OMEGA HEALTHCARE INVESTORS INC
Form 10-K
February 28, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012.

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

For the transition period from to

Commission file number 1-11316

OMEGA HEALTHCARE INVESTORS, INC.
(Exact Name of Registrant as Specified in its Charter)

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

Registrant's telephone number, including area code: 410-427-1700

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.10 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

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

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

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

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the common stock of the registrant held by non-affiliates was $2,425,939,178. The aggregate market value was computed using the $22.50 closing price per share for such stock on the New York Stock Exchange on June 30, 2012.

As of February 22, 2013, there were 112,971,775 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the registrant's 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012, is incorporated by reference in Part III herein.

OMEGA HEALTHCARE INVESTORS, INC.
2012 FORM 10-K ANNUAL REPORT

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Item 1 – Business

Overview; Recent Events

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

In 2012, we completed the following transactions totaling approximately $510 million in new investments:

During the fourth quarter of 2012 we completed the purchase of approximately $203.4 million in new investments with a new operator. The investments included the purchase/leaseback of 14 facilities located in California (10) and Arizona (4) representing 1,830 operating beds. The two transactions consisted of $131.5 million in cash and the assumption of $71.9 million in debt guaranteed by the U.S. Department of Housing and Urban Development ("HUD") with a blended interest rate of approximately 5.50%.

$227.4 million of new investments with an existing operator. The investments included (i) $224.6 million in purchase/leaseback of 31 facilities located in Indiana, totaling 3,275 operating beds and (ii) one parcel of land for $2.8 million.

$21.5 million of new investments with existing operators to Omega. The investments included (i) the purchase/leaseback of one ALF located in Michigan for $20 million and (ii) a mortgage on one SNF located in Michigan for $1.5 million. These two facilities operate a total of 231 operating beds.

$12.9 million of new investments with an existing operator to Omega. The investments included the purchase/leaseback of three facilities located in Indiana, totaling 247 operating beds.

$2.7 million of new investments with an existing operator to Omega. The investment included the purchase /leaseback of one SNF in Texas totaling 90 operating beds.

$31.3 million of investments in our capital expenditure programs.

$10.5 million in mortgage related investments with our existing operators.

As of December 31, 2012, our portfolio of investments consisted of 478 healthcare facilities located in 34 states and operated by 46 third-party operators. We use the term "operator" to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. This portfolio was made up of:

418 SNFs, 16 ALFs and 11 specialty facilities;
fixed rate mortgages on 31 long-term healthcare facilities; and
two facilities and one parcel of land held-for-sale.

As of December 31, 2012, our gross investments in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $3.3 billion. In addition, we held miscellaneous investments of approximately $47.3 million at December 31, 2012, consisting primarily of secured loans to third-party operators of our facilities.

Our filings with the Securities and Exchange Commission (“SEC”), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge on our website at www.omegahealthcare.com. The contents of our website are not incorporated by reference herein or in any of our filings with the SEC.

Summary of Financial Information

The following table summarizes our revenues by asset category for 2012, 2011 and 2010. (See “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Note 3 – Properties” and “Note 5 – Mortgage Notes Receivable”).

Revenues by Asset Category
(in thousands)

	Year Ended December 31,		
	2012	2011	2010
Core assets:			
Lease rental income	$314,592	$273,517	$232,772
Mortgage interest income	30,446	16,274	10,391
Total core asset revenues	345,038	289,791	243,163
Other asset revenue	4,760	2,070	3,936
Miscellaneous income	662	343	3,886
Total revenue before owned and operated assets	350,460	292,204	250,985
Owned and operated asset revenue	—	—	7,336
Total revenue	$350,460	$292,204	$258,321

The following table summarizes our real estate assets by asset category as of December 31, 2012 and 2011.

Assets by Category
(in thousands)

	As of December 31,	
	2012	2011
Core assets:		
Leased assets	$3,038,553	$2,537,039
Mortgaged assets	238,621	238,675
Total core assets	3,277,174	2,775,714
Other assets	47,339	52,957
Total real estate assets before held for sale assets	3,324,513	2,828,671
Held for sale assets	1,020	2,461
Total real estate assets	$3,325,533	$2,831,132

Description of the Business

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

the quality and experience of management and the creditworthiness of the operator of the facility;
the facility’s historical and forecasted cash flow and its ability to meet operational needs, capital expenditure requirements and lease or debt service obligations;
the construction quality, condition and design of the facility;
the location of the facility;
the tax, growth, regulatory and reimbursement environment of the applicable jurisdiction;

- the occupancy rate for the facility and demand for similar healthcare facilities in the same or nearby communities; and
- the payor mix of private, Medicare and Medicaid patients at the facility.

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

We prefer to invest in equity ownership of properties. Due to regulatory, tax or other considerations, we may pursue alternative investment structures. The following summarizes our primary investment structures. The average annualized yields described below reflect existing contractual arrangements. However, due to the nature of the long-term care industry, we cannot assure you that the operators of our facilities will meet their payment obligations in full or when due. Therefore, the annualized yields as of January 1, 2013, set forth below, are not necessarily indicative of future yields, which may be lower.

Purchase/Leaseback. In a purchase/leaseback transaction, we purchase a property from an operator and lease it back to the operator over a term typically ranging from 5 to 15 years, plus renewal options. Our leases generally provide for minimum annual rentals that are subject to annual formula increases based on factors such as increases in the Consumer Price Index ("CPI"). At January 1, 2013, our average annualized yield from leases was approximately 10.9%.

Fixed-Rate Mortgage. Our mortgages typically have a fixed interest rate for the mortgage term and are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. At January 1, 2013, our average annualized yield on these investments was approximately 11.4%.

The table set forth in "Item 2 – Properties" contains information regarding our properties and investments as of December 31, 2012.

Borrowing Policies. We generally attempt to match the maturity of our indebtedness with the maturity of our investment assets and employ long-term, fixed-rate debt to the extent practicable in view of market conditions in existence from time to time.

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

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

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

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

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

Our officers and directors may change any of these policies without a vote of our stockholders. In the opinion of our management, our properties are adequately covered by insurance.

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

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

Taxation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The definition of foreclosure property includes any "qualified health care property," as defined in Code Section 856(e)(6) acquired by us as the result of the termination or expiration of a lease of such property. We have from time to time operated qualified healthcare facilities acquired in this manner for up to two years (or longer if an extension was granted). However, we do not currently own any property with respect to which we have made foreclosure property elections other than the Haven facilities discussed in the prior paragraph. Properties that we had taken back in a foreclosure or bankruptcy and operated for our own account were treated as foreclosure properties for income tax purposes, pursuant to Code Section 856(e). Gross income from foreclosure properties was classified as "good income" for purposes of the annual REIT income tests upon making the election on the tax return. Once made, the income was classified as "good" for a period of three years, or until the properties were no longer operated for our own account. In all cases of foreclosure property, we utilized an independent contractor to conduct day-to-day operations to maintain REIT status. In certain cases, we operated these facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we utilized an eligible independent contractor to conduct day-to-day operations to maintain REIT status. As a result of the foregoing, we do not believe that our participation in the operation of nursing homes increased the risk that we would fail to qualify as a REIT. Through our 2011 taxable year, we had not paid any tax on our foreclosure property because those properties had been producing losses. We cannot predict whether, in the future, our income from foreclosure property will be significant and whether we could be required to pay a significant amount of tax on that income.

Hedging Transactions. From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items and futures and forward contracts. To the extent that we enter into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument to hedge our indebtedness incurred to acquire or carry "real estate assets," any periodic income or gain from the disposition of that contract should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. Accordingly, our income and gain from our interest rate swap agreements generally is qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. To the extent that we hedge with other types of financial instruments, or in other situations, it is not entirely clear how the income from those transactions will be treated for purposes of the gross income tests. We have structured and intend to continue to structure any hedging transactions in a manner that does not jeopardize our status as a REIT. For tax years beginning after 2004, we were no longer required to include income from hedging transactions in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 95% gross income test and we are no longer required to include in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 75% gross income test any gross income from any hedging transaction entered into after July 30, 2008. We did not engage in hedge transactions in 2010, 2011, or 2012.

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

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

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

Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

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

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

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

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

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

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

85% of our REIT ordinary income for such year;

95% of our REIT capital gain income for such year; and

any undistributed taxable income from prior periods.

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

The availability to us of, among other things, depreciation deductions with respect to our owned facilities (which reduce our taxable income and the amount of our required dividend distributions) depends upon the determination that, for federal income tax purposes, we are the true owner of such facilities for federal income tax purposes, which is dependent on the classification of the leases to operators or our facilities as "true leases" rather than financing arrangements for federal income tax purposes. The determinations of whether (1) we are the owner of such facilities, and (2) the leases are true leases, for federal tax purposes are essentially factual matters. We believe that we will be treated as the owner of each of the facilities that we lease, and such leases will be treated as true leases for federal income tax purposes. However, no assurances can be given that the IRS will not successfully challenge our status as the owner of our facilities subject to leases, and the status of such leases as true leases, asserting that the purchase of the facilities by us and the leasing of such facilities merely constitute steps in secured financing transactions in which the lessees are owners of the facilities and we are merely a secured creditor. In such event, we would not be entitled to claim depreciation deductions with respect to any of the affected facilities. As a result, we might fail to meet the 90% distribution requirement or, if such requirement is met, we might be subject to corporate income tax or the 4% excise tax.

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

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

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

In the case of a REIT that is a partner in a partnership, such REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, in testing our compliance with the income and assets discussed above, we include 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 and in which we own an interest.

