of a Credit Loan (each such borrowing a 'MANDATORY BORROWING') in the full amount of the Unpaid Drawings from all Banks based on each Bank's PRO RATA share of the Total Revolving Credit Commitment. The L/C Issuer shall promptly notify the Agent of the amount of such Unpaid Drawings and the Agent shall promptly notify the Banks of the amount of each such Mandatory

Borrowing not later than 12:00 noon (New York City time) on the date on which such Mandatory Borrowing is to be made. Provided that an event of the type set forth in subsection 8.6(a) has not occurred, each such Bank hereby irrevocably agrees to make Credit Loans

pursuant to each Mandatory Borrowing in the amount, and not later than 5:00 p.m. (New York City time), on the date, and in the manner specified in the preceding sentence, notwithstanding that the amount of the Mandatory Borrowing may not comply with the minimum amount for borrowings otherwise required hereunder. In the event that the Agent delivers the above-described notice to any Bank later than 12:00 noon (New York City time) on the date of the required Mandatory Borrowing, then such Bank shall not be obligated to effect such Mandatory Borrowing until the next succeeding Business Day (but not later than 5:00 p.m. (New York City time)).

(iii) Notwithstanding the foregoing, in the event that at any time when a draft is drawn under a L/C Document, there are not sufficient funds in any account of the Borrowers with the L/C Issuer or sufficient availability to permit creation of Credit Loans sufficient to fund payment of the draft(s) in accordance with its terms, any funds advanced by the L/C Issuer and the other Banks in payment thereof shall be due and payable immediately and shall bear interest until paid in full at the Post-Default Rate, such interest to be payable on demand. In the event of any conflict or discrepancy between the terms provided herein and the terms established by the L/C Issuer in its Application or otherwise and this Loan Agreement, the terms provided herein shall prevail.

(c) GENERAL UNCONDITIONAL OBLIGATIONS. The obligations of the Borrowers under this Agreement, the Applications and any other agreement, instrument or document relating to reimbursement or payment of Unpaid Drawings shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the L/C Documents, under all circumstances whatsoever, including, without limitation, the following circumstances, whether relating to any one or more L/C Documents:

(i) any agreement between the Borrower(s) and any beneficiary or any agreement or instrument relating thereto (the 'BENEFICIARY DOCUMENTS') proving to be forged, fraudulent, invalid, unenforceable or insufficient in any respect;

(ii) any amendment or waiver of or any consent to departure from all or any of the Beneficiary Documents;

(iii) the existence of any claim, setoff, defense or other rights which the Borrower(s) may have at any time against any beneficiary or any transferee of any L/C Document (or any persons or entities for whom any beneficiary or any such transferee may be acting), the L/C Issuer, any other Bank, the Agent or any other person or entity, whether in connection with the Agreement, the Beneficiary Documents or any unrelated transaction;

(iv) any demand presented under any L/C Document (or any endorsement thereon) proving to be forged, fraudulent, invalid, unenforceable or insufficient in any respect or any statement therein being inaccurate in any respect whatsoever;

(v) the use to which any L/C Document may be put or any acts or omission of any beneficiary in connection therewith; or

(vi) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing.

(d) PARTICIPATIONS BY BANKS.

(i) On the date of issuance of each L/C, the L/C Issuer thereof shall be deemed irrevocably and unconditionally to have sold and transferred to each Bank (excluding, for all purposes of this paragraph (i), the L/C Issuer, which shall retain a portion equal to its PRO RATA share of its Revolving Credit Commitment) without recourse or warranty, and each Bank shall be deemed to have irrevocably and unconditionally purchased and accepted from the L/C Issuer, an undivided interest and participation, to the extent of such Bank's PRO RATA share of Revolving Credit Commitment, in effect on the date of such issuance, in such L/C, each substitute therefor, each drawing made thereunder, the related Applications and all obligations relating thereto and all Loan Documents supporting, or otherwise benefiting the payment of such Obligations.

(ii) In the event that any Unpaid Drawing is not paid to the L/C Issuer with respect to any L/C Document in full immediately or by a Mandatory Borrowing from all the Banks, the L/C Issuer shall promptly notify the Agent to that effect, and the Agent shall promptly notify the Banks of the amount of such Unpaid Drawing and each such Bank shall immediately pay to the Agent, for immediate payment to the L/C Issuer, in lawful money of the United States and in immediately available funds, an amount equal to such Bank's ratable portion of the amount of such Unpaid Drawing.

(iii) The obligation of each Bank to make Credit Loans, in respect of each Mandatory Borrowing and to make payments under the preceding subparagraph (d)(ii) shall be absolute and unconditional and irrevocable and not subject to any qualification or exception whatsoever (except as set forth in this subsection 2.2(d)(iii)), and shall be made in accordance with the terms and conditions of this Agreement under all circumstances and shall not be subject to any conditions set forth in Article 4 hereof or otherwise affected by any circumstance including, without limitation: (1) the occurrence or continuance of a Default or Event of Default (except that the Banks shall not, and shall not have any obligation to, make any Credit Loan in respect of a Mandatory Borrowing after an event of the type specified in subsection 8.6(a) hereof has occurred); (2) any adverse change in the business condition (financial or otherwise), operations, performance, properties or prospects of any Loan Party; (3) any breach of this Agreement or any Application or other Loan Documents by the Borrowers; (4) any setoff, counterclaim, recoupment, defense or other right which such Bank or the Borrowers may have at any time against the L/C Issuer, any other Bank, or any beneficiary named in any L/C Document in connection herewith or otherwise; (5) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (6) any lack of validity or enforcement of this Agreement or any of the Loan Documents; (7) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing, PROVIDED THAT such circumstances or happenings shall not have constituted

gross negligence or willful misconduct of the L/C Issuer. The Borrowers agree that any Bank purchasing a participation in any L/C Document from the L/C Issuer may, to the fullest extent permitted by law, exercise all of its rights of payment with respect to such participation as fully as if such Bank were the direct creditor of the Borrowers in the amount of such participation.

(iv) If the L/C Issuer receives a payment on account of an Unpaid Drawing with respect to any L/C Document as to which any other Bank has funded its participation pursuant to subparagraph (d)(iii) above, the L/C Issuer shall, within one Business Day, pay to the Agent, and the Agent shall, within one Business Day, pay to each Bank which funded its participation therein, in lawful money of the United States and in the kind of funds so received, an amount equal to such Bank's ratable share thereof plus interest at the Federal Funds Rate if not paid to each such Bank within one Business Day of the date such funds were received by the Agent.

(v) If any payment received on account of any reimbursement obligation with respect to any L/C Document and distributed to a Bank as a participant under paragraph (iv) is thereafter recovered from the L/C Issuer thereof in connection with any bankruptcy or insolvency proceeding relating to the Borrower(s) or otherwise, each Bank which received such distribution shall, upon demand by the Agent, repay to the L/C Issuer such Bank's ratable share of the amount so recovered together with an amount equal to such Bank's ratable share (according to the proportion of (1) the amount of such Bank's required repayment to (2) the total amount so recovered) of any interest or other amount paid or payable by the L/C Issuer in respect of the total amount so recovered.

(e) NON-LIABILITY. The Borrowers assume all risks of the acts or omissions of any beneficiary or transferee of any L/C Document with respect to its use thereof. None of the Agent, the L/C Issuer, or any other Bank, nor any of their respective officers or directors, shall be liable or responsible for: (1) the use that may be made of any L/C Document or any acts or omissions of any beneficiary or transferee in connection therewith; (2) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (3) payment by the L/C Issuer against presentation of documents that do not comply with the terms of the L/C Documents issued by the L/C Issuer, EXCEPT that the Borrowers shall have a claim against the L/C Issuer, and the L/C Issuer shall be liable to the Borrowers, to the extent of any direct, but not consequential, damages suffered by the

Borrowers that the Borrowers prove were caused solely by (A) the L/C Issuer's willful misconduct or gross negligence in determining whether documents presented under any L/C Document comply with the terms of such L/C Document or (B) the L/C Issuer's willful failure to make lawful payment under a L/C Document after the presentation to it of a draft and documents and/or certificates strictly complying with the terms and conditions thereof; (4) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they are in cipher; (5) for errors in interpretation of technical terms; (6) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such L/C Document or of the proceeds thereof; and (7) for any consequence arising from causes beyond the

control of the L/C Issuer, including, without limitation, any government acts. The Uniform Customs and Practice for Documentary Credits as most recently published by the International Chamber of Commerce shall be deemed a part of this Section 2.2 as if incorporated herein in all respects and shall apply to the L/Cs.

(f) INDEMNIFICATION. In addition to amounts payable as elsewhere provided in this Agreement, without duplication, the Borrowers agree to indemnify and save harmless the Agent and each Bank including the L/C Issuer from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees and allocated costs of internal counsel) which such Agent, Bank or L/C Issuer may incur or be subject to as a consequence, direct or indirect, of the issuance of any L/C Document or any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain the L/C Issuer or the Agent from paying any amount under any L/C Document or the failure of the L/C Issuer to honor a drawing under any L/C Document issued by such Issuer as a result of any act or omission, whether rightful or wrongful, of any present or future DE JURE or DE FACTO government or governmental authority, except that no such Person shall be entitled to indemnification for matters caused solely by such Person's gross negligence or willful misconduct. Without modifying the foregoing, and anything contained herein to the contrary notwithstanding, the Borrowers shall cause each L/C issued for its account to be canceled and returned to the L/C Issuer thereof on or before its expiration date.

SECTION 2.3. NOTICES RELATING TO LOANS.

The Borrowers shall give the Agent written notice of each termination or reduction of the Commitments, each borrowing, conversion, repayment and prepayment of each Loan and of the duration of each Interest Period applicable to each LIBOR Loan (in each case, a 'BORROWING NOTICE'). Each such written notice shall be irrevocable and shall be effective only if received by the Agent not later than 11 a.m., New York City time on the date that is:

(a) In the case of each notice of termination or reduction of the Commitments, five (5) Business Days prior to the date of the related termination or reduction;

(b) In the case of each notice of borrowing and repayment of, or conversion into, Prime Rate Loans, the same Business Day of the related borrowing or repayment or conversion; and

(c) In the case of each notice of borrowing or repayment of, or conversion into, LIBOR Loans, or the duration of an Interest Period for LIBOR Loans, three (3) LIBOR Business Days prior to the date of the related borrowing, repayment or conversion or the first day of such Interest Period.

Each such notice of termination or reduction shall specify the amount thereof. Each such notice of borrowing, conversion, repayment or prepayment shall specify the amount (subject to Section 2.1 hereof) and Type of Loans to be borrowed, converted, repaid or prepaid (and, in the case of a conversion, the Type of Loans to result from such conversion), the date of borrowing, conversion, repayment or prepayment (which shall

be: (i) a Business Day in the case of each borrowing or repayment of Prime Rate Loans, and (ii) a LIBOR Business Day in the case of each borrowing, prepayment, or repayment of LIBOR Loans and each conversion

of or into a LIBOR Loan). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate. The Agent shall notify the Banks of the content of each such Borrowing Notice promptly after its receipt thereof.

SECTION 2.4. DISBURSEMENT OF LOAN PROCEEDS.

The Borrowers shall give the Agent notice of each borrowing hereunder as provided in Section 2.3 hereof and the Agent shall promptly notify the Banks thereof. Not later than 1:00 p.m., New York City time, on the date specified for each borrowing hereunder, each Bank shall transfer to the Agent, by wire transfer or otherwise, but in any event in immediately available funds, the amount of the Loan to be made by it on such date, and the Agent, upon its receipt thereof, shall disburse such sum to the Borrowers by depositing the amount thereof in an account of the Borrowers, or any of them, designated by the Borrowers maintained with the Agent.

SECTION 2.5. NOTES.

(a) The Credit Loans made by each Bank shall be evidenced by a single joint and several promissory note of the Borrowers in substantially the form of Exhibit A to Amendment No. 4 (each, a 'NOTE' and collectively, the 'NOTES'). Each Note shall be dated the Amendment No. 4 Effective Date, shall be payable to the order of such Bank in a principal amount equal to such Bank's Revolving Credit Commitment as originally in effect, and shall otherwise be duly completed. The Notes shall be payable as provided in Sections 2.1 and 2.6 hereof.

(b) Each Bank is authorized to enter on a schedule with respect to its Note(s) a notation with respect to each Credit Loan made hereunder of: (i) the date and principal amount thereof and (ii) each payment and repayment of principal thereof. The failure of any Bank to make a notation on any such schedule as aforesaid shall not limit or otherwise affect the joint and several obligation of the Borrowers to repay the Loans in accordance with their respective terms as set forth herein.

SECTION 2.6. PAYMENT OF LOANS; VOLUNTARY CHANGES IN COMMITMENT; MANDATORY REPAYMENTS

(a) All outstanding Credit Loans shall be paid in full not later than the Revolving Credit Commitment Termination Date.

(b) The Borrowers shall be entitled to terminate or reduce the Total Revolving Credit Commitment and repay or prepay the principal amount of the Loans PROVIDED THAT the Borrowers shall give notice of such termination, reduction, prepayment or repayment to the Agent as provided in Section 2.3 hereof and that any repayment or prepayment or partial reduction of the Total Revolving Credit Commitment shall be in the minimum aggregate amount of Three Million ($3,000,000) Dollars and multiples of One Million ($1,000,000) Dollars in excess thereof. Any such termination or reduction shall be permanent and irrevocable. In connection with any such termination or reduction, the

Agent shall, at the request of the Borrowers and subject to the consent (which shall not be unreasonably withheld) of the Required Banks, release from its Lien thereon items of Collateral designated by the Borrowers, provided that, after giving effect to such release, the LTV Ratio shall not be greater than 0.667:1.000 and no Default or Event of Default shall exist. Any repayment of a LIBOR Loan shall be on the last day of the relevant Interest Period and all repayments or prepayments of principal (whether mandatory or voluntary) shall be applied first to Prime Rate Loans, and then to the fewest number of Types of LIBOR Loans as possible. Each partial reduction of the Total Revolving Credit Commitment shall be applied to the Total Revolving Credit Commitment according to each Bank's respective Revolving Credit Commitment.

(c) Notwithstanding any other provision of this Agreement, the Loans (i) shall be repaid as and when necessary to cause the aggregate principal amount of (x) Loans outstanding, plus (y) L/C Obligations not to exceed the Total Revolving Credit Commitment, as at any date of determination thereof; and (ii) shall be repaid in order to maintain a LTV Ratio of not greater than 0.667:1.000.

(d) (i) In the event of a Disposition (which Disposition shall, except as provided in subsection 2.6(d)(ii) below, require the consent (in each case, not to be unreasonably withheld) of (x) the Required Banks and the Agent if the asset(s) to be included in the Disposition constitutes Collateral and if after giving effect to such Disposition the aggregate amount of the Net Proceeds arising from all Dispositions of Collateral is equal to or less than $35,000,000, and (y) the Banks and the Agent if the asset(s) to be included in the

Disposition constitutes Collateral and if the aggregate amount of the Net Proceeds of all Dispositions of Collateral theretofore made exceeds $35,000,000), the Borrowers shall either (A) repay the Credit Loans in an amount equal to the aggregate Net Proceeds of such Disposition immediately upon receipt thereof or (B) pledge additional Collateral to the Agent such that after giving effect to any such pledge and any resulting repayment of the Credit Loans, the LTV Ratio is not greater than 0.667:1.000 (as verified by an Appraisal of the additional Collateral) which additional Collateral shall, if replacing a portion of the Initial Collateral, meet the criteria contained in the definition of Eligible Healthcare Assets or, if replacing a portion of the Additional Collateral, meet the criteria contained in the definition of Additional Eligible Healthcare Asset. Simultaneously with the Borrowers fulfilling their obligations under this subsection, the Agent shall release its Lien on any Collateral that is subject to the Disposition.

(ii) The parties hereto acknowledge that the term "Disposition" includes the prepayment or repayment in full in accordance with their respective terms of any Mortgage(s) which constitute Collateral, and notwithstanding anything to the contrary contained in subsection 2.6(d)(i) above in connection with a Disposition arising from any such prepayment or repayment, simultaneously with the Borrowers fulfilling their obligations under subsection 2.6(d)(i) above, the Agent shall release its Lien on such Collateral covering the Mortgage (which release shall not require the consent of any Bank).

(e) If any Borrower shall make any public or private issuance of Indebtedness or equity (other than (i) in connection with any dividend reinvestment program(s), (ii) the

Equity Contribution, (iii) the Second Additional Equity Contribution, or (iv) the proceeds of any other issuance of Indebtedness or equity (which issuance of Indebtedness by its terms matures later than December 31, 2002) of up to $50,000,000 received prior to February 1, 2001), Omega shall promptly notify the Agent of such issuance and repay the Credit Loans in an amount equal to the aggregate Net Issuance Proceeds of such issuance immediately upon receipt thereof, except that the Borrower may use the proceeds of the loans to be made by The Provident Bank and the other lenders party thereto under the New Provident Loan Agreement as permitted pursuant to the New Provident Loan Agreement.

SECTION 2.7. INTEREST

(a) The Borrowers shall pay to the Agent for the account of each Bank interest on the unpaid principal amount of each Loan made by such Bank for the period commencing on the date of such Loan until such Loan shall be paid in full, at the following rates per annum:

(i) During such periods that such Loan is a Prime Rate Loan, the Alternate Base Rate PLUS the Applicable Margin; and

(ii) During such periods that such Loan is a LIBOR Loan, for each Interest Period relating thereto, the LIBOR Rate for such Loan for such Interest Period PLUS the Applicable Margin.

(b) Notwithstanding the foregoing, the Borrowers shall pay interest on any Loan or any installment thereof, and on any other amount (including Unpaid Drawings) payable by the Borrowers hereunder (to the extent permitted by law) that shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise) for the period commencing on the due date thereof until the same is paid in full at the applicable Post-Default Rate.

(c) Except as provided in the next sentence, accrued interest on each Loan shall be payable: (i) in the case of each Prime Rate Loan, quarterly on the Quarterly Dates, (ii) in the case of a LIBOR Loan, on the last day of each Interest Period for such Loan (and, if such Interest Period exceeds three months' duration, quarterly, commencing on the first quarterly anniversary of the first day of such Interest Period), and (iii) in the case of any Loan, upon the payment, repayment or prepayment thereof or the conversion thereof into a Loan of another Type (but only on the principal so paid, repaid or converted). Interest that is payable at the Post-Default Rate shall be payable from time to time on demand of the Agent. Promptly after the establishment of any interest rate provided for herein or any change therein, the Agent will notify the Banks and the Borrowers thereof, PROVIDED THAT the failure of the Agent to so notify the Banks and the Borrowers shall not affect the obligations of the Borrowers hereunder or under any of the Notes in any respect. Interest on all Loans and each Fee shall be computed on

the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last) occurring in the period for which payable.

(d) Anything in this Agreement or any of the Notes to the contrary notwithstanding, the obligation of the Borrowers to make payments of interest shall be subject to the limitation that payments of interest shall not be required to be made to any Bank to the extent that such Bank's receipt thereof would not be permissible under the law or laws applicable to such Bank limiting rates of interest that may be charged or collected by such Bank. Any such payments of interest that are not made as a result of the limitation referred to in the preceding sentence shall be made by the Borrowers to such Bank on the earliest interest payment date or dates on which the receipt thereof would be permissible under the laws applicable to such Bank limiting rates of interest that may be charged or collected by such Bank. Such deferred interest shall not bear interest.

SECTION 2.8. FEES.

(a) Simultaneously with the execution and delivery of Amendment No. 4, the Borrowers shall pay to the Agent, for the ratable benefit of the Banks, a non-refundable amendment fee in the aggregate amount of $480,000 (the 'AMENDMENT FEE').

(b) The Borrowers shall pay to the Agent for the account of the Banks, PRO RATA according to their respective Revolving Credit Commitments, a commitment fee (the 'COMMITMENT FEE') on the daily average amount of such Bank's Unused Commitment, for the period from the Closing Date to and including the earlier of (i) the date such Bank's Revolving Credit Commitment is terminated, and (ii) the Revolving Credit Commitment Termination Date, at the rate per annum equal to the Commitment Fee Percentage from time to time in effect on the amount of the Total Revolving Credit Commitment. The accrued Commitment Fee shall be payable on the Quarterly Dates, and on the earlier of (i) the date the Total Revolving Credit Commitment is terminated, or (ii) the Revolving Credit Commitment Termination Date, and in the event the Borrowers reduce the Total Revolving Credit Commitment as provided in subsection 2.6(b) hereof, on the effective date of such reduction.

(c) The Borrowers shall pay to the Agent, for its own account: (i) an annual agency fee (the 'AGENCY FEE') commencing on the Closing Date, and (ii) simultaneously with the execution and delivery of Amendment No. 4, (A) a non-refundable arrangement fee (the 'ARRANGEMENT FEE'), and (B) fees and expenses in accordance with Section 10.1 hereof.