Government Regulation and Reimbursement

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

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

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

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

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

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

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

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

Reimbursement. A significant portion of our operators’ revenue is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. According to The Alliance for Quality Nursing Home Care, as of January 2013, approximately 70% of SNF residents depend upon Medicare and/or Medicaid funding for care. The federal government and many state governments are currently focusing on reducing expenditures under Medicare and Medicaid programs, resulting in significant cost-cutting at both the federal and state levels. These cost-cutting measures, together with the implementation of changes in reimbursement rates such as those described below, could result in a significant reduction of reimbursement rates to our operators under both the Medicare and Medicaid programs.

For the federal fiscal year 2013, CMS has announced that it will increase SNF payment rates by 1.8% (2.5% market basket update minus 0.7% productivity adjustment), which amounts to an estimated $670 million increase in payments to SNFs beginning October 1, 2012. Provisions contained in the American Taxpayer Relief Act (ATRA) of 2012, known colloquially as the fiscal cliff deal, will reduce Medicare payments to SNFs by an estimated $600 million during 2012 to 2022. It also reduces payments for multiple procedures or therapies provided on the same day, which will result in approximately $1.8 billion savings to Medicare over the next 10 years, which will impact SNFs as well. Under the ATRA, sequestration cuts impacting domestic and defense spending are scheduled to become effective March 1, 2013. These cuts include a 2% cut in payments to Medicare providers and suppliers.

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

We cannot predict whether Congress will take any action to change the automatic spending cuts. Further, we cannot predict how states will react to any changes that occur at the federal level.

Medicaid. State budgetary concerns, coupled with the implementation of rules under the Healthcare Reform Law, may result in significant changes in healthcare spending at the state level.

Many states are currently focusing on the reduction of expenditures under their state Medicaid programs, which may result in a reduction in reimbursement rates for our operators. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement or an increase in the number of Medicaid patients could adversely affect our operators' results of operations and financial conditions, which in turn could negatively impact us.

Under the Healthcare Reform Law, Medicaid coverage will be expanded to all individuals under age 65 with incomes up to 133% of the federal poverty level, beginning January 1, 2014. The federal government will pay the entire cost for Medicaid coverage for newly eligible beneficiaries for 3 years (2014 through 2016). In 2017, the federal share declines to 95%; in 2018, to 94%; in 2019, to 93%; and in 2020 and subsequent years, to 90%. States may delay Medicaid expansion after 2014 but the federal payment rates will be less. However, on June 28, 2012, the Supreme Court issued its opinion in National Federation of Independent Business v. Sebellius, which stated that states could not be required to expand Medicaid or risk losing federal funding of their existing Medicaid programs. Currently, 22 states and the District of Columbia have decided to expand or are leaning toward expansion; however, it is predicted that at least most states will expand.

Although states are currently required by law to maintain current Medicaid eligibility standards until at least 2014, at least one state has filed a lawsuit challenging the constitutionality of the "maintenance of effort" (MOE) provision based on the Supreme Court's decision.

Medicare. In 2009, the CMS finalized a revised case-mix classification system, the RUG-IV, which was in effect from October 1, 2010 through September 30, 2011. According to the CMS, this change in case-mix classification methodology resulted in a significant increase in Medicare expenditures for government fiscal year 2011.

In response to this increase, on July 29, 2011, the CMS announced the final rule for SNF funding for government fiscal year 2012. The final rule includes a recalibration of the case-mix indexes that form the RUG-IV and is expected to result in a reduction of aggregate Medicare reimbursement to SNFs of $4.47 billion or 12.6% for the government fiscal year. However, the reduction is partially offset by an update that reflects a 2.7% increase in the prices of a "market basket" of goods and services reduced by a 1.0% multi-factor productivity adjustment mandated by the Healthcare Reform Law. The combination of the recalibration and the update is expected to result in a net reduction of aggregate Medicare reimbursement to SNFs of $3.87 billion or 11.1%. We believe that the implementation of RUG-IV in 2010 had a positive effect on the cash flow and rent coverage ratios of our operators. The subsequent funding cut has reduced operator coverage ratios; however, we currently believe that our operator coverage ratios are adequate and that our operators can absorb the government fiscal year 2012 reimbursement rate reductions and still meet their obligations to us.

The Middle Class Tax Relief and Job Creation Act of 2012 was signed into law on February 22, 2012 and extended the Medicare Part B Outpatient Therapy Cap Exceptions Process through December 31, 2012. The statutory Medicare Part B outpatient cap for occupational therapy was $1,880 for 2012, and the combined cap for physical therapy and speech therapy was also $1,880 for 2012. These caps do not apply to therapy services covered under Medicare Part A for SNFs, although the caps apply in most other instances involving patients in SNFs or long-term care facilities who receive therapy services covered under Medicare Part B. Congress implemented a temporary therapy cap exceptions process, which permits medically necessary therapy services to exceed the payment limits. The caps for 2013 have not yet been issued. Expiration of the therapy cap exceptions process in the future could have a material adverse effect on our operators' financial condition and operations, which could adversely impact their ability to meet their obligations to us.

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

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

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

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

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

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

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

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

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

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

Executive Officers of Our Company

As of February 22, 2013, the executive officers of our company were as follows:

C. Taylor Pickett (51) is our Chief Executive Officer and has served in this capacity since June 2001. Mr. Pickett is also a Director and has served in this capacity since May 30, 2002. Mr. Pickett's term as a Director expires in 2014. From January 1993 to June 2001, Mr. Pickett served as a member of the senior management team of Integrated Health Services, Inc., most recently as Executive Vice President and Chief Financial Officer. Prior to joining Integrated Health Services, Inc. Mr. Pickett held various positions at PHH Corporation and KPMG Peat Marwick.

Daniel J. Booth (49) is our Chief Operating Officer and has served in this capacity since October 2001. From 1993 to October 2001, Mr. Booth served as a member of the management team of Integrated Health Services, Inc., most recently serving as Senior Vice President, Finance. Prior to joining Integrated Health Services, Inc., Mr. Booth served as a Vice President in the Healthcare Lending Division of Maryland National Bank (now Bank of America).

R. Lee Crabill, Jr. (59) is our Senior Vice President of Operations and has served in this capacity since July 2001. From 1997 to 2000, Mr. Crabill served as a Senior Vice President of Operations at Mariner Post-Acute Network, Inc. Prior to joining Mariner Post-Acute Network, Inc., Mr. Crabill served as an Executive Vice President of Operations at Beverly Enterprises, Inc.

Robert O. Stephenson (49) is our Chief Financial Officer and has served in this capacity since August 2001. From 1996 to July 2001, Mr. Stephenson served as the Senior Vice President and Treasurer of Integrated Health Services, Inc. Prior to joining Integrated Health Services, Inc., Mr. Stephenson held various positions at CSX Intermodal, Inc., Martin Marietta Corporation and Electronic Data Systems.

Michael D. Ritz (44) is our Chief Accounting Officer and has served in this capacity since February 2007. From April 2005 to February 2007, Mr. Ritz served as the Vice President, Accounting & Assistant Corporate Controller of Newell Rubbermaid Inc., and from August 2002 to April 2005, Mr. Ritz served as the Director, Financial Reporting of Newell Rubbermaid Inc. From July 2001 through August 2002, Mr. Ritz served as the Director of Accounting and Controller of Novavax Inc.

As of December 31, 2012, we had 25 full-time employees, including the five executive officers listed above.

Item 1A - Risk Factors

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

Risks Related to the Operators of Our Facilities

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

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

We are exposed to the risk that a distressed operator may not be able to meet its lease, mortgage or other obligations to us or other third parties. This risk is heightened during a period of economic or political instability. Although each of our lease and loan agreements typically provide us with the right to terminate, evict an operator, foreclose on our collateral, demand immediate payment and exercise other remedies upon the bankruptcy or insolvency of an operator, title 11 of the United States Code, as amended and supplemented (the "Bankruptcy Code"), would limit or, at a minimum, delay our ability to collect unpaid pre-bankruptcy rents and mortgage payments and to pursue other remedies against a bankrupt operator.

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

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

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

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

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

Healthcare Reform. The Healthcare Reform Law represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and will affect reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways.See "Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform." We cannot predict the impact of the Healthcare Reform Law on our operators or their ability to meet their obligations to us.

Reimbursement; Medicare and Medicaid. A significant portion of our operators' revenue is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. See "Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform," "– Reimbursement," "– Medicaid," and "– Medicare," the risk factor entitled "Our operators depend on reimbursement from governmental and other third party payors and reimbursement rates from such payors may be reduced" for a further discussion on governmental and third-party payor reimbursement and the associated risks presented to our operators. Failure to maintain certification in these programs would result in a loss of funding from such programs and could negatively impact an operator's ability to meet its obligations to us.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators, including a quality rating system for nursing homes released in December 2008. See "Item 1. Business – Government Regulation and Reimbursement – Quality of Care Initiatives." Any unsatisfactory rating of our operators under any rating system promulgated by the CMS could result in the loss of our operators' residents or lower reimbursement rates, which could adversely impact their revenues and our business.

Licensing and Certification. Our operators and facilities are subject to various federal, state and local licensing and certification laws and regulations, including laws and regulations under Medicare and Medicaid requiring operators of SNFs and ALFs to comply with extensive standards governing operations. See "Item 1. Business – Government Regulation and Reimbursement – Licensing and Certification." Governmental agencies administering these laws and regulations regularly inspect our operators' facilities and investigate complaints. Our operators and their managers receive notices of observed violations and deficiencies from time to time, and sanctions have been imposed from time to time on facilities operated by them. Failure to obtain any required licensure or certification, the loss or suspension of any required licensure or certification, or any violations or deficiencies with respect to relevant operating standards may require a facility to cease operations or result in ineligibility for reimbursement until the necessary licenses or certifications are obtained or reinstated, or any such violations or deficiencies are cured. In such event, our revenues from these facilities could be reduced or eliminated for an extended period of time or permanently.