(d) The Borrowers shall pay to the Agent for the account of the Banks, PRO RATA according to their respective Revolving Credit Commitments, a letter of credit fee (the 'L/C FEE') on the daily average amount of the aggregate stated amount of the L/C's, for the period from the date hereof to and including the earlier of (i) the date such Bank's Revolving Credit Commitment is terminated and (ii) the Revolving Credit Commitment Termination Date, at the rate per annum equal to the L/C Fee Percentage from time to time in effect. The accrued L/C Fee shall be payable on the Quarterly Dates, and on the earlier of (i) the date the Total Revolving Credit Commitment is terminated, or (ii) the Revolving Credit Commitment Termination Date.

(e) The Amendment Fee, the Commitment Fee, the Agency Fee, the Arrangement Fee and the L/C Fee are hereinafter sometimes referred to individually as a 'FEE' and collectively as the 'FEES'. Each of the Amendment Fee, the Agency Fee and the Arrangement Fee are more fully described in a separate written agreement among the Borrowers and the Agent.

SECTION 2.9. USE OF PROCEEDS OF LOANS

The proceeds of the Credit Loans hereunder may be used by the Borrowers solely: (a) for working capital purposes, (b) subject to subsection 2.2(a) hereof, for the issuance of L/C's to beneficiaries designated by the Borrowers, and (c) for general corporate purposes (including, without limitation, those permitted under Sections 7.4, 7.5 and 7.8 hereof); provided, however, that no proceeds of the Credit Loans may be utilized (i) to repay any of the June 2002 Notes unless, after giving effect to any such payment, there would be not less than $10,000,000 available under the Revolving Commitment; or (ii) to pay all or any part of the Accrued Catch-Up Dividends if an Event of Default shall then exist or would exist after giving effect to any such

payment.

SECTION 2.10. COLLATERAL.

(a) In order to secure the due payment and performance by the Borrowers of the Obligations, on the Closing Date each of Omega, OHI (Illinois), Inc., NRS, and Delta (collectively, the 'GRANTORS') shall:

(i) Grant to the Agent for the ratable benefit of the Banks (and affiliates thereof in connection with Interest Rate Contracts) a Lien on such of its personal properties and assets, whether now owned or hereafter acquired, tangible and intangible, related to the Facilities identified on Schedule 2.10 hereto (as the same may be modified from time to time in accordance with the terms hereof) by the execution and delivery to the Agent of a Security Agreement in form and substance satisfactory to the Agent (the 'BORROWER SECURITY AGREEMENT');

(ii) Grant to the Agent for the ratable benefit of the Banks (and affiliates thereof in connection with Interest Rate Contracts) a Lien on such interests in real property related to the Facilities identified on Schedule 2.10 hereto (as the same may be modified from time to time in accordance with the terms hereof), and all improvements now or hereafter located thereon, as the Agent shall require, by the execution and delivery to the Agent of mortgages, deeds of trust, or assignments of mortgages, in form and substance satisfactory to the Agent (individually, a 'BORROWER MORTGAGE' and collectively, the 'BORROWER MORTGAGES'); and

(iii) Execute and deliver or cause to be executed and delivered such other agreements, instruments and documents as the Agent may reasonably require in order to effect the purposes of the Borrower Security Agreement, the Borrower Mortgages, this Section 2.10 and this Agreement.

(b) All of the agreements, instruments and documents provided for or referred to in this Section 2.10 are hereinafter sometimes referred to collectively as the 'SECURITY DOCUMENTS'.

SECTION 2.11. MINIMUM AMOUNTS OF BORROWINGS, CONVERSIONS AND REPAYMENTS.

Except for borrowings, conversions and repayments that exhaust the full remaining amount of a Commitment (in the case of borrowings) or result in the conversion or repayment of all Loans of a particular Type (in the case of conversions or repayments) or conversions made pursuant to Section 2.20 or Section 2.21 hereof, each borrowing from each Bank, each conversion of Loans of one Type into Loans of another Type and each repayment or prepayment of principal of Loans hereunder shall be in a minimum amount of One Million ($1,000,000) Dollars, in the case of Prime Rate Loans, and Three Million ($3,000,000) Dollars, in the case of LIBOR Loans, and in either case if in excess thereof, in integral multiples of One Hundred Thousand ($100,000) Dollars (borrowings, conversions and repayments of different Types of Loans at the same time hereunder to be deemed separate borrowings, conversions and repayments for purposes of the foregoing, one for each Type).

SECTION 2.12. TIME AND METHOD OF PAYMENTS

All payments of principal, interest, Fees and other amounts (including indemnities) payable by the Borrowers hereunder shall be made in Dollars, in immediately available funds, to the Agent at the Principal Office not later than 11:00 a.m., New York City time, on the date on which such payment shall become due (and the Agent or any Bank for whose account any such payment is to be made may, but shall not be obligated to, debit the amount of any such payment that is not made by such time to any ordinary deposit account of the Borrowers, or any of them, with the Agent or such Bank, as the case may be). Additional provisions relating to payments are set forth in Section 10.3 hereof. Each payment received by the Agent hereunder for the account of a Bank shall be paid promptly to such Bank, in like funds, for the account of such Bank's Lending Office for the Loan in respect of which such payment is made.

SECTION 2.13. LENDING OFFICES

The Loans of each Type made by each Bank shall be made and maintained at such Bank's applicable Lending Office for Loans of such Type.

SECTION 2.14. SEVERAL OBLIGATIONS

The failure of any Bank to make any Loan to be made by it on

the date specified therefor shall not relieve the other Banks of their respective obligations to make their Loans on such date, but no Bank shall be responsible for the failure of the other Banks to make Loans to be made by such other Banks.

SECTION 2.15. PRO RATA TREATMENT AMONG BANKS.

Except as otherwise provided herein: (a) each borrowing from the Banks under Section 2.1 hereof will be made from the Banks and each payment of each Fee (other than as set forth in subsection 2.8(a) hereof and the Agency Fee and the Arrangement Fee) shall be made for the account of the Banks PRO RATA according to the amount of their respective Commitments; (b) each partial reduction of the Revolving Credit Commitment shall be applied to the Commitments of the Banks PRO RATA according to each Bank's respective Commitment; (c) each payment and repayment of principal of or interest on Loans will be made to the Agent for the account of the Banks PRO RATA in accordance with the respective unpaid principal amounts of the Loans held by such Banks; and (d) each conversion of Loans of a particular Type shall be made PRO RATA among the Banks holding Loans of such type according to the respective principal amounts of such Loans held by such Banks.

SECTION 2.16. NON-RECEIPT OF FUNDS BY THE AGENT.

Unless the Agent shall have been notified by a Bank or the Borrowers (the 'PAYOR') prior to the date on which such Bank is to make payment to the Agent of the proceeds of a Loan to be made by it hereunder or the Borrowers are to make a payment to the Agent for the account of one or more of the Banks, as the case may be (such payment being herein called the 'REQUIRED PAYMENT'), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Agent, the Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient on such date and, if the Payor has not in fact made the Required Payment to the Agent, the recipient of such payment shall, on demand, repay to the Agent the amount made available to it together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (i) when the recipient is a Bank, the Federal Funds Rate for such day, or (ii) when the recipient is a Borrower, the rate of interest applicable to such Loan.

SECTION 2.17. SHARING OF PAYMENTS AND SET-OFF AMONG BANKS.

The Borrowers hereby agree that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim a Bank may otherwise have, each Bank shall be entitled, at its option, to offset balances held by it at any of its offices against any principal of or interest on any of its Loans hereunder or any Fee payable to it, that is not paid when due (regardless of whether such balances are then due to the Borrowers), in which case it shall promptly notify the Borrowers and the Agent thereof, PROVIDED THAT its failure to give such notice shall not affect the validity thereof. If a Bank shall effect payment of any principal of or interest or Fee on Loans held by it under this Agreement through the exercise of any right of set-off, banker's lien, counterclaim or similar right, it shall promptly purchase from the other Banks participations in the Loans held by the other Banks in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Banks shall share the benefit of such payment PRO RATA in accordance with the unpaid amount of principal and interest or Fee on the Loans held

by each of them. To such end all the Banks shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. The Borrowers agree that any Bank so purchasing a participation in the Loans held by the other Banks may, to the fullest extent permitted by law, exercise all rights of payment (including the rights of set-off, banker's lien, counterclaim or similar rights) with respect to such participation as fully as if such Bank were a direct holder of Loans in the amount of such participation. Nothing contained herein shall require any Bank to exercise any such right or shall affect the right of any Bank to exercise and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrowers.

SECTION 2.18. CONVERSION OF LOANS.

The Borrowers shall have the right to convert Loans of one

Type into Loans of another Type from time to time, PROVIDED THAT: (i) the Borrowers shall give the Agent notice of each such conversion as provided in Section 2.3 hereof; (ii) LIBOR Loans may be converted only on the last day of an Interest Period for such Loans; (iii) no LIBOR Loan shall be continued as or converted into another LIBOR Loan, or Prime Rate Loan converted into a LIBOR Loan for a new Interest Period, if the principal amount (determined as of the date of any proposed conversion or continuation thereof) of the aggregate Loans and the L/C Obligations outstanding after giving effect to such continuation or conversion would exceed the Total Revolving Commitment then in effect; and (iv) no Prime Rate Loan may be converted into a LIBOR Loan or LIBOR Loan continued as or converted into another LIBOR Loan if on the proposed date of conversion a Default or an Event of Default exists. The Agent shall use its best efforts to notify the Borrowers of the effectiveness of such conversion, and the new interest rate to which the converted Loans are subject, as soon as practicable after the conversion; PROVIDED, HOWEVER, that any failure to give such notice shall not affect the Borrowers' obligations, or the Agent's or the Banks' rights and remedies, hereunder in any way whatsoever.

SECTION 2.19. ADDITIONAL COSTS; CAPITAL REQUIREMENTS.

(a) In the event that any existing or future law or regulation, guideline or interpretation thereof, by any court or administrative or governmental authority (foreign or domestic) charged with the administration thereof, or compliance by any Bank with any request or directive (whether or not having the force of law) of any such authority shall impose, modify or deem applicable or result in the application of, any capital maintenance, capital ratio or similar requirement against loan commitments or other obligations entered into by any Bank hereunder, and the result of any event referred to above is to impose upon any Bank or increase any capital requirement applicable as a result of the making or maintenance of such Bank's Commitment or the obligation of such Bank hereunder with respect to such Commitment or otherwise (which imposition of capital requirements may be determined by each Bank's reasonable allocation of the aggregate of such capital increases or impositions), then, upon demand made by such Bank as promptly as practicable after it obtains knowledge that such law, regulation, guideline, interpretation, request or directive exists and determines to make such demand, the Borrowers shall immediately pay to such Bank from time to time as specified by such

Bank additional amounts which shall be sufficient to compensate such Bank for such imposition of or increase in capital requirements together with interest on each such amount from the date demanded until payment in full thereof at the Post-Default Rate. A certificate setting forth in reasonable detail the amount necessary to compensate such Bank as a result of an imposition of or increase in capital requirements submitted by such Bank to the Borrowers shall be conclusive, absent manifest error, as to the amount thereof. All references to any "Bank" shall be deemed to include any participant in such Bank's Commitment.

(b) In the event that any Regulatory Change shall: (i) change the basis of taxation of any amounts payable to any Bank under this Agreement or the Notes in respect of any Loans including, without limitation, LIBOR Loans (other than taxes imposed on the overall net income of such Bank for any such Loans by the United States of America or the jurisdiction in which such Bank has its principal office); or (ii) impose or modify any reserve, Federal Deposit Insurance Corporation premium or assessment, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank (including any of such Loans or any deposits referred to in the definition of "LIBOR Base Rate" in Article 1 hereof); or (iii) impose any other conditions affecting this Agreement in respect of Loans or L/C's, including, without limitation, LIBOR Loans (or any of such extensions of credit, assets, deposits or liabilities); and the result of any event referred to in clause (i), (ii) or (iii) above shall be to increase such Bank's costs of making or maintaining any Loans or L/C's including, without limitation, LIBOR Loans, or its Commitment, or to reduce any amount receivable by such Bank hereunder in respect of its Commitment (such increases in costs and reductions in amounts receivable are hereinafter referred to as 'ADDITIONAL COSTS') in each case, only to the extent, with respect to LIBOR Loans, that such Additional Costs are not included in the LIBOR Base Rate applicable to LIBOR Loans, then, upon demand made by such Bank as promptly as practicable after it obtains knowledge that such a Regulatory Change exists and determines to make such demand (a copy of which demand shall be delivered to the Agent), the Borrowers shall pay to such Bank from time to time as specified by such Bank, additional amounts which shall be sufficient to compensate such Bank for such increased cost or reduction in amounts receivable by such Bank from the date of such change, together with interest on each

such amount from the date demanded until payment in full thereof at the Post-Default Rate. All references to any "Bank" shall be deemed to include any participant in such Bank's Commitment.

(c) Without limiting the effect of the foregoing provisions of this Section 2.19, in the event that, by reason of any Regulatory Change, any Bank either: (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Bank which includes deposits by reference to which the interest rate on LIBOR Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes LIBOR Loans, or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets that it may hold, then, if such Bank so elects by notice to the Borrowers (with a copy to the Agent), the obligation of such Bank to make, and to convert Loans of any other Type into, Loans of such Type hereunder shall be suspended until the date such Regulatory Change ceases to be in effect (and all Loans of such Type

then outstanding shall be converted into Prime Rate Loans or into LIBOR Loans of another duration as the case may be, in accordance with Sections 2.18 and 2.22).

(d) Determinations by any Bank for purposes of this Section 2.19 of the effect of any Regulatory Change on its costs of making or maintaining Loans or L/C's or on amounts receivable by it in respect of Loans, and of the additional amounts required to compensate such Bank in respect of any Additional Costs, shall be set forth in writing in reasonable detail and shall be conclusive, absent manifest error.

SECTION 2.20. LIMITATION ON TYPES OF LOANS.

Anything herein to the contrary notwithstanding, if, on or prior to the determination of an interest rate for any LIBOR Loans for any Interest Period therefor, the Required Banks determine (which determination shall be conclusive):

(a) by reason of any event affecting the money markets in the United States of America or the London interbank market, quotations of interest rates for the relevant deposits are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the rate of interest for such Loans under this Agreement; or

(b) the rates of interest referred to in the definition of "LIBOR Base Rate" in Article 1 hereof upon the basis of which the rate of interest on any LIBOR Loans for such period is determined, do not accurately reflect the cost to the Banks of making or maintaining such Loans for such period;

then the Agent shall give the Borrowers and each Bank prompt notice thereof (and shall thereafter give the Borrowers and each Bank prompt notice of the cessation, if any, of such condition), and so long as such condition remains in effect, the Banks shall be under no obligation to make Loans of such Type or to convert Loans of any other Type into Loans of such Type and the Borrowers shall, on the last day(s) of the then current Interest Period(s) for the outstanding Loans of the affected Type either repay such Loans in accordance with Section 2.6 hereof or convert such Loans into Loans of another Type.

SECTION 2.21. ILLEGALITY.

Notwithstanding any other provision in this Agreement, in the event that it becomes unlawful for any Bank or its applicable Lending Office to: (a) honor its obligation to make any Type of LIBOR Loans hereunder, or (b) maintain any Type of LIBOR Loans hereunder, then such Bank shall promptly notify the Borrowers thereof (with a copy to the Agent), describing such illegality in reasonable detail (and shall thereafter promptly notify the Borrowers and the Agent of the cessation, if any, of such illegality), and such Bank's obligation to make such Type of LIBOR Loans and to convert Prime Rate Loans into LIBOR Loans hereunder shall, upon written notice given by such Bank to the Borrowers, be suspended until such time as such Bank may again make and maintain such type of LIBOR Loans and such Bank's outstanding LIBOR Loans of such Type shall be converted into Prime Rate Loans, in accordance with Sections 2.18 and 2.22 hereof.

SECTION 2.22. CERTAIN CONVERSIONS PURSUANT TO SECTIONS 2.19 AND 2.21.

If the Loans of any Bank of a particular Type (Loans of such Type are hereinafter referred to as 'AFFECTED LOANS' and such Type is hereinafter referred to as the 'AFFECTED TYPE') are to be converted pursuant to Section 2.19 or 2.21 hereof, such Bank's Affected Loans shall be converted into Prime Rate Loans, or LIBOR Loans of another Type, as the case may be (the 'NEW TYPE LOANS'), on the last day(s) of the then current Interest Period(s) for the Affected Loans (or, in the case of a conversion required by subsection 2.19(b) or Section 2.21 hereof, on such earlier date as such Bank may specify to the Borrowers with a copy to the Agent) and, until such Bank gives notice as provided below that the circumstances specified in Section 2.19 or 2.21 hereof which gave rise to such conversion no longer exist:

(a) to the extent that such Bank's Affected Loans have been so converted, all payments and repayments of principal which would otherwise be applied to such Affected Loans shall be applied instead to its New Type Loans;

(b) all Loans which would otherwise be made by such Bank as Loans of the Affected Type shall be made instead as New Type Loans and all Loans of such Bank which would otherwise be converted into Loans of the Affected Type shall be converted instead into (or shall remain as) New Type Loans.

SECTION 2.23. INDEMNIFICATION.

The Borrowers shall pay to the Agent for the account of each Bank, upon the request of such Bank through the Agent, such amount or amounts as shall compensate such Bank for any loss (including loss of profit), cost or expense incurred by such Bank (as reasonably determined by such Bank) as a result of:

(a) any payment or repayment or conversion of a LIBOR Loan held by such Bank on a date other than the last day of an Interest Period for such LIBOR Loan except pursuant to Sections 2.19 or 2.21 hereof; or

(b) any failure by the Borrowers to borrow a LIBOR Loan held by such Bank on the date for such borrowing specified in the relevant Borrowing Notice under Section 2.3 hereof, or

(c) any failure by the Borrowers to continue a LIBOR Loan after giving notice of continuation or to prepay a LIBOR Loan on the date specified in a notice of prepayment,

such compensation to include, without limitation, an amount equal to: (i) any loss or expense suffered by such Bank during the period from the date of receipt of such early payment or repayment or the date of such conversion to the last day of such Interest Period if the rate of interest obtainable by such Bank upon the redeployment of an amount of funds equal to such Bank's PRO RATA share of such payment, repayment or conversion or failure to borrow or convert or continue or prepay is less than the rate of interest applicable to such LIBOR Loan for such Interest Period, or (ii) any loss or

expense suffered by such Bank in liquidating LIBOR deposits prior to maturity which correspond to such Bank's PRO RATA share of such payment, repayment, conversion, failure to borrow or failure to convert or failure to continue or failure to prepay. The determination by each such Bank of the amount of any such loss or expense, when set forth in a written notice to the Borrowers, containing such Bank's calculation thereof in reasonable detail, shall be presumed correct, in the absence of manifest error."

2.3. Article 6 of the Loan Agreement is hereby amended by deleting Section 6.9 (Financial Covenants) thereof in its entirety and substituting the following therefor:

"Section 6.9 FINANCIAL COVENANTS.

(a) Have or maintain, with respect to Omega, on a consolidated basis, as at the last day of each fiscal quarter of Omega, a ratio of Indebtedness to Tangible Net Worth of not more than 1.50:1.00.

(b) Have or maintain, with respect to Omega, on a consolidated basis, as at the last day of each fiscal quarter of Omega after the Amendment No. 4 Effective Date, Tangible Net Worth (after the Second Additional Equity Contribution) of not less than $400,000,000 as at December 31, 2001, $425,000,000 as at March 31, 2002 and June 30, 2002, and $430,000,000 as at September 30, 2002 and each fiscal quarter thereafter, plus, in each case, 50% of (i) the Net Issuance Proceeds received by Omega (or any of its Subsidiaries) in connection with the

issuance of any equity interest in Omega (or any of its Subsidiaries) other than any such equity interests issued in connection with the Second Additional Equity Contribution and any dividend reinvestment program(s), and (ii) the value (determined in accordance with GAAP) of any capital stock by Omega issued upon the conversion of convertible Indebtedness.

With respect to the foregoing subsection 6.9(b), for purposes of computing Tangible Net Worth, from and after the Catch-Up Date, the amount of Accrued Catch-Up Dividends shall be added to Tangible Net Worth to the extent that such amount(s) have been externally financed (provided the calculation of Accrued Catch-Up Dividends shall be set forth in writing delivered to and in form and substance satisfactory to the Agent, which shall include a description of the source of payment therefor).

(c) Have or maintain, with respect to Omega, on a consolidated basis, as at the last day of each fiscal quarter of Omega, Interest Coverage of not less than the respective ratio set forth opposite each such date:

<TABLE>
<CAPTION>

DATE	MINIMUM INTEREST COVERAGE RATIO
<S>	<C>
March 31, 2002	2.00:1.00
June 30, 2002	2.25:1.00
September 30, 2002	2.25:1.00
December 31, 2002	2.50:1.00
March 31, 2003 and the last day of each fiscal quarter thereafter	2.75:1.00

</TABLE>

(d) Intentionally Omitted.