Fraud and Abuse Laws and Regulations. There are various federal and state civil and criminal laws and regulations governing a wide array of healthcare provider referrals, relationships and arrangements, including laws and regulations prohibiting fraud by healthcare providers. Many of these complex laws raise issues that have not been clearly interpreted by the relevant governmental authorities and courts. In addition, federal and state governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. See “Item 1. Business – Government Regulation and Reimbursement – Fraud and Abuse.” The violation of any of these laws or regulations, including the anti-kickback statute and the Stark Law, by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs. Such fines or penalties could jeopardize an operator’s ability to make lease or mortgage payments to us or to continue operating its facility.

Privacy Laws. Our operators are subject to federal, state and local laws and regulations designed to protect the privacy and security of patient health information, including HIPAA, among others. See “Item 1. Business – Government Regulation and Reimbursement – Privacy.” These laws and regulations require our operators to expend the requisite resources to protect and secure patient health information, including the funding of costs associated with technology upgrades. Operators found in violation of HIPAA or any other privacy or security law may face large penalties. In addition, compliance with an operator’s notification requirements in the event of a breach of unsecured protected health information could cause reputational harm to an operator’s business. Such penalties and damaged reputation could adversely affect an operator’s ability to meet its obligations to us.

Other Laws. Other federal, state and local laws and regulations affect how our operators conduct their operations. See “Item 1. Business – Government Regulation and Reimbursement – Other Laws and Regulations.” We cannot predict the effect that the costs of complying with these laws may have on the revenues of our operators, and thus their ability to meet their obligations to us.

Legislative and Regulatory Developments. Each year, legislative and regulatory proposals are introduced at the federal, state and local levels that, if adopted, would result in major changes to the healthcare system. See “Item 1. Business – Government Regulation and Reimbursement” in addition to the other risk factors set forth below. We cannot accurately predict whether any proposals will be adopted, and if adopted, what effect (if any) these proposals would have on our operators or our business.

Provisions of the Healthcare Reform Law require certain changes to reimbursement and studies of reimbursement policies that may adversely affect payments to SNFs.

Several provisions of the Healthcare Reform Law will affect Medicare payments to SNFs, including, but not limited to, provisions changing the payment methodology, implementing value-based purchasing and payment bundling and studying the appropriateness of restrictions on payments for health care acquired conditions. These provisions are in various stages of implementation See “Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform,” “– Reimbursement,” “– Medicaid,” and “– Medicare.” Although we cannot accurately predict whether or how su provisions may be implemented, or the effect any such implementation would have on our operators or our business, the Healthcare Reform Law could result in decreases in payments to our operators, increase our operators’ costs or otherwise adversely affect the financial condition of our operators, thereby negatively impacting their ability to meet their obligations to us.

The Healthcare Reform Law imposes additional requirements on SNFs regarding compliance and disclosure.

The Healthcare Reform Law requires SNFs to implement, by March 2013, a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. See “Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform.” If our operators fall short in their compliance and ethics programs and quality assurance and performance improvement programs, or if the information they provide to the CMS for the Nursing Home Compare website reveals significant shortcomings, their reputations and ability to attract residents could be adversely affected.

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

Changes in the reimbursement rate or methods of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursements for services provided by our operators has in the past, and could in the future, result in a substantial reduction in our operators’ revenues and operating margins. See “Item 1. Business – Government Regulation and Reimbursement – Reimbursement,” “– Medicaid,” and “– Medicare.” We currently believe that our operator coverage ratios are adequate and that our operators can absorb moderate reimbursement rate reductions and still meet their obligations to us. However, significant limits on the scopes of services reimbursed and on reimbursement rates could have a material adverse effect on our operators’ results of operations and financial condition, which could cause the revenues of our operators to decline and negatively impact their ability to meet their obligations to us.

Additionally, net revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable, additional documentation is necessary or certain services were not covered or were not medically necessary. New legislative and regulatory proposals could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce Medicaid expenditures and to make changes to private healthcare insurance. We cannot assure you that adequate third-party payor reimbursement levels will continue to be available for the services provided by our operators.

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

Many states are focusing on the reduction of expenditures under their Medicaid programs, which may result in a reduction in reimbursement rates for our operators. See "Item 1. Business – Government Regulation and Reimbursement – Reimbursement," "– Medicaid," and "– Medicare." These potential reductions could be compounded by th potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our operators under both the Medicare and Medicaid programs. Potential reductions in Medicare and Medicaid reimbursement to our operators could reduce the cash flow of our operators and their ability to make rent or mortgage payments to us. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. Medicaid enrollment may significantly increase in the near future, as the Healthcare Reform Law allows states to increase the number of people who are eligible for Medicaid beginning in 2014 and simplifies enrollment in this program. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement and an increase in the number of Medicaid patients could place some operators in financial distress, which in turn could adversely affect us. If funding for Medicare and/or Medicaid is reduced, it could have a material adverse effect on our operators' results of operations and financial condition, which could adversely affect our operators' ability to meet their obligations to us.

The American Taxpayer Relief Act will cut payments to SNFs.

On January 3, 2013, Congress enacted the American Taxpayer Relief Act (ATRA) of 2012. Payments to SNFs will be cut by approximately $600 million from FY 2013 - FY 2022. Under the ATRA, payments for multiple procedures or therapies provided on the same day will be reduced, resulting in approximately $1.8 billion savings to Medicare over the next 10 years. Sequestration cuts to domestic and defense spending, including a 2% cut in payments to Medicare providers and suppliers, will become effective on March 1, 2013. We cannot predict whether Congress will take action to prevent the sequestration cuts from becoming effective, or how states will react to any changes that occur at the federal level.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2012, we had two investments with operators and/or managers that exceeded 10% of our total investments: (i) Genesis Healthcare ("Genesis") (11%), and (ii) CommuniCare Health Services, Inc. ("CommuniCare") (10%). No other operator represents more than 9% of our investments.

For the year ended December 31, 2012, our revenues from operations totaled $350.5 million, of which approximately $44.5 million were from Genesis (on a pro forma basis including Sun Healthcare, which Genesis acquired in December 2012) (13%) and $44.2 million from CommuniCare (13%). No other operator generated more than 9% of our revenues from operations for the year ended December 31, 2012.

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

Risks Related to Us and Our Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems to integrate and manage the long-term care facilities we have acquired in the past and those that we may acquire under our existing cost structure in a timely manner. Our failure to timely integrate and manage recent and future acquisitions or developments could have a material adverse effect on our results of operations and financial condition.

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

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

- our limited prior business experience with certain of the operators of the facilities we have recently acquired or may acquire in the future;

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

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

Our assets may be subject to impairment charges.

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

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

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

Our indebtedness could adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

Our real estate investments are relatively illiquid.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

We were organized to qualify for taxation as a REIT under Sections 856 through 860 of the Code. See "Item 1. Business – Taxation."We believe that we have operated in such a manner as to qualify for taxation as a REIT under the Code and intend to continue to operate in a manner that will maintain our qualification as a REIT. Qualification as a REIT involves the satisfaction of numerous requirements, some on an annual and some on a quarterly basis, established under highly technical and complex provisions of the Code for which there are only limited judicial and administrative interpretations and involve the determination of various factual matters and circumstances not entirely within our control. We cannot assure you that we will at all times satisfy these rules and tests.

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

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

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

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

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

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

Risks Related to Our Stock

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

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

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

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

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

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

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

- the issuance and exercise of options to purchase our common stock or other equity awards under remuneration plans. We may also issue equity to our employees in lieu of cash bonuses or to our directors in lieu of director's fees;

the issuance of shares pursuant to our dividend reinvestment and direct stock purchase plan;

the issuance of debt securities exchangeable for our common stock;

the exercise of warrants we may issue in the future;

lenders sometimes ask for warrants or other rights to acquire shares in connection with providing financing, and we cannot assure you that our lenders will not request such rights; and

the sales of securities convertible into our common stock could dilute the interests of existing common stockholders.

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

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

Holders of our preferred stock that we may issue from time to time may have liquidation and other rights that are senior to the rights of the holders of our common stock.

On March 7, 2011, we redeemed all of our issued and outstanding 8.375% Series D cumulative redeemable preferred stock. However, our Board of Directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock.