(e) Have or maintain as at the last day of each fiscal quarter of Omega, Omega's Fixed Coverage Ratio of not less than 1.00:1.00.

With respect to the foregoing subsection 6.9(e), for purposes of computing Omega's Fixed Coverage Ratio, from and after the Catch-Up Date, there shall be subtracted from the computation of "Cash dividends", the amount of the Accrued Catch-Up Dividends to the extent that such amount(s) have been externally financed (provided the calculation of Accrued Catch-Up Dividends shall be set forth in writing delivered to and in form and substance satisfactory to the Agent, which shall include a description of the source of payment therefor).

(f) Have or maintain as at the last day of each fiscal quarter of Omega, commencing with the fiscal quarter ending March 31, 2002, a Leverage Ratio of not greater than the respective ratio set forth opposite each such date:

<TABLE>
<CAPTION>

DATE	MAXIMUM LEVERAGE RATIO
<S>	<C>
March 31, 2002	5.50:1.00
June 30, 2002	5.00:1.00
September 30, 2002 and the last day of each fiscal quarter thereafter	4.75:1.00"

</TABLE>

(g) Have or maintain Collateral Coverage with respect to the Facilities comprising the Collateral of at least 1.40:1.00 at all times."

2.4. Article 7 of the Loan Agreement is hereby amended by deleting Section 7.5 (Redemptions; Distributions) thereof in its entirety and substituting the following therefor:

"Section 7.5 REDEMPTIONS; DISTRIBUTIONS.

(a) Purchase, redeem, retire or otherwise acquire, directly or indirectly, or make any sinking fund payments with respect to, any shares of any class of stock of Omega or any Subsidiary now or hereafter outstanding or set apart any sum for any such purpose; unless (i) the ^ JUNE 2002 NOTES have been paid in full or the Required Banks are satisfied that sources of funds are and will remain available to repay the ^ JUNE 2002 NOTES in full, and (ii) after giving effect

thereto (A) no Event of Default shall exist, (B) there shall be not less than $15,000,000 available under the Revolving Credit Commitment; and (C) the aggregate amount of all such purchases, redemptions and payments shall be less than $15,000,000; or

(b) Declare or pay any dividends or make any distribution of any kind on Omega's outstanding stock, or set aside any sum for any such purpose, except that:

(i) Omega may declare and make dividend payments or other distributions payable solely (A) in its common stock; and (B) in kind to Explorer

Holdings, L.P. in respect of the Series C Convertible Preferred Stock of Omega as contemplated under the Investment Agreement;

(ii) If no Default or Event of Default exists or will occur after giving effect thereto, Omega may declare and pay cash dividends in any fiscal quarter in an amount, which when added to the cash dividends paid with respect to the three (3) immediately preceding fiscal quarters, does not exceed ninety-five (95%) percent of Adjusted EBITDA (which shall be calculated without adding back interest expense for the purpose hereof) for those four (4) fiscal quarters calculated on a rolling four-quarter basis (provided that in computing the amount of all such cash dividends permitted to be paid hereunder, there shall be excluded therefrom the portion of any Accrued Catch-Up Dividend (otherwise included therein) the payment of which has been externally financed, and, provided further, that the calculation thereof shall be set forth in writing delivered to and in form and substance satisfactory to the Agent, and shall include a description of the source of payment therefor);

(iii) If a Default or Event of Default exists or would occur after giving effect thereto, Omega may declare and pay dividends in any fiscal quarter in the minimum amount necessary to maintain its REIT status; and

(iv) Omega may pay the Accrued Catch-Up Dividends provided the Borrowers shall deliver to the Agent in reasonable written detail a calculation of the amount thereof which shall include a description of the source of payment therefor."

3. REPRESENTATIONS AND WARRANTIES. In order to induce the Banks and the Agent to enter into this Fourth Amendment, each of the Loan Parties hereby represents and warrants to the Banks and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 NO DEFAULT. After giving effect to this Fourth Amendment, no Default or Event of Default shall have occurred or be continuing.

3.2 EXISTING REPRESENTATIONS AND WARRANTIES. As of the date hereof and after giving effect to this Fourth Amendment, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except as set forth on Schedule 3.2 hereto and for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 AUTHORITY; ENFORCEABILITY. (i) The execution, delivery and performance by each Loan Party of this Fourth Amendment and the Notes (as defined in the Loan Agreement as amended hereby, the "NOTES") are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Loan Party, (ii) each of this Fourth Amendment and the Notes is the legal, valid and binding obligation of each Loan Party party thereto, enforceable against each Loan Party in accordance with its terms, and (iii) this Fourth Amendment and the Notes and the execution, delivery and performance by each

Loan Party thereof does not: (A) contravene the terms of any Loan Party's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Loan Party is a party or any order, injunction, writ or decree to which any Loan Party or its property is subject, or (C) violate any requirement of law.

4. CONDITIONS PRECEDENT TO EFFECTIVENESS.

This Fourth Amendment shall become effective on the date (the "EFFECTIVE DATE") that the following conditions precedent shall have been

fulfilled (to the satisfaction of the Agent, which in no event shall be later than February 28, 2002):

4.1 FOURTH AMENDMENT. The Agent shall have received this Fourth Amendment, duly executed by a duly authorized officer or officers of each Borrower, the Agent and each Bank.

4.2 NOTES. Each Borrower shall have executed and delivered to each Bank its Note.

4.3 FEES. The Borrower shall have paid to the Agent simultaneously with the execution and delivery of this Fourth Amendment (i) for the account of the Banks, the Amendment Fee, and (ii) for its own account, the Arrangement Fee.

4.4 SECOND ADDITIONAL EQUITY CONTRIBUTION. The Agent shall have received documentation in form and substance satisfactory to it that the Second Additional Equity Contribution has been consummated.

4.5 AMENDMENT TO PROVIDENT LOAN AGREEMENT. The Agent shall have received a true and complete copy of a waiver and amendment to the Provident Loan Agreement, pursuant to which the Provident Loan Agreement shall be no more restrictive on the Borrower than the Loan Agreement as amended hereby, and which waiver and amendment shall be in form and substance satisfactory to the Agent.

4.6 OPINION. Counsel to the Borrowers shall have delivered its opinion to, and in form and substance satisfactory to, the Agent.

4.7 CERTIFICATES. The Agent shall have received a certificate of the Secretary or Assistant Secretary of each Borrower (i) attaching a true and complete copy of the resolutions of its Board of Directors and of all documents evidencing all necessary corporate action (in form and substance reasonably satisfactory to the Administrative Agent) taken by it to authorize this Fourth Amendment, (ii) certifying that its certificate of incorporation and by-laws have not been amended since June 15, 2000, or, if so, setting forth the same, and (iii) setting forth the incumbency of its officer or officers who may sign this Amendment, including therein a signature specimen of such officer or officers.

4.8 ADDITIONAL DOCUMENTS. The Agent shall have received such other documents as it shall reasonably request.

5. ADDITIONAL CONDITIONS PRECEDENT TO LOANS AND L/CS UNDER THE LOAN AGREEMENT AS AMENDED.

The obligation of (i) each Bank to make a Credit Loan to be made by it under the Loan Agreement as amended hereby and (ii) the L/C Issuer to issue an L/C under the Loan Agreement as amended hereby, shall in each case be subject to the fulfillment (to the satisfaction of the Agent and the L/C Issuer, as applicable) of (x) the conditions set forth in Section 4.1 and 4.2 to the Loan Agreement, and (y) the following additional condition precedent:

5.1 UPDATED APPRAISAL. The Agent shall have conducted, at the Borrowers' expense, an updated Appraisal of all Eligible Healthcare Assets comprising the Initial Collateral and the Additional Collateral and the results thereof shall be satisfactory to the Agent and the Banks.

6. REFERENCE TO AND EFFECT UPON THE LOAN AGREEMENT.

6.1 EFFECT. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

6.2 NO WAIVER; REFERENCES. The execution, delivery and effectiveness of this Fourth Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Bank under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this Fourth Amendment, each reference in:

(i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

(iii) the Loan Documents to (ii) the Tranche A Notes and/or the Tranche B Notes shall mean and be a reference to the Notes, (ii) the terms "Tranche A Revolving Credit Commitment" and/or "Tranche B Revolving Credit Commitment" shall mean and be a reference to the Revolving Credit Commitment as

defined in the Loan Agreement as amended hereby, and (iii) the "Loan Documents" shall be deemed to include this Fourth Amendment.

7. MISCELLANEOUS.

7.1 EXPENSES. The Loan Parties agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this Fourth Amendment.

7.2. LAW. THIS FOURTH AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

7.3 SUCCESSORS. This Fourth Amendment shall be binding upon the Loan Parties, the Banks and the Agent and their respective successors and assigns, and shall inure to the benefit of the Loan Parties, the Banks and the Agent and the successors and assigns of the Banks and the Agent.

7.4 EXECUTION IN COUNTERPARTS. This Fourth Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

OMEGA HEALTHCARE
INVESTORS, INC.
DELTA INVESTORS I, LLC
DELTA INVESTORS II, LLC
JEFFERSON CLARK, INC.
NRS VENTURES, L.L.C.
OHI (CLEMMONS), INC.
OHI (FLORIDA), INC.
OHI (GREENSBORO), INC.
OHI (ILLINOIS), INC.
OHI (IOWA), INC.
OHI (KANSAS), INC.
OHI OF TEXAS, INC.
OMEGA (KANSAS), INC.
OS LEASING COMPANY
STERLING ACQUISITION CORP.
STERLING ACQUISITION CORP. II

BY_____

_____, as an executive officer of all of the aforementioned entities, has executed this Fourth Amendment to Loan Agreement and intending that all entities above named are bound and are to be bound by the one signature as if [s]he had executed this Fourth Amendment to Loan Agreement separately for each of the above named entities.

REVOLVING CREDIT COMMITMENT:

$26,000,000

FLEET NATIONAL BANK, AS AGENT
AND AS A BANK

By:_____

Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

$18,000,000

DRESDNER BANK AG, NEW YORK BRANCH
AND GRAND CAYMAN BRANCH

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

$18,000,000

HARRIS TRUST AND SAVINGS BANK

By:_____
Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

$34,000,000

BANK ONE, MICHIGAN

By:_____
Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

$16,000,000

FOOTHILL INCOME TRUST, L.P.
BY FIT-GP, LLC

By:_____
Name:_____
Title: Managing Member

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

$24,000,000

LASALLE BANK NATIONAL ASSOCIATION

By:_____
Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT:

PB CAPITAL CORPORATION (SUCCESSOR IN

INTEREST TO BHF (USA) CAPITAL CORPORATION)

$14,400,000

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

REVOLVING CREDIT COMMITMENT: KBC N.V.

$9,600,000

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

Signature Page to Fourth Amendment to Loan Agreement among
Omega Healthcare Investors, Inc., and certain of its Subsidiaries,
the Banks party thereto, and Fleet National Bank, as Agent

EXHIBIT A

TO AMENDMENT NO. 4 TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
FLEET NATIONAL BANK, AS AGENT

FORM OF NOTE

$_____ DATED: _____, 2002

FOR VALUE RECEIVED, each of the undersigned corporations (collectively, the "BORROWERS"), hereby jointly and severally promises to pay to the order of _____ (the "BANK") on the Revolving Credit Commitment Termination Date (as defined in the Agreement referred to below), the principal sum of _____ Dollars ($_____), or such lesser amount as shall be equal to the aggregate unpaid principal amount of the Credit Loans (as defined in the Agreement) outstanding on the close of business on the Revolving Credit Commitment Termination Date made by the Bank to the Borrowers; together, in each case, with interest on any and all principal amounts remaining unpaid hereunder from time to time outstanding. Interest upon the unpaid principal amount hereof shall accrue at the rates, shall be calculated in the manner and shall be payable on the dates set forth in the Agreement. After maturity, whether by acceleration or otherwise, accrued interest shall be payable upon demand. Both principal and interest shall be payable in the applicable currency determined in accordance with the Agreement to Fleet National Bank, as Agent (the "AGENT") on behalf of the Bank, at its office determined in accordance with the Agreement in immediately available funds. The Credit Loans made by the Bank to the Borrowers pursuant to the Agreement and all payments on account of principal hereof may be recorded by the Bank on Schedule A attached hereto which is part of this Note or otherwise in accordance with its usual practices and such notations shall be conclusively presumed to be accurate absent manifest error; PROVIDED, HOWEVER, that the failure to so record shall not affect the Borrowers' obligations under this Note.

Anything herein to the contrary notwithstanding, the obligation of the Borrowers to make payments of interest shall be subject to the limitation that payments of interest shall not be required to be made to the Bank to the extent that the Bank's receipt thereof would not be permissible under the law or laws applicable to the Bank limiting rates of interest which may be charged or collected by the Bank. Any such payments of interest which are not made as a result of the limitation referred to in the preceding sentence shall be made by the Borrowers to the Bank on the earliest interest payment date or dates on which the receipt thereof would be permissible under the laws applicable to the Bank limiting rates of interest which may be charged or collected by the Bank.

This Note is a Note referred to in, and is entitled to the benefits of, the Loan Agreement dated June 15, 2000 by and among the Borrowers, the Banks signatory thereto (including the Bank) and the Agent (as amended by (i) Amendment No. 1 to Loan Agreement dated August 15, 2000, (ii) Amendment No. 2 to Loan Agreement dated November 20, 2000, (iii) Amendment No.

3 to Loan Agreement dated January 30, 2001, and (iv) Amendment No. 4 to Loan Agreement dated December 21, 2001, and, as it may hereafter be further amended, modified or supplemented from time to time, the "AGREEMENT") and the other Loan Documents.

Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed thereto in the Agreement. The Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for repayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrowers shall pay costs and expenses of collection, including, without limitation, attorneys' fees and disbursements in the event that any action, suit or proceeding is brought by the holder hereof to collect this Note.

The Borrowers hereby waive presentment, demand, protest or notice of any kind in connection with this Note.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF NEW YORK BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

OMEGA HEALTHCARE INVESTORS, INC.
DELTA INVESTORS I, LLC
DELTA INVESTORS II, LLC
JEFFERSON CLARK, INC.
NRS VENTURES, L.L.C.
OHI (CLEMMONS), INC.
OHI (FLORIDA), INC.

OHI (GREENSBORO), INC.
OHI (ILLINOIS), INC.
OHI (IOWA), INC.
OHI (KANSAS), INC.
OHI OF TEXAS, INC.
OMEGA (KANSAS), INC.
OS LEASING COMPANY
STERLING ACQUISITION CORP.
STERLING ACQUISITION CORP. II

BY_____

_____, as an executive officer of all of the aforementioned entities, has executed this Note intending that all entities above named are bound and are to be bound by the one signature as if he had executed this Note separately for each of the above named entities.

Schedule A

PRINCIPAL PAYMENTS

Note dated _____, 2002 payable to the order of
[BANK]

<TABLE>
<CAPTION>

DATE	PRINCIPAL AMOUNT OF CREDIT LOAN	TYPE OF LOAN	INTEREST PERIOD (IF OTHER THAN A PRIME RATE LOAN) AND INTEREST RATE	AMOUNT OF PRINCIPAL REPAID	UNPAID PRINCIPAL BALANCE	NOTATION MADE BY
<S>	<C>	<C>	<C>	<C>	<C>	<C>

</TABLE>

SCHEDULE 3.2
TO AMENDMENT NO. 4 TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
FLEET NATIONAL BANK, AS AGENT

CHANGES TO REPRESENTATIONS AND WARRANTIES

All matters disclosed in Omega Healthcare Investors, Inc. public filings under the Securities and Exchange Act of 1934, 15 U.S.C. 78(a), et seq.

EXHIBIT 10.43

AMENDMENT NO. 3 TO LOAN AGREEMENT

AMENDMENT NO. 3 TO LOAN AGREEMENT (this "AMENDMENT NO. 3"), made and executed this 21st day of December, 2001, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "BORROWER" and collectively, the "BORROWERS"),

The lenders that have executed the signature pages hereto (individually, a "LENDER" and collectively, the "LENDERS"); and

THE PROVIDENT BANK, an Ohio banking corporation, as Agent for the Lenders (in such capacity, together with its successors in such capacity, the "AGENT").

PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated August 11, 2000, as amended by that certain Amendment No. 1 to Loan Agreement dated November 30, 2000 and that certain Amendment No. 2 dated December 31, 2000 (hereinafter referred to, as amended, as the "LOAN AGREEMENT") with the Agent and the Lenders; and

(B) The Borrowers have requested that the Lenders and the Agent waive compliance with certain provisions of the Loan Agreement and amend certain provisions of the Loan Agreement, and the Lenders and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. DEFINITIONS. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. CERTAIN WAIVERS.

2.1 Borrowers have advised Agent of the following matter (the "Aggregate EBITDAR Default") which constitutes an Event of Default under the Loan Agreement:

2.1.1 Notwithstanding the provisions of Section 7.9(c)(i) of the Loan Agreement, the Aggregate EBITDAR for the Properties constituting the Real Property Collateral has been less than $16,300,000.

2.2 Borrowers have also advised Agent of the following matters (collectively, the "Specified Events of Default") which constitute Events of Default under the Loan Agreement:

2.2.1 Notwithstanding the requirements of Section 7.9(a)(iv) of the Loan Agreement, Omega's Interest Coverage has been less than 200%.

2.2.2 Notwithstanding the requirements of Section 7.9(a)(v) of the Loan Agreement, Omega's Leverage Ratio has been greater than 5.50:1.00.

2.3 Borrowers have also advised Agent of the following contemplated matters (collectively, the "Contemplated December 31 Defaults") which constitute Events of Default under the Loan Agreement:

2.3.1 Notwithstanding the requirements of Section 7.9(a)(ii) of the Loan Agreement, Borrowers contemplate that Omega will have failed to maintain Tangible Net Worth of not less than $445,000,000, as adjusted as provided in such Section, as of December 31, 2001.

2.3.2 Notwithstanding the requirements of Section 7.9(b) of the Loan Agreement, Borrowers contemplate that Omega will incur a Net Loss for its fiscal year ending December 31, 2001.

2.4 Agent and Lenders hereby (i) waive the Aggregate EBITDAR Default for the period from December 15, 2001 through December 31, 2001, (ii) waive the Specified Events of Default for the period from December 15, 2001 through the earlier of February 28, 2002 and the "Effective Date" (as defined in Section 5 of this Amendment No. 3), and (iii) agree to forbear exercising any rights and remedies with respect to the Contemplated December 31 Defaults for the period commencing on December 31, 2001 through and including the earlier of February 28, 2002 and the Effective Date; PROVIDED, HOWEVER, that the waivers and forbearance granted pursuant to this Section 2.4 (a) are limited to the matters expressly stated above and only for the periods stated above, (b) shall not be deemed to be a waiver of, or forbearance with respect to, any violations of any other provisions of the Loan Agreement, and (c) prior to the Effective Date are subject to your agreement and acknowledgment that notwithstanding such waivers and forbearance, Borrowers shall not request and the Lenders are under no

obligation to continue to make, any Loans under the Loan Agreement, irrespective of whether Borrowers repay or prepay any outstanding Loans.

3. CERTAIN AMENDMENTS TO THE LOAN AGREEMENT. Subject to the terms and conditions of this Amendment No. 3, the Loan Agreement shall be amended as of the "Effective Date" (as defined in Section 5 of this Amendment No. 3) as follows:

3.1 Article 1, Section 1.2, of the Loan Agreement is hereby amended by adding the following new defined terms thereto:

3.1.1 "ACCRUED CATCH-UP DIVIDENDS" mean the aggregate accrued but undeclared dividends on Omega's Series A, Series B and Series C Preferred Stock during the period commencing February 1, 2000 through the first date thereafter (the "CATCH-UP DATE") on which Omega shall have declared a dividend on any of such Series A, Series B or Series C Preferred Stock.

3.1.2 "FIFTY MILLION DOLLAR EQUITY CONTRIBUTION" means aggregate equity purchases and/or contributions to Omega of not less than $50,000,000 in cash (before payment of the direct costs of the issuance of the securities in connection therewith) pursuant to documentation in form and substance satisfactory to Agent.

3.1.3 "FLEET DOCUMENTS" mean all agreements, documents and instruments entered into in connection with the Fleet Obligations.

3.1.4 "JUNE 2002 NOTES" mean those certain 6.95% Senior Unsecured Notes in the original principal amount of $125,000,000, maturing June, 2002.

3.1.5 "KARRINGTON LAWSUIT means that certain lawsuit styled KARRINGTON HEALTH, INC. V. OMEGA HEALTHCARE INVESTORS, INC. originally filed in the Common Pleas Court of Franklin County, Ohio, and subsequently removed to the United States District Court for the Southern District of Ohio, Eastern Division, which lawsuit and all claims arising therefrom were settled in full by Omega on August 31, 2001 without admission of any liability or fault by Omega.

3.1.6 "RONCALLI PREPAYMENT" means a voluntary prepayment on the Loans in the principal amount of $6,000,000 made by Borrowers in order to remove any of the Roncalli Properties from the Real Property Collateral pursuant to Section 3.5 of this Agreement. In no event shall any portion of the Ten Million Dollar Prepayment which may be made be considered as part of the Roncalli Prepayment.