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

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

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

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

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

At December 31, 2012, our real estate investments included long-term care facilities and rehabilitation hospital investments, either in the form of purchased facilities that are leased to operators or other affiliates, mortgages on facilities that are operated by the mortgagors or their affiliates and facilities subject to leasehold interests. The facilities are located in 34 states and are operated by 46 operators. We use the term "operator" to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. In some cases, our tenants and mortgagees contract with a healthcare operator to operate the facilities. The following table summarizes our property investments as of December 31, 2012:

Investment Structure/Operator	Number of Operating Beds	Number of Facilities	Gross Investment (in thousands)
Leased Facilities(1)			
Genesis HealthCare	6,120	53	$ 356,684
Health and Hospital Corporation	4,212	40	279,476
Airamid Health Management	4,535	38	263,561
CommuniCare Health Services, Inc	3,525	28	255,618
Signature Holdings II, LLC.	3,264	31	226,062
S&F Management Company, LLC	1,830	14	212,448
Advocat, Inc.	3,962	36	148,408
Gulf Coast Master Tenant I, LLC.	2,157	17	146,636
Affiliates of Capital Funding Group, Inc.	1,816	17	129,697
Guardian LTC Management Inc.	1,683	23	125,971
Consulate Health Care	2,023	17	117,654
Nexion Health Inc	2,146	20	86,903
Affiliates of Persimmon Ventures, LLC & White Pine Holdings, LLC.	757	5	83,940
Essex Healthcare Corporation	1,271	13	83,587
TenInOne Acquisition Group, LLC	1,456	10	82,617
Swain/Herzog	1,008	9	56,400
Mark Ide Limited Liability Company	1,085	12	46,771
Sava Senior Care, LLC.	567	4	41,818
Infinia Properties of Arizona, LLC	476	6	33,371
StoneGate Senior Care LP	750	7	32,438
Pinon Management, Inc.	492	6	30,390
Fundamental Long Term Care Holding, LLC	381	3	20,927
Daybreak Venture, LLC	483	5	18,143
Rest Haven Nursing Center Inc.	176	1	14,400
Health Systems of Oklahoma LLC.	407	3	12,470
Washington N&R	239	2	12,152
Care Initiatives, Inc	188	1	10,347
Adcare Health Systems	300	2	10,000
Ensign Group, Inc.	271	3	9,656
Lakeland Investors, LLC	274	1	9,625
Infinity Health Care Management	200	2	9,547
Laurel	235	2	7,585

Community Eldercare Services, LLC.	100	1	7,312
Hickory Creek Healthcare Foundation	138	2	7,250
Southwest LTC	150	1	6,839
Longwood Management Corporation.	185	2	6,448
Crowne Management, LLC	172	1	6,351
Elite Senior Living, Inc	105	1	5,893
Emeritus Corporation	52	1	5,674
Country Villa Claremont Healthcare Center, Inc	99	1	4,546
HMS Holdings at Texarkana, LLC	114	1	4,281
Hoosier Enterprises Inc.	47	1	3,622
Generations Healthcare, Inc	59	1	3,007
Diamond Care Vida Encantada, LLC	102	1	2,028
	49,612	445	3,038,553
Assets Held for Sale			
Closed Facility	-	2	1,020
	-	2	1,020

Investment Structure/Operator	Number of Operating Beds	Number of Facilities	Gross Investment (in thousands)
Fixed - Rate Mortgages(2)			
Ciena Healthcare (3)	1,656	15	114,220
CommuniCare Health Services, Inc	1,064	8	77,004
Affiliates of Persimmon Ventures, LLC & White Pine Holdings, LLC	412	4	26,500
Meridian	240	3	15,897
Nexion Health Management	120	1	5,000
	3,492	31	238,621
Total	53,104	478	$ 3,278,194

(1) Certain of our lease agreements contain purchase options that permit the lessees to purchase the underlying properties from us.
(2) In general, many of our mortgages contain prepayment provisions that permit prepayment of the outstanding principal amounts thereunder.
(3) The mortgage includes two properties for which we have provided construction to permanent mortgage financing. The properties are currently under construction. We have not included the properties (facilities) under construction in our facility count.

The following table presents the concentration of our facilities by state as of December 31, 2012:

	Number of Facilities	Number of Operating Beds	Gross Investment (in thousands)	% of Gross Investment
Florida	85	10,053	$604,848	18.5
Ohio	50	5,494	365,535	11.2
Indiana (1)	51	5,002	318,719	9.7
California	22	2,336	187,109	5.7
Pennsylvania	25	2,298	175,728	5.4
Maryland	16	2,112	174,076	5.3
Texas	32	3,970	171,080	5.2
Michigan (2)	19	2,026	152,221	4.6
Arkansas	23	2,385	125,912	3.8
Tennessee	16	2,236	118,913	3.6
Arizona	10	987	98,014	3.0
Colorado	12	1,262	79,659	2.4
West Virginia	11	1,255	75,796	2.3
Kentucky	15	1,215	67,252	2.1
North Carolina	10	1,224	59,296	1.8
Massachusetts	8	896	57,347	1.8
Louisiana	14	1,478	55,514	1.7
Alabama	10	1,259	54,440	1.7
Mississippi	6	606	52,984	1.6
Rhode Island	4	558	43,534	1.3
Wisconsin	4	526	30,562	0.9
Georgia	4	625	28,401	0.9
New Hampshire	3	221	23,082	0.7
Idaho	4	377	22,679	0.7
Oklahoma	4	511	22,643	0.7
Iowa	3	359	21,202	0.7
Nevada	3	381	20,927	0.6
Washington	2	194	17,473	0.5
Vermont	2	270	15,382	0.5
Illinois	4	446	14,406	0.4
Missouri	2	239	12,152	0.4
New Mexico	2	221	7,228	0.2
Kansas	1	82	3,210	0.1
Connecticut (1)	1	-	870	0.0
Total	478	53,104	$3,278,194	100.00

(1) Both states include one facility that is classified as held-for-sale as of December 31, 2012.
(2) The mortgage includes two properties for which we have provided construction to permanent mortgage financing. The properties are currently under construction. We have not included the properties (facilities) under construction in our facility count.

Geographically Diverse Property Portfolio. Our portfolio of properties is broadly diversified by geographic location. Our portfolio includes healthcare facilities located in 34 states. In addition, the majority of our 2012 rental and mortgage income was derived from facilities in states that require state approval for development and expansion of healthcare facilities. We believe that such state approvals may limit competition for our operators and enhance the value of our properties.

Large Number of Tenants. Our facilities are operated by 46 different public and private healthcare providers and/or managers. Except for Genesis HealthCare (11%), CommuniCare Health Services, Inc. (10%), Health and Hospital Corporation (9%), subsidiaries and affiliates of Airamid Health Management (8%), Signature Holdings II, LLC (7%) and S&F Management Company, LLC (6%) which together hold approximately 51% of our portfolio (by investment), no other single tenant holds greater than 5% of our portfolio (by investment).

Significant Number of Long-term Leases and Mortgage Loans. At December 31, 2012, approximately 86% of our leases and mortgages had primary terms that expire in 2016 or later. The majority of our leased real estate properties are leased under provisions of master lease agreements. We also lease facilities under single facility leases. The initial terms of both types of leases typically range from 5 to 15 years, plus renewal options.

All of our leased properties are leased under long term, triple-net leases. The following table displays the expiration of the annualized straight-line rental revenues under our lease agreements as of December 31, 2012 by year without giving effect to any renewal options:

Expiration Year		Annualized Straight-line Rental Revenue Expiring ($ in thousands)	Number of Lease Expiring
2013	$	3,677	4
2014		1,347	4
2015		2,822	5
2016		30,166	7
2017		7,351	5
2018		56,630	8
2019		-	-
2020		1,785	2
2021		31,429	3
2022		57,648	8
Thereafter		172,985	33
Total	$	365,840	79

Item 3 - Legal Proceedings

On January 7, 2010, LCT SE Texas Holdings, L.L.C. (“LCT”), an affiliate of Mariner Health Care and the lessee of four facilities located in the Houston area (the “LCT Facilities”), filed a petition in the District Court of Harris County, Texas (No. 2010-01120) against four landlord entities (the “CSE Entities”), the member interests of which we purchased as part of the December 2009 CapitalSource acquisition. The petition relates to a right of first refusal (“ROFR”) under the master lease between LCT and the CSE Entities. The petition alleges, among other things, that (i) the notice of the acquisition of the member’s interests of the CSE Entities was not proper under the ROFR provision in the master lease, (ii) the purchase price allocated to the member’s interests of the CSE Entities (or the LCT Facilities) pursuant to the CapitalSource Purchase Agreement and specified in the notice to LCT of its ROFR, if any, was not a bona fide offer, did not represent "true market value" and failed to trigger the ROFR and (iii) we tortiously interfered with LCT's right to exercise the ROFR. The petition seeks a declaratory adjudication with respect to the identified claims above, a claim for specific performance permitting LCT to exercise its ROFR and unspecified actual and punitive damages relating to the alleged breach of the master lease by the CSE Entities and tortious interference by us. On April 19, 2011, the court dismissed with prejudice plaintiff's claim against the defendants, all pursuant to a joint motion to dismiss filed by the parties.

Item 4 - Mine Safety Disclosures

Not applicable.

PART II

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

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

2012				2011			
Quarter	High	Low	Dividends Per Share	Quarter	High	Low	Dividends Per Share
First	$ 22.23	$ 19.03	$ 0.41	First	$ 24.00	$ 21.38	$ 0.37
Second	23.09	20.14	0.42	Second	24.46	19.07	0.38
Third	25.00	22.54	0.42	Third	22.05	14.40	0.40
Fourth	24.35	21.30	0.44	Fourth	19.87	14.45	0.40
			$ 1.69				$ 1.55

The closing price for our common stock on the New York Stock Exchange on February 22, 2013 was $27.81 per share. As of February 22, 2013 there were 112,971,775 shares of common stock outstanding with approximately 2,867 registered holders.

The following table provides information about shares available for future issuance under our equity compensation plans as of December 31, 2012.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights (2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (3)
Equity compensation plans approved by security holders	372,735	$ —	1,297,509
Equity compensation plans not approved by security holders	—	—	—
Total	372,735	$ —	1,297,509

(1) Reflects a maximum of 372,735 shares that could be earned if certain performance conditions are achieved under performance restricted stock units that vest on December 31, 2013.

(2) No exercise price is payable with respect to the performance restricted stock units.

(3) Reflects shares of common stock remaining available for future awards under our 2000 and 2004 Stock Incentive Plans.

Item 6 - Selected Financial Data

The following table sets forth our selected financial data and operating data for our company on a historical basis. The following data should be read in conjunction with our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our historical operating results may not be comparable to our future operating results. The comparability of our selected financial data is significantly affected by our acquisitions and new investments in 2009, 2010, 2011 and 2012. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Portfolio and Other Developments."