3.1.7 "RONCALLI PROPERTIES" mean Borrowers' Roncalli Health Centers located in New Haven, West Haven and Griswold, Connecticut.

3.1.8 "TEN MILLION DOLLAR PREPAYMENT" means a mandatory prepayment on the Loans in the principal amount of $10,000,000 pursuant to Section 2.6(e) of this Agreement. In no event shall any portion of the Roncalli Prepayment which may be made be considered as part of the Ten Million Dollar Prepayment.

3.2 The definition of "Fleet Obligations" contained in Article 1, Section 1.2, of the Loan Agreement shall be amended and restated to read in its entirety as follows:

"FLEET OBLIGATIONS" means the obligations of Omega and certain of its Affiliates under the Loan Agreement dated as of June 15, 2000, among Omega and certain of its Affiliates, the "Banks" named therein, and Fleet Bank, N.A., as Agent for such Banks, as amended by an Amendment No. 1 dated August 15, 2000, an Amendment No. 2 dated November 20, 2000, an Amendment No. 3 dated January 30, 2001, and an Amendment No. 4 dated December 21, 2001, and under the other agreements, documents and instruments entered into in connection therewith.

3.3 The definition of "Maximum Commitment" contained in Article 1, Section 1.2, of the Loan Agreement shall be amended and restated to read in its entirety as follows:

"MAXIMUM COMMITMENT" means (i) Sixty-Five Million and 00/100 Dollars ($65,000,000.00) with respect to Revolving Loan A, (ii) Ten Million and 00/100 Dollars ($10,000,000.00) with respect to Revolving Loan B, (iii) Seventy-Five Million and 00/100 Dollars ($75,000,000.00) with respect to the Loans on and after the Closing Date and prior to the Termination Date of Revolving Loan B, and (iv) Sixty-Five Million and 00/100 Dollars ($65,000,000.00) on and after the Termination Date of Revolving Loan B and prior to the Termination Date of Revolving Loan A; PROVIDED, HOWEVER, that (1) the Revolving Loan A Commitment and/or Revolving Loan B Commitment of each Lender shall be permanently

reduced by the principal prepayments of Revolving Loan A and/or Revolving Loan B

received by such Lender pursuant to Section 2.8 of this Agreement in connection with the Ten Million Dollar Prepayment and/or the Roncalli Prepayment, (2) the Maximum Commitment and the aggregate Loan Commitments of the Lenders shall be permanently reduced by the amount of any Ten Million Dollar Prepayment and/ or Roncalli Prepayment made pursuant to the terms of this Agreement, and (3) to the extent that such commitments are permanently reduced as provided herein, Borrowers shall not be permitted to reborrow such amounts notwithstanding any provisions contained in this Agreement to the contrary.

3.4 Section 2.3(b) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(b) On and after the Closing Date and prior to the Termination Date of Revolving Loan B (or earlier prepayment in full of Revolving Loan B in connection with the Ten Million Dollar Prepayment and/or the Roncalli Prepayment), the amount of each advance made under this Agreement shall be allocated 86.67% to Revolving Loan A and 13.33% to Revolving Loan B. Thereafter, the amount of each advance under this Agreement shall be allocated 100% to Revolving Loan A. Agent shall promptly notify each Lender of its Pro Rata Share of each requested Loans advance and the date of such advance. On the borrowing date specified in such notice, each Lender shall make its share of the advance available at the Head Office of Agent for deposit to such account as Agent shall designate, no later than 1:00 p.m. Cincinnati time in Federal or other immediately available funds.

3.5 Section 2.6(a) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(a) VOLUNTARY REPAYMENTS ON THE LOANS. Borrowers shall have the right to repay the principal of the Loans in full or in part at any time and from time to time (including, without limitation by way of the Roncalli Prepayment), without any penalty or premium except as provided in Section 2.7(a) hereof.

3.6 Section 2.6(d) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(d) NET ISSUANCE PROCEEDS. If any Borrower shall make any public or private issuance of Indebtedness or equity (other than in connection with any dividend reinvestment program(s), the Investment Agreement, the Fleet Obligations, the Fifty Million Dollar Equity Contribution or the Preferred Dividend Payment Indebtedness (provided that such Indebtedness by its terms matures later than December 31, 2003)), Borrowers shall promptly notify Agent of such issuance and, immediately upon receipt of such Net Issuance Proceeds, repay the Loans as follows: (i) if and to the extent that pursuant to the Fleet Obligations any Borrower is required to apply Net Issuance Proceeds to repay the Fleet Obligations and the Net Issuance Proceeds exceed the amount necessary to reduce the then outstanding Fleet Obligations to zero or (ii) the Fleet Obligations have been terminated not in connection with or as a result of replacement financing. If the Fleet Obligations are terminated in connection with or as a result of replacement financing (whether secured or unsecured), then any subsequent Net Issuance Proceeds shall be applied, on a pro rata basis (in accordance with the relative aggregate commitments of the lenders under the replacement financing and the aggregate commitments of

Lenders under this Agreement), to repay the then outstanding obligations under the replacement financing and the Loans.

3.7 Section 2.6 of the Loan Agreement shall be amended by adding the following new Subsection (e) thereto:

(e) TEN MILLION DOLLAR PREPAYMENT. Upon receipt by Borrowers of commitments to make the Fifty Million Dollar Equity Contribution, Borrowers shall make the Ten Million Dollar Prepayment on the Loans, and the proceeds of such prepayment shall be applied to the Loans as provided in Section 2.8 of this Agreement.

3.8 Section 2.8(b)(i) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(i) NO DEFAULT. If the Notes have not been accelerated pursuant to Section 9.1 and if no Event of Default shall have occurred and be continuing at the time Agent receives such funds, in the following manner: (a) first, to the payment of all reasonable fees, charges and other sums (with the exception of principal and interest) due and payable to Agent or Lenders under the Notes, this Agreement or the other Loan Documents at such time; (b) second, if the payment is the Ten Million Dollar Prepayment, to payment of all interest accrued on the Revolving Loan B Notes, then to payment of all principal outstanding under the Revolving Loan B Notes until the Revolving Loan B

Notes are paid in full, then to payment of all interest accrued on the Revolving Loan A Notes, then to payment of principal outstanding under the Revolving Loan A Notes, in accordance with each Lender's Pro Rata Share; (c) third, if the payment is made on the Termination Date of Revolving Loan B, such date is not also the Termination Date of Revolving Loan A, and Revolving Loan B has not been paid in full by way of the Ten Million Dollar Prepayment, to the payment of all interest accrued on the principal of the Revolving Loan B Notes, then to the payment of all principal outstanding under the Revolving Loan B Notes until the Revolving Loan B Notes are paid in full, in accordance with each Lender's Pro Rata Share; (d) fourth, if Revolving Loan B has not been paid in full, (A) 86.67% to the payment of all interest due and payable on the principal of the Revolving Loan A Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan A, and (B) 13.33% to the payment of all interest due and payable on the principal of the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (e) fifth, if Revolving Loan B has not been paid in full, (I) 86.67% to the payment of the outstanding principal amount of the Revolving Loan A Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan A, and (II) 13.33% to the payment of the outstanding principal amount of the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (f) sixth, if Revolving Loan B has been paid in full, to the payment of all interest accrued on the principal of the Revolving Loan A Notes, then to payment of all principal outstanding under the Revolving Loan A Notes, in accordance with each Lender's Pro Rata Share; (g), seventh, to the other Obligations in such amounts and in such order and priority as Agent, in its sole discretion may determine; and (h) eighth, to Borrowers.

3.9 Section 2.10 of the Loan Agreement shall be amended and restated to read in its entirety as follows:

Section 2.10 PERMITTED USES OF LOAN PROCEEDS. Borrowers represent, warrant and covenant to Agent and each Lender that all proceeds of the Loans shall be used by the Borrower solely for the purpose of repayment of existing Indebtedness for Borrowed Money of Borrowers (including the payments required under Section 5.1(i) of this Agreement), and for general corporate and working capital purposes (including without limitation those contemplated by Sections 8.2, 8.10 and 8.15 of this Agreement); provided, however, that in no event shall any proceeds of the Loans be used to pay Accrued Catch-Up Dividends if a Default or Event of Default shall then exist or would exist after giving effect to any such payment.

3.10 Section 3.5 of the Loan Agreement shall be amended by adding the following new Subsection (g) thereto:

(g) Notwithstanding anything contained in this Agreement to the contrary, in no event shall Borrowers be entitled to have any of the Roncalli Properties removed from serving as Real Property Collateral hereunder unless and until the Roncalli Prepayment shall have been made in full, in addition to satisfying the other conditions in this Agreement for such removal.

3.11 Section 7.9(a)(ii) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(ii) Tangible Net Worth (after all Equity Contributions under the Investment Agreement and the Fifty Million Dollar Equity Contribution) of not less than (A) $400,000,000 before March 31, 2002, (B) $425,000,000 on and after March 31, 2002 and before September 30, 2002, and (C) $430,000,000 on and after September 30, 2002, plus 50% of (i) the Net Issuance Proceeds received by Omega (or any of its Subsidiaries) in connection with the issuance of any equity interest in Omega (or any of its Subsidiaries) other than any such equity interests issued in connection with Equity Contributions under the Investment Agreement, in connection with the Fifty Million Dollar Equity Contribution and in connection with any dividend reinvestment program(s), and (ii) the value (determined in accordance with GAAP) of any capital stock issued by Omega upon the conversion of convertible Indebtedness; and

3.12 Section 7.9(a)(iv) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(iv) Interest Coverage of not less than (A) 200% as of March 31, 2002, (B) 225% as of June 30, 2002 and September 30, 2002, (C) 250% as of December 31, 2002, and (D) 275% as of March 31, 2003 and as of the end of each fiscal quarter thereafter; and

3.13 Section 7.9(a)(v) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(v) A Leverage Ratio of (A) not greater than 5.50:1.00 on and before March 31, 2002; (B) not greater than 5.00:1.00 after March 31, 2002 and before September 30, 2002; and (C) not greater than 4.75:1.00 on September 30, 2002 and thereafter.

3.14 Section 7.9(b) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(b) [RESERVED]

3.15 Section 7.9(e) of the Loan Agreement is amended and restated to read in its entirety as follows

(e) For purposes of computing the financial covenants contained in Section 7.9 of the Loan Agreement, the following will be excluded from the calculation of "Adjusted EBITDA" provided that Borrowers shall have submitted documentation in form and substance satisfactory to Agent evidencing such exclusions:

(i) A one time charge of $4,664,861, incurred by Omega during the third quarter of 2000, in connection with severance and consulting costs arising from the consummation of certain transactions contemplated by the Investment Agreement;

(ii) A one time charge of $11,000,000 related to the settlement of the Karrington Lawsuit (including up to $1,000,000 in legal expenses already incurred as of the date of Amendment No. 3 to this Agreement);

(iii) $5,000,000 constituting expenses related to the relocation of Omega's headquarters to Baltimore, Maryland, including severance costs incurred in connection therewith;

(iv) Up to $31,000,000 in the aggregate for certain loss/ impairment charges satisfactory to Agent related to certain of Omega's investments;

(v) $5,000,000 in the aggregate in connection with litigation settlement charges (in addition to settlement charges relating to the Karrington Lawsuit referred to in (ii) above) and Medicare charges;

(vi) Up to $12,000,000 in connection with the costs associated with collections of, and reserves taken against, accounts receivable associated with certain Facilities which are owned and operated by Omega and/or certain of its Subsidiaries;

(vii) Up to $5,000,000 in the aggregate related to one-time charges incurred by Borrowers in connection with the termination of certain third-party leases; and

(viii) Non-cash charges related to changes in the effect of a change occurring in GAAP or in the application thereof on derivatives (FASB Statement No. 133).

3.16 Section 7.9 of the Loan Agreement shall be amended by adding the following new Subsection (f) thereto:

(f) For purposes of computing the financial covenant contained in Subsection 7.9(a)(ii) above, from and after the Catch-Up Date, the amount of Accrued Catch-Up Dividends shall be added to Tangible Net Worth to the extent such amount(s) have been externally financed (provided the calculation of Accrued Catch-Up Dividends shall be set forth in writing delivered to and in form and substance satisfactory to Agent, which shall include a description of the source of payment therefor).

3.17 Section 7.9 of the Loan Agreement shall be amended by adding the following new Subsection (g) thereto:

(g) For purposes of computing the financial covenant contained in Subsection 7.9(a)(iii) above, from and after the Catch-Up Date, there shall be subtracted from the computation of "Cash dividends", the amount of the Accrued Catch-Up Dividends to the extent that such amounts have been externally financed (provided the calculation of Accrued Catch-Up Dividends shall be set forth in writing delivered to and in form and substance satisfactory to Agent, which shall include a description of the source of payment therefor).

3.18 Section 8.11(b) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(b) The Fleet Obligations; provided, however, that

notwithstanding anything contained in this Agreement or any Schedule thereto to the contrary, in no event shall any material amendment or modification to or supplement of any of the Fleet Obligations (including, without limitation, with respect to commitment and/or principal amount, interest rate, payment terms, maturity, fees, collateral and/or covenants) be permitted without the prior written consent of Agent and Lenders, which consent shall not be unreasonably withheld;

3.19 Section 8.11(g) of the Loan Agreement shall be amended and restated to read in its entirety as follows:

(g) Indebtedness, the terms of which (i) shall not require or permit any principal payments thereon prior to payment in full of the Obligations, and (ii) shall not cause a violation of the restriction contained in the last paragraph of Schedule 8.11 to this Agreement.

3.20 Section 8.15 of the Loan Agreement shall be amended and restated to read in its entirety as follows:

Section 8.15 REDEMPTIONS; DISTRIBUTIONS. No Borrower shall:

(a) Purchase, redeem, retire or otherwise acquire, directly or indirectly, or make any sinking fund payments with respect to, any shares of any class of stock of Omega or any Subsidiary now or hereafter outstanding or set apart any sum for such purpose unless (i) the June 2002 Notes have been paid in full or the Requisite Lenders are satisfied that sources of funds are and will remain available to repay the June 2002 Notes in full, and (ii) after giving effect thereto (A) no Event of Default shall exist, (B) there shall be at least $15,000,000 available under the Revolving Loan A Commitment or the Credit Commitment under the Fleet Obligations or any other line of credit or similar facility; and (C) the aggregate amount of all such purchases, redemptions and payments shall be less than $15,000,000; or

(b) Declare or pay any dividends or make any distribution of any kind on Omega's outstanding stock, or set aside any sum for any such purpose, except that:

(i) Omega may declare and make dividend payments or other distributions payable solely in its common stock;

(ii) Omega may declare and make "payment in kind" dividends to Explorer Holdings, L.P. in respect of the Series C Convertible Preferred Stock of Omega as contemplated under the Investment Agreement;

(iii) if no Default or Event of Default exists or will occur after giving effect thereto, Omega may declare and pay cash dividends in any fiscal quarter in an amount, which when added to the cash dividends paid with respect to the three (3) immediately preceding fiscal quarters, does not exceed ninety-five (95%) percent of Adjusted EBITDA (which shall be calculated without adding back interest expense for the purpose hereof) for those four (4) fiscal quarters calculated on a rolling four-quarter basis (provided that in computing the amount of such cash dividends permitted to be paid hereunder, there shall be excluded therefrom the portion of any Accrued Catch-Up Dividend (otherwise included therein) the payment of which has been externally financed, and, provided further, that the calculation thereof shall be set forth in writing delivered to and in form and substance satisfactory to Agent, and shall include a description of the source of payment therefor);

(iv) If a Default or Event of Default exists or would occur after giving effect thereto, Omega may declare and pay dividends in any fiscal quarter in the minimum amount necessary to maintain its REIT status.

(v) Omega may pay the Accrued Catch-Up Dividends provided that (A) no Default or Event of Default exists or would be caused by such payment, (B) the June 2002 Notes have been paid in full or the Requisite Lenders are satisfied that sources of funds will remain available to pay the June 2002 Notes in full, and (C) Borrowers shall deliver to Agent in reasonable written detail a calculation of the amount thereof which shall include a description of the source of payment therefor.

4. REPRESENTATIONS AND WARRANTIES. In order to induce the Lenders and the Agent to enter into this Amendment No. 3, each of the Borrowers hereby represents and warrants to the Lenders and the Agent, as to itself with respect to the Loan Documents to which it is a party, as of the date hereof and as of the Effective Date (as defined in Section 5 of this Amendment No. 3) that:

4.1 NO DEFAULT. After giving effect to this Amendment No. 3, no Default or Event of Default shall have occurred or be continuing.

4.2 EXISTING REPRESENTATIONS AND WARRANTIES. After giving effect to this Amendment No. 3, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects

and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

4.3 AUTHORITY; ENFORCEABILITY. (i) The execution, delivery and performance by each Borrower of this Amendment No. 3 are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Borrower, (ii) this

Amendment No. 3 is the legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms, and (iii) this Amendment No. 3 and the execution, delivery and performance by each Borrower hereof does not: (A) contravene the terms of any Borrower's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Borrower is a party or any order, injunction, writ or decree to which any Borrower or its property is subject, or (C) violate any requirement of law.

5. CONDITIONS TO EFFECTIVENESS OF WAIVERS AND AMENDMENTS. The amendments in Section 3 of this Amendment No. 3 shall become effective on the date (the "Effective Date") that the following conditions precedent have been fulfilled to the satisfaction of Agent (which in any event shall be no later than February 28, 2002):

5.1 Agent shall have received this Amendment No.3 duly executed by a duly authorized officer or officers of each Borrower, Agent and each Lender.

5.2 Borrowers shall have executed and delivered Fleet Documents with respect to the Fleet Obligations, in form and substance satisfactory to Agent, and shall have delivered true and complete copies of all Fleet Documents to Agent, including, without limitation evidence satisfactory to Agent and Lenders of the borrowing availability under the Fleet Documents.

5.3 Agent shall have received documentation, in form and substance satisfactory to Agent, that the Fifty Million Dollar Equity Contribution has been consummated.

5.4 Counsel to Borrowers shall have delivered its opinion to, and in form and substance satisfactory to, Agent.

5.5 The Agent shall have received a certificate of the Secretary or Assistant Secretary of each Borrower (i) attaching a true and complete copy of the resolutions of its Board of Directors and of all documents evidencing all necessary corporate action (in form and substance satisfactory to Agent) taken by it to authorize this Amendment No. 3, (ii) certifying that its certificate of incorporation and bylaws have not been amended since August 11, 2000, or, if so, setting forth the same, and (iii) setting forth the incumbency of its officer or officers who may sign this Amendment, including therein a signature specimen of such officer or officers.

5.6 Agent shall have received such other documents as it shall reasonably request.

6. REFERENCE TO AND EFFECT UPON THE LOAN AGREEMENT.

6.1 EFFECT. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

6.2 NO WAIVER; REFERENCES. The execution, delivery and effectiveness of this Amendment No. 3 shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this Amendment No. 3, each reference in:

6.2.1 the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

6.2.2 the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

6.2.3 the Loan Documents to the "Loan Documents" shall be deemed to include this Amendment No. 3.

7. MISCELLANEOUS.

7.1 EXPENSES. The Borrowers agree to pay the Agent upon demand for all

reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this Amendment No. 3.

7.2 LAW. THIS AMENDMENT NO. 3 SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF OHIO.

7.3 SUCCESSORS. This Amendment No. 3 shall be binding upon the Borrowers, the Lenders and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Lenders and the Agent and the successors and assigns of the Lenders and the Agent.

7.4 EXECUTION IN COUNTERPARTS. This Amendment No. 3 may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

LENDERS AND AGENT:

THE PROVIDENT BANK, as Lender and Agent

By: _____

Its: _____

BB&T (Successor by merger to One Valley Bank)

By: _____

Its: _____

GREAT AMERICAN INSURANCE COMPANY

By: _____

Its: _____

GREAT AMERICAN LIFE INSURANCE COMPANY

By: _____

Its: _____

BORROWERS:

OMEGA HEALTHCARE INVESTORS, INC.

STERLING ACQUISITION CORP.

DELTA INVESTORS I, LLC

OHI (CONNECTICUT) INC.

By: _____

Its: _____

_____, as an executive officer of all of the aforementioned Borrowers, has executed this Amendment No. 3 and intending that all of the Borrowers above named are bound and are to be bound by the one signature as if (s)he had executed this Amendment No. 3 separately for each of the above named Borrowers.

<Page>

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Experts" and "Selected Financial Data" and to the use of our report dated March 16, 2001 (except for the third and seventh paragraphs of Note 15, as to which the date is March 30, 2001) in Amendment No. 2 to the Registration Statement (Form S-11 No. 333-72750) and related Prospectus of Omega Healthcare Investors, Inc. for the registration of up to 9,400,000 shares of its common stock.

/s/ Ernst & Young LLP

Chicago, Illinois
January 11, 2002