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Operating Data					
Revenues from core operations	$ 350,460	$ 292,204	$ 250,985	$ 179,008	$ 169,592
Revenues from nursing home operations	-	-	7,336	18,430	24,170
Total revenues	$ 350,460	$ 292,204	$ 258,321	$ 197,438	$ 193,762
Income from continuing operations	$ 120,698	$ 52,606	$ 58,436	$ 82,111	$ 77,691
Net income available to common stockholders	120,698	47,459	49,350	73,025	70,551
Per share amounts:					
Income from continuing operations:					
Basic	$ 1.12	$ 0.46	$ 0.52	$ 0.87	$ 0.93
Diluted	1.12	0.46	0.52	0.87	0.93
Net income available to common stockholders:					
Basic	$ 1.12	$ 0.46	$ 0.52	$ 0.87	$ 0.94
Diluted	1.12	0.46	0.52	0.87	0.94
Dividends, Common Stock(1)	$ 1.69	$ 1.55	$ 1.37	$ 1.20	$ 1.19
Dividends, Series D Preferred(1)	-	0.74	2.09	2.09	2.09
Weighted-average common shares outstanding, basic	107,591	102,119	94,056	83,556	75,127
Weighted-average common shares outstanding, diluted	108,011	102,177	94,237	83,649	75,213

	As of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data					
Gross investments	$ 3,325,533	$ 2,831,132	$ 2,504,818	$ 1,803,743	$ 1,502,847
Total assets	2,982,005	2,557,312	2,304,007	1,655,033	1,364,467
Revolving line of credit	258,000	272,500	-	94,100	63,500
Other long-term borrowings	1,566,932	1,278,900	1,176,965	644,049	484,697

Stockholders’ equity	1,011,329	878,484	1,004,066	865,227	787,988

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

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

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

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

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

Overview

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

Our portfolio of investments at December 31, 2012, consisted of 478 healthcare facilities (including two assets held for sale), located in 34 states and operated by 46 third-party operators. Our gross investment in these facilities totaled approximately $3.3 billion at December 31, 2012, with 99% of our real estate investments related to long-term healthcare facilities. The portfolio is made up of (i) 418 SNFs, (ii) 16 ALFs, (iii) 11 specialty facilities, (iv) fixed rate mortgages on 31 SNFs and (v) two facilities and one parcel of land that are currently held for sale. At December 31, 2012, we also held other investments of approximately $47.3 million, consisting primarily of secured loans to third-party operators of our facilities.

Current market and economic conditions, including deficits at both the federal and state level could result in additional cost-cutting at both the federal and state levels resulting in additional reductions to reimbursement rates and levels to our operators under both the Medicare and Medicaid programs. The state deficit could be exacerbated by the potential for increased enrollment in Medicaid due to prolonged high unemployment levels and declining family incomes, which could cause states to reduce state expenditures under their respective state Medicaid programs by lowering reimbursement rates.

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

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

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega and (iii) TC Healthcare. We consolidate the financial results of TC Healthcare into our financial statements based on the applicable consolidation accounting literature. We include the operating results, assets and liabilities of these facilities for the period of time that TC Healthcare was responsible for the operations of the facilities. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer. The operating revenues and expenses and related operating assets and liabilities of the two facilities are shown on a gross basis in our Consolidated Statements of Operations and Consolidated Balance Sheets, respectively. TC Healthcare was responsible for the collection of the accounts receivable earned and the liabilities incurred prior to the date of the transition to the new tenant/operator. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

2012 and Recent Highlights

Acquisition and Other Investments

See "Portfolio and Other Developments" below for a description of 2012 acquisitions and other investments.

$175 Million 7% Senior Notes due 2016 Tender Offer and Redemption

On March 5, 2012, we commenced a tender offer to purchase for cash any and all of our outstanding $175 million aggregate principal amount of 7% Senior Notes due 2016, or the 2016 Notes. Pursuant to the terms of the tender offer, on March 19, 2012, we purchased $168.9 million aggregate principal amount of the 2016 Notes. On March 27, 2012, pursuant to the terms of the indenture governing the 2016 Notes, we redeemed the remaining $6.1 million aggregate principal amount of the 2016 Notes at a redemption price of 102.333% of their principal amount, plus accrued and unpaid interest up to the redemption date. See “Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements” below for detail.

Issuance of $400 Million 5.875% Senior Notes due 2024 and Exchange Offer

On March 19, 2012, we issued $400 million aggregate principal amount of our 5.875% Senior Notes due 2024, or the 2024 Notes. The 2024 Notes mature on March 15, 2024 and pay interest semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012. See “Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements” below for detail.”

$245 Million Equity Shelf Program

On June 19, 2012, we entered into separate Equity Distribution Agreements (collectively, the "2012 Agreements") with several financial institutions, each as a sales agent and/or principal (collectively, the "Managers") to establish a $245 million Equity Shelf Program. Under the terms of the 2012 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to $245 million. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2012 Agreement.

For the year ended December 31, 2012, we issued 2.6 million shares under the 2012 ESP, at an average price of $24.10 per share, generating gross proceeds of approximately $63.6 million, before $1.3 million of commissions. For the three months ended December 31, 2012, we did not issue shares under the 2012 ESP. The proceeds of the sale of our common stock under the 2012 ESP were used for working capital and for general corporate purposes, including funding the recent investments described above. As of December 31, 2012, we have approximately $181.4 million available for issuance under the 2012 ESP.

Termination of $140 Million Equity Shelf Program

On June 19, 2012, we terminated our $140 million Equity Shelf Program (the "2010 ESP"). For the year ended December 31, 2012, we issued approximately 759,000 shares of our common stock under the 2010 ESP at an average price per share of $21.27, generating gross proceeds of approximately $16.1 million, before $0.3 million of commissions.

From inception of the 2010 ESP, through its termination in June 2012 in connection with the implementation of the 2012 ESP, we sold a total of 5.3 million shares of common stock under the 2010 ESP generating total gross proceeds of $114.9 million under the program, before $2.3 million of commissions. As a result of the termination of the 2010 ESP, no additional shares were issued under the 2010 ESP. The proceeds of the sale of our common stock under the 2010 ESP were used for working capital and for general corporate purposes.

HUD Mortgage Payoffs

On June 29, 2012, we paid approximately $11.8 million to retire four HUD mortgages that were assumed as part of the December 2011 acquisition. The retirement of the four HUD mortgages resulted in a net gain of approximately $1.7 million. The net gain included the write-off of approximately $1.8 million related to the unamortized fair value adjustment of the assumed debt as well as a prepayment fee of approximately $0.1 million.

$700 Million Unsecured Credit Facility

On December 6, 2012, we entered into a new $700 million unsecured credit facility, comprised of a $500 million senior unsecured revolving credit facility (the "2012 Revolving Credit Facility") and a $200 million unsecured, deferred draw term loan facility (the "2012 Term Loan Facility" and, together with the 2012 Revolving Credit Facility, collectively, the "2012 Credit Facilities"). The 2012 Credit Facilities replaced our previous $475 million senior unsecured revolving credit facility (the "2011 Credit Facility"). See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below for detail.

Dividends

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

On February 15, 2012, May 15, 2012, August 15, 2012 and November 15, 2012, we paid dividends to our common stockholders in the per share amounts of $0.41, $0.42, $0.42 and $0.44, for stockholders of record on January 31, 2012, April 30, 2012, July 31, 2012 and October 31, 2012, respectively.

Portfolio and Other Developments

The partial expiration of certain Medicare rate increases and state cuts to Medicaid reimbursement rates has had an adverse impact on the revenues of the operators of nursing home facilities and could negatively impact some operators' ability to satisfy their monthly lease or debt payment to us. See "Item 1 Business - Government Regulation and Reimbursement" above for further discussion. In several instances, we hold security deposits that can be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators seeking protection under the Bankruptcy Code.

Significant Lease Amendment – Genesis Healthcare

On December 1, 2012, Genesis Healthcare ("Genesis"), an existing operator to Omega, completed the purchase of Sun Healthcare Group ("Sun"), also an existing operator to Omega. Prior to the purchase, Sun was our second largest tenant with $235 million in leased assets representing 40 facilities located in 10 states. We leased the 40 facilities to Sun under a master lease with expiration dates in 2013 and 2017. Prior to the purchase, we also had a master lease with Genesis covering approximately $122 million in leased assets representing 13 facilities located in 5 states.

In connection with the acquisition, on December 1, 2012, we entered into a new 53 facility master lease with Genesis expiring on December 31, 2025. At December 31, 2012, Genesis was our largest tenant with $357 million in leased assets (approximately 11% of our total gross investments) located in 13 states.

2012 Acquisitions and Other Investments

Arizona and California Acquisitions

During the three-month period ended December 31, 2012, we completed the acquisition of approximately $203.4 million of new investments and leased them back to a new operator. The investments involved two separate transactions to purchase 14 facilities (12 SNFs, one assisted living facility ("ALF") and 1 combined SNF/ALF). The combined transactions consisted of the assumption of approximately $71.9 million of HUD indebtedness and payment of $131.5 million in cash. The $71.9 million of assumed HUD debt is comprised of 8 HUD mortgage loans with a blended interest rate of 5.50% and maturities between April 2031 and February 2045. The 14 facilities, representing 1,830 operating beds, are located in California (10) and Arizona (4). The transaction involved several separate master lease agreements covering all 14 facilities.

Transaction 1 (First Closing): On November 30, 2012, we purchased four Arizona facilities (2 SNFs, 1 ALF and 1 combined SNF/ALF) for an aggregate purchase price of $60.0 million. The transaction consisted of the assumption of $27.6 million of indebtedness guaranteed by HUD and $32.4 million in cash. The blended interest rate on the HUD indebtedness assumed for the Arizona facilities was 4.73%. The four facilities were simultaneously leased back to a new operator under a new 12 year master lease.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $64.6 million consisting of land ($5.5 million), building and site improvements ($55.9 million), and furniture and fixture ($3.2 million). We recorded approximately $4.6 million of fair value adjustment related to above market debt assumed based on the terms of comparable debt and other market factors. We estimate amortization of the fair value adjustment related to the above market debt will average approximately $0.2 million per year for the next five years. We have not recorded goodwill in connection with this transaction.

Transaction 2 (Second Closing): In November 2012, we entered into a Purchase and Sales Agreement to purchase and then leaseback 10 California SNFs. On November 30, 2012, we purchased five SNFs for approximately $70.2 million. The five SNFs were then leased back to the new operator under a 12 year master lease.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $70.2 million consisting of land ($11.5 million), building and site improvements ($55.5 million), and furniture and fixture ($3.2 million). We have not recorded goodwill in connection with this transaction.

Transaction 2 (Third Closing): On December 31, 2012, we purchased the remaining five California SNFs for an aggregate purchase price of $72.2 million (net of purchase price reduction of approximately $1.0 million related to funds escrowed by the seller to reimburse us for costs associated with refinancing some of the assumed HUD debt). The transaction consisted of the assumption of $44.3 million of HUD indebtedness and $28.9 million in cash. The blended interest rate on the HUD indebtedness assumed for the five California facilities was 5.97%. The five SNFs were then leased back to the new operator under new 12 year master leases.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $77.6 million consisting of land ($13.0 million), building and site improvements ($60.9 million), and furniture and fixture ($3.7 million). We recorded approximately $5.4 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt and other market factors. We estimate amortization of the fair value adjustment related to the above market debt will be approximately $0.3 million in 2013 and will average approximately $0.2 million per year from 2014 through 2017. We have not recorded goodwill in connection with this transaction.

Indiana Acquisitions

In 2012 we completed four transactions in Indiana involving two existing operators and 34 facilities. The following is a summary of the transactions:

Transaction 1: On June 29, 2012, we purchased one SNF encompassing 80 operating beds in Indiana for approximately $3.4 million and leased the facility back to an existing operator under an existing master lease. As of December 31, 2012, we allocated approximately $3.4 million consisting of land ($0.2 million), building and site improvements ($2.9 million), and furniture and fixture ($0.3 million). We have not recorded goodwill in connection with this transaction.

Transaction 2: On June 29, 2012, we purchased four facilities encompassing 383 operating beds in Indiana for approximately $21.7 million and leased the facilities to Health and Hospital Corporation. As of December 31, 2012, we allocated approximately $21.7 million consisting of land ($1.9 million), buildings and site improvements ($18.4 million) and furniture and fixtures ($1.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 3: On August 31, 2012, we purchased 27 facilities (17 SNFs, four ALFs and six independent living facilities) totaling 2,892 operating beds in Indiana from an unrelated third party for approximately $203 million in cash and assumed a liability associated with the lease of approximately $13.9 million. Simultaneous with the transaction, we also purchased one parcel of land for $2.8 million. The purchase price of both (i) 27 facilities and (ii) the parcel of land were funded from cash on hand and borrowings from our credit facility. The 27 facilities and land parcel were added to an existing master lease. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $219.7 million consisting of land ($16.1 million), building and site improvements ($189.2 million) and furniture and fixture ($14.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 4: On December 31, 2012, we purchased two SNFs encompassing 167 operating beds in Indiana for approximately $9.5 million and leased these facilities back to an existing operator under a new consolidated master lease. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $9.5 million consisting of land ($0.6 million), building and site improvements ($8.0 million), and furniture and fixture ($0.9 million). We have not recorded goodwill in connection with this transaction.

Michigan Acquisition and New Mortgage

On November 30, 2012, we completed $21.5 million of combined new investments with an existing operator and mortgagee. The investments involved both a purchase and mortgage transaction related to two facilities and 231 operating beds.

Purchase Transaction – We purchased one ALF for $20 million from an unrelated third party and added it to an existing master lease with an existing operator. The 171 operating bed ALF is located in Michigan. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $20.0 million consisting of land ($0.4 million), building and site improvements ($18.9 million), and furniture and fixture ($0.7 million). We have not recorded goodwill in connection with this transaction.

Mortgage Transaction – We entered into a new $1.5 million first mortgage loan with an existing operator/mortgagee. The mortgage is secured by a lien on one 60 operating bed SNF located in Michigan.

Texas Acquisition

On October 31, 2012, we purchased one SNF from an unrelated third party encompassing 90 operating beds in Texas for approximately $2.7 million and leased the facility to an existing operator. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $2.7 million consisting of land ($0.2 million), building and site improvements ($2.2 million), and furniture and fixture ($0.3 million). We have not recorded goodwill in connection with this transaction.

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2012, we expensed $0.9 million of acquisition related expenses.

2011 Acquisitions and New Investments

During the fourth quarter of 2011, we (i) completed two acquisitions, (ii) funded two new mortgages and (iii) funded a new working capital note. The first acquisition was comprised of the purchase of four SNFs in Maryland and West Virginia; the second acquisition was comprised of the purchase/leaseback of 17 SNFs in five states, including Arkansas, Colorado, Florida, Michigan and Wisconsin. Acquisition costs related to the two acquisitions was approximately $1.2 million in 2011 and was expensed. In addition, we funded two new mortgages to two operators covering a total of 16 SNFs and closed a new note with an existing operator. The following is summary of the transactions and other investments:

2011 First Acquisition (Maryland and West Virginia) and New Mortgage

During the fourth quarter of 2011, we completed $86 million of combined new investments with two new operators. The combined transaction consisted of $56 million in cash and $30 million in assumed HUD indebtedness, with a combined initial annual yield of approximately 10%. The investments involved a purchase / lease back transaction and a mortgage transaction. The combined transaction consists of 7 facilities and 938 operating beds.

Purchase / Lease Back Transaction

We purchased four SNFs located in Maryland (3) and West Virginia (1), totaling 586 beds for a total investment of $61 million, including approximately $1 million to complete renovations at one facility. The consideration consisted of $31 million in cash and the assumption of $30 million in HUD – indebtedness, which bears an interest rate of 4.87% (weighted-average) and matures between March 2036 and September 2040.

We completed our fair value allocation in 2012. We allocated approximately $62.7 million consisting of land ($4.4 million), buildings and site improvements ($55.0 million) and furniture and fixtures ($3.3 million). We funded approximately $1.3 million in renovation costs for one of the facilities acquired in connection with this transaction and completed the renovation during the third quarter of 2012. We recorded approximately $3.0 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately $0.2 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

2011 First Mortgage Transaction

We entered into a first mortgage loan with a new operator in the amount of $25 million secured by a lien on three SNFs, totaling 352 operating beds, all located in Maryland. The mortgage currently bears interest at 12% and increases to 13.5% in year 7.

2011 Second Acquisition (Arkansas, Colorado, Florida, Michigan and Wisconsin)

On December 23, 2011, we purchased 17 SNFs and leased them back to a new operator, for an aggregate purchase price of $128 million. The acquisition consisted of the assumption of $71.3 million of indebtedness guaranteed by HUD and $56.7 million in cash.

The $71.3 million of assumed HUD debt was comprised of 15 HUD mortgage loans with a blended interest rate of 5.70% and maturities between October 2029 and July 2044.

The 17 SNFs, representing 1,820 operating beds, are located in Arkansas (12), Colorado (1), Florida (1), Michigan (2) and Wisconsin (1). The purchase/leaseback transaction involved two separate master lease agreements covering all 17 SNFs.

We completed our fair value allocation in 2012. We allocated approximately $129.9 million consisting of land ($9.0 million), buildings and site improvements ($111.5 million) and furniture and fixtures ($9.4 million). We recorded approximately $1.9 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We have not recorded goodwill in connection with this transaction.

2011 Second Mortgage Transaction

On November 14, 2011, we entered into a $92.0 million new first mortgage loan with affiliates of Ciena. The loan is secured by 13 SNFs located in Michigan, which operate a total of 1,421 beds. The term of the mortgage is 10 years and it bears an initial interest rate of 11% with fixed escalators in years 4 and 7. The mortgage is cross-defaulted with existing investments with affiliates of Ciena.

2011 Funding of New Note

In December 2011, we entered into a five year $28.0 million loan agreement with an existing operator. The loan bears interest at 10% per annum. In 2012, we received $1.5 million in principal payments related to the loan.

143 Facility CapitalSource Acquisitions (2009 – 2010)

In November 2009, we entered into a securities purchase agreement (the "CapitalSource Purchase Agreement") with CapitalSource Inc. ("CapitalSource") and several of its affiliates, pursuant to which we agreed to purchase CapitalSource subsidiaries owning 80 long term care facilities, plus an option to purchase CapitalSource subsidiaries owning an additional 63 facilities (the "Option"), for approximately $858 million. Our acquisition of the CapitalSource subsidiaries pursuant to the terms of the purchase agreement was conducted in three separate closings: (i) on December 22, 2009, we acquired CapitalSource subsidiaries owning 40 long-term care facilities and an option to acquire an additional 63 facilities; (ii) on June 9, 2010, we exercised our option to acquire CapitalSource subsidiaries owning 63 long-term care facilities; and (iii) on June 29, 2010, we acquired CapitalSource subsidiaries owning 40 long-term care facilities. We accounted for these acquisitions as business combinations. We incurred approximately $3.1 million in transaction costs for the transactions, of which $1.6 million was expensed during 2009 and $1.5 million was expensed in 2010.

First Closing

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

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

We allocated approximately $282.0 million consisting of land ($22.5 million), building and site improvements ($241.9 million) and furniture and fixtures ($17.6 million). We allocated approximately $9.5 million to in-place above market leases assumed at the first closing and approximately $19.8 million to in-place below market leases assumed at the first closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the first closing was approximately $1.4 million, $1.3 million and $1.2 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the December 22, 2009 acquisition as follows (in millions):

1 year	1-3 years	3-5 years	Thereafter
$1.2	$2.1	$1.7	$1.8

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

HUD Portfolio Closing

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

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

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

We allocated approximately $313.3 million consisting of land ($32.3 million), building and site improvements ($264.1 million) and furniture and fixtures ($16.9 million). We allocated approximately $4.9 million to in-place above market leases assumed and approximately $24.1 million to in-place below market leases assumed at the HUD portfolio closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the HUD portfolio closing was approximately $1.9 million, $3.5 million and $3.2 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 29, 2010 acquisition as follows (in millions):

1 year	1-3 years	3-5 years	Thereafter
$2.9	$5.1	$0.9	$1.7

In addition, we recorded approximately $22.5 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. In 2010, 2011 and 2012, we amortized approximately $0.7 million, $1.4 million and $1.3 million for the fair value adjustment, respectively. We estimate amortization will average approximately $1.2 million per year for the next five years. We did not record goodwill in connection with this transaction.

Option Exercise and Closing

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

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

We allocated approximately $328.9 million consisting of land ($35.8 million), building and site improvements ($276.0 million) and furniture and fixtures ($17.1 million). We allocated approximately $8.2 million to in-place above market leases assumed and approximately $18.8 million to in-place below market leases assumed at the Option portfolio closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the Option portfolio closing was approximately $0.7 million, $1.3 million and $0.9 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 9, 2010 acquisition as follows:

1 year	1-3 years	3-5 years	Thereafter
$1.0	$2.4	$1.9	$2.5

We did not record goodwill in connection with this transaction.

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Results of Operations

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

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Operating Revenues

Our operating revenues for the year ended December 31, 2012, were $350.5 million, an increase of $58.3 million over the same period in 2011. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2012:

Rental income was $314.6 million, an increase of $41.1 million over the same period in 2011. The increase was primarily due to: (i) $189 million of fourth quarter 2011 acquisitions; and (ii) new investment made during 2012.

Mortgage interest income totaled $30.4 million, an increase of $14.2 million over the same period in 2011. The increase was primarily due to (i) a $92.0 million first mortgage loan that we entered with an operator in November 2011 and (ii) a $25.0 million first mortgage loan that we entered with a new operator in October 2011.

Other investment income totaled $4.8 million, an increase of $2.7 million over the same period in 2011. The increase was primarily the result of a $28.0 million term loan that we entered with an existing operator in the fourth quarter of 2011.

Miscellaneous revenue was $0.7 million, an increase of $0.3 million over the same period in 2011.

Operating Expenses

Operating expenses for the year ended December 31, 2012, were $135.5 million, a decrease of approximately $18.9 million over the same period in 2011. Following is a description of certain of the changes in our operating expenses for the year ended December 31, 2012:

Our depreciation and amortization expense was $113.0 million for the year ended December 31, 2012, compared to $100.3 million for the same period in 2011. The increase is primarily due to (i) a full year of depreciation related to the fourth quarter 2011 acquisitions and (ii) additional depreciation associated with the 2012 new investments and capital renovation and improvement program.

Our general and administrative expense, excluding stock-based compensation expense, was $15.4 million, compared to $13.4 million for the same period in 2011. The increase was primarily due to increased costs associated with acquisitions, including payroll and tax related expenses.

Our stock-based compensation expense was $5.9 million, a decrease of $95 thousand over the same period in 2011. The decrease was primarily due to a reduction in the fair value of the shares issued in 2012 compared to 2011 for the annual portion of the Company's stock plan.

In 2012, provision for impairment was $0.3 million, compared to $26.3 million for the same period in 2011. During the first quarter of 2012, we recorded a $0.3 million impairment charge to reduce the carrying value of two SNFs to their estimated fair value. The $26.3 million provision of impairment recorded in 2011 was primarily the result of (i)

$24.4 million impairment on four Connecticut properties that we closed during the year and (ii) three other facilities. In 2012, we sold five of these seven properties.

No provision for uncollectible mortgages, notes and accounts receivable was recorded in 2012, compared to $6.4 million for the same period in 2011. The $6.4 million recorded in 2011 was related to the write-off of Formation Capital, LLC ("Formation") straight line rent of $1.1 million and lease inducement of $3.0 million during the second quarter of 2011. In addition, during the fourth quarter of 2011, we recorded a $2.3 million write-off associated with our Formation working capital note.

No nursing home expenses of owned and operated assets were recorded in 2012, compared to $0.7 million for the same period in 2011. The decrease was due to the deconsolidation of two owned and operated facilities effective June 1, 2010. The 2011 cost relates to run-off costs.

Other Income (Expense)

For the year ended December 31, 2012, total other expenses were $106.1 million, an increase of approximately $19.2 million over the same period in 2011. The increase in interest expense of approximately $14.4 million was primarily due to an increase in borrowings outstanding, including debt assumed or incurred (i) to finance the fourth quarter of 2011 new investments and (ii) to finance the 2012 new investments. In 2012, we recorded $7.9 million of net interest refinancing costs. The refinancing costs included $7.1 million in costs related to the tender and redemption of our $175 million of 7% Senior Notes due 2016, and $2.5 million related to the write-off of deferred financing costs associated with the termination of the $475 million 2011 Credit Facility; offset by a gain associated with the early retirement of $11.8 million in HUD indebtedness. The net gain of $1.7 million included the write-off of approximately $1.8 million of unamortized fair value adjustment of assumed debt as well as a prepayment fee of approximately $0.1 million. The $3.1 million 2011 refinancing related costs related to the write-off of deferred financing costs associated with the termination of the $320 million 2010 Credit Facility.

2012 Taxes

Because we qualify as a REIT, we generally are not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2012, we made common dividend payments of $182.2 million to satisfy REIT requirements relating to qualifying income. Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of December 31, 2012 of $1.1 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Income from Continuing Operations

Income from continuing operations for the year ended December 31, 2012 was $120.7 million compared to $52.6 million for the same period in 2011.

Funds From Operations

Our funds from operations available to common stockholders (“FFO”), for the year ended December 31, 2012, was $222.2 million, compared to $172.5 million for the same period in 2011.

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

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

The following table presents our FFO results for the years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(in thousands)	
Net income available to common	$ 120,698	$ 47,459
Deduct gain from real estate dispositions	(11,799)	(1,670)
	108,899	45,789
Elimination of non-cash items included in net income:		
Depreciation and amortization	112,983	100,337
Add back impairments on real estate properties	272	26,344
Funds from operations available to common stockholders	$ 222,154	$ 172,470

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Operating Revenues

Our operating revenues for the year ended December 31, 2011, were $292.2 million, an increase of $33.9 million over the same period in 2010. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2011:

Rental income was $273.5 million, an increase of $40.7 million over the same period in 2010. The increase was primarily due to: (i) the June 2010 CapitalSource acquisitions; and to a lesser degree (ii) the fourth quarter of 2011 acquisitions and (iii) new lease amendments and the impact of incremental revenue associated with capital expenditures.

Mortgage interest income totaled $16.3 million, an increase of $5.9 million over the same period in 2010. The increase was primarily due to (i) a $92.0 million first mortgage loan that we entered with an operator in November 2011; (ii) a $25.0 million first mortgage loan that we entered with a new operator in October 2011; (iii) two new construction-to-permanent mortgage loans that we entered into with an operator in August 2010; (iv) a $15.9 million first mortgage loan that we entered into with an operator in December 2010 and (v) a $5.0 million first mortgage loan that we entered into with an operator in September 2011.

Other investment income totaled $2.1 million, a decrease of $1.9 million over the same period in 2010. The decrease was primarily the result of the $1.2 million income received from two mortgage-backed notes that were retired during the second quarter of 2010 and a reduction in the weighted average balance of notes outstanding, due in part, to loan repayment.

Miscellaneous revenue was $0.3 million, a decrease of $3.5 million over the same period in 2010. The decrease was primarily due to a $3.7 million settlement with one of our prior operators in February 2010 for breach of contract related to failure to pay rent.

No nursing home revenues of owned and operated assets were recorded in 2011, compared to $7.3 million for the same period in 2010. The decrease was due to the deconsolidation of two owned and operated facilities effective June 1, 2010.

Operating Expenses

Operating expenses for the year ended December 31, 2011, were $154.4 million, an increase of approximately $45.0 million over the same period in 2010. Following is a description of certain of the changes in our operating expenses for the year ended December 31, 2010:

Our depreciation and amortization expense was $100.3 million, compared to $84.6 million for the same period in 2010. The increase is primarily due to (i) the CapitalSource acquisitions in June 2010; and to a lesser degree (ii) the fourth quarter of 2011 acquisitions and (iii) additional capital renovation and improvement program throughout 2010 and 2011, partially offset by a reduction in depreciation expense associated with the impairments of the Connecticut facilities, the Murphy Healthcare III, LTC property and the Health and Hospital Corporation property.

Our general and administrative expense, excluding stock-based compensation expense was $13.4 million, compared to $12.8 million for the same period in 2010. The increase was primarily due to increased costs associated with the closed Connecticut facilities.

Our stock-based compensation expense was $6.0 million, an increase of $3.8 million over the same period in 2010. The increase was primarily due to a new 2011 restricted stock grant for the employees.

In 2011, we recorded $26.3 million of provision for impairment, compared to $0.2 million for the same period in 2010. The $26.3 million provision of impairment in 2011 primarily resulted from (i) a $24.4 million impairment on four closed Connecticut properties and (ii) three other facilities that have been or will be closed.

The $6.4 million provision for uncollectible mortgages, notes and accounts receivable in 2011 related the write-off of Formation Capital, LLC ("Formation") straight line rent of $1.1 million and lease inducement of $3.0 million during the second quarter of 2011. In addition, during the fourth quarter of 2011, we recorded a $2.3 million write-off associated with our Formation working capital note.

Nursing home expenses of owned and operated assets was $0.6 million, a decrease of $7.3 million over the same period in 2010. The decrease was due to the deconsolidation of two owned and operated facilities effective June 1, 2010. The 2011 cost relates to run-off costs.

Other Income (Expense)

For the year ended December 31, 2011, total other expenses were $86.9 million, a decrease of approximately $3.6 million over the same period in 2010. The increase in interest expense of approximately $13.8 million was primarily due to an increase in borrowings outstanding, including debt assumed or incurred to finance the CapitalSource acquisitions in 2010, the fourth quarter of 2011 acquisitions and to fund the two new mortgages. This was offset by (i) a decrease of $16.4 million in refinancing related costs which included (a) the write-off of $3.5 million during the second quarter of 2010 associated with the termination of our $200 million 2009 Credit Facility, (b) the write-off of $2.2 million during the fourth quarter of 2010 associated with the termination of our $100 million GECC loan and payment of a $3.0 million prepayment penalty premium, and (c) a penalty payment and costs of approximately $8.2 million and the write-off of approximately $2.6 million during the fourth quarter of 2010 associated with the tender offer and retirement of our outstanding $310 million 7% Senior Notes due 2014, as compared to the write-off of $3.1 million during 2011 associated with the termination of the $320 million 2010 Credit Facility and (ii) a decrease of $1.1 million in amortization of deferred financing costs related to: (a) the termination of the $200 million 2009 Credit Facility, (b) the $100 million GECC term loan payoff in October 2010 and (c) the redemption of our outstanding $310 million senior notes in December 2010.

2011 Taxes

Because we qualify as a REIT, we generally are not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2011, we made preferred and common dividend payments of $161.9 million to satisfy REIT requirements relating to qualifying income. Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of December 31, 2011 of $1.1 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Income from Continuing Operations

Income from continuing operations for the year ended December 31, 2011 was $52.6 million compared to $58.4 million for the same period in 2010.

Funds From Operations

Our FFO available to common stockholders ("FFO"), for the year ended December 31, 2011, was $172.5 million, compared to $134.1 million for the same period in 2010.

The following table presents our FFO results for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011	2010
	(in thousands)	
Net income available to common	$ 47,459	$ 49,350
(Deduct gain) add back loss from real estate dispositions	(1,670)	4
	45,789	49,354
Elimination of non-cash items included in net income:		
Depreciation and amortization	100,337	84,623
Add back impairments on real estate properties	26,344	155
Funds from operations available to common stockholders	$ 172,470	$ 134,132

Liquidity and Capital Resources

At December 31, 2012, we had total assets of $3.0 billion, stockholders' equity of $1.0 billion and debt of $1.8 billion, with such debt representing approximately 64.3% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of December 31, 2012.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands)		
Debt(1)	$1,788,711	$5,251	$11,385	$270,677	$1,501,398
Interest payments on long-term debt	1,130,583	102,191	203,497	198,601	626,294
Operating lease obligations	24,595	2,562	5,150	5,186	11,697
Total	$2,943,889	$110,004	$220,032	$474,464	$2,139,389

(1) The $1.8 billion of debt outstanding includes (i) $158.0 million in borrowings under the $500 million unsecured revolving credit facility (the "2012 Revolving Credit Facility") due in December 2016; (ii) $100 million unsecured, deferred draw term loan facility (the "2012 Term Loan Facility") due in December 2017; (iii) $200 million aggregate principal amount of 7.5% Senior Notes due February 2020; (iv) $575 million aggregate principal amount of 6.75% Senior Notes due October 2022, (v) $400 million of 5.875% Senior Notes due March 2024; (vi) $20 million of 9.0% subordinated debt maturing in December 2021; (vii) $51 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040; (viii) $125 million of HUD Debt at a 4.85% annual interest rate and maturing between January 2040 and January 2045; (ix) $59 million of HUD debt at a 5.55% weighted average annual interest rate maturing July 2044; (x) $29 million of HUD debt at a 4.87% weighted average annual interest rate maturing between March 2036 and September 2040; (xi) $28 million of HUD debt at a 4.73% weighted average annual interest rate maturing between February 2040 and February 2045 and (xii) $44 million of HUD debt at a $5.97% weighted average annual interest rate maturing between April 2031 and March 2041.

Financing Activities and Borrowing Arrangements

$175 Million 7% Senior Notes due 2016 Tender Offer and Redemption

On March 5, 2012, we commenced a tender offer to purchase for cash any and all of our outstanding $175 million aggregate principal amount of 7% Senior Notes due 2016, or the 2016 Notes. Pursuant to the terms of the tender offer, on March 19, 2012, we purchased $168.9 million aggregate principal amount of the 2016 Notes.

On March 27, 2012, pursuant to the terms of the indenture governing the 2016 Notes, we redeemed the remaining $6.1 million aggregate principal amount of the 2016 Notes at a redemption price of 102.333% of their principal amount, plus accrued and unpaid interest up to the redemption date. Following redemption, the 2016 Notes, the indenture governing the 2016 Notes and the related guarantees were terminated.

The redemption resulted in approximately $7.1 million of redemption related costs and write-offs, including $4.5 million in payments made to bondholders for early redemption, $2.2 million of write-offs associated with unamortized deferred financing costs and $0.4 million of expenses associated with the tender and redemption.

Issuance of $400 Million 5.875% Senior Notes due 2024 and Exchange Offer

On March 19, 2012, we issued $400 million aggregate principal amount of our 5.875% Senior Notes due 2024, or the 2024 Notes. The 2024 Notes mature on March 15, 2024 and pay interest semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012.

We may redeem the 2024 Notes, in whole at any time or in part from time to time, at redemption prices of 102.938%, 101.958% and 100.979% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on March 15 of the years 2017, 2018 and 2019, respectively, and at a redemption price of 100% of the principal amount thereof on and after March 15, 2020, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until March 15, 2015 we may redeem up to 35% of the 2024 Notes with the net cash proceeds of one or more public equity offerings at a redemption price of 105.875% of the principal amount of the 2024 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The 2024 Notes were sold at an issue price of 100% of the principal amount. We used the net proceeds of the offering to fund the tender offer and consent solicitation for the 2016 Notes (described below), to fund the redemption of the untendered 2016 Notes (described below) and to repay a portion of our indebtedness outstanding under our 2011 Credit Facility. As December 31, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately $597.9 million of our total assets.

On August 15, 2012, we commenced an offer to exchange $400 million of our 5.875% Senior Notes due 2024 for all of the 2024 Notes. All $400 million outstanding aggregate principal amount of the initial notes were validly tendered and not withdrawn prior to the expiration of the exchange offer, and were exchanged for exchange notes as of September 20, 2012, pursuant to the terms of the exchange offer. The Exchange Notes are identical in all material respects to the Initial Notes, except that the Exchange Notes were registered under the Securities Act of 1933 and the provisions of the Initial Notes relating to transfer restrictions, registration rights and additional interest will not apply to the Exchange Notes.

$245 Million Equity Shelf Program

On June 19, 2012, we entered into separate Equity Distribution Agreements (collectively, the "2012 Agreements") with several financial institutions, each as a sales agent and/or principal (collectively, the "Managers") to establish a $245 million Equity Shelf Program. Under the terms of the 2012 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to $245 million. Sales of the shares will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2012 Agreement.

For the twelve months ended December 31, 2012, we issued 2.6 million shares under the 2012 ESP, at an average price of $24.10 per share, generating gross proceeds of approximately $63.6 million, before $1.3 million of commissions. For the three months ended December 31, 2012, we did not issue shares under the 2012 ESP. The proceeds of the sale of our common stock under the 2012 ESP were used for working capital and for general corporate purposes, including funding the recent investments described above. As of December 31, 2012, we have approximately $181.4 million available for issuance under the 2012 ESP.

Termination of $140 Million Equity Shelf Program

On June 25, 2010, we entered into separate equity distribution agreements (the “2010 ESP Agreements”) to sell shares of our common stock from time to time having an aggregate gross sales price of up to $140 million (the “2010 ESP”) with various financial institutions, each as sales agents and/or principal. On June 19, 2012, we terminated our $140 million 2010 ESP.

For the year ended December 31, 2012, we issued approximately 759,000 shares of our common stock under the 2010 ESP at an average price per share of $21.27, generating gross proceeds of approximately $16.1 million, before $0.3 million of commissions. For the year ended December 31, 2011, 1.4 million shares of our common stock were issued through the 2010 ESP for net proceeds of approximately $31.4 million, net of $0.6 million of commissions. For the year ended December 31, 2010, 3.1 million shares of our common stock were issued through the 2010 ESP for approximately $65.4 million, net of $1.3 million of commissions.

Since inception of the 2010 ESP, we have sold a total of 5.3 million shares of common stock generating total gross proceeds of $114.9 million under the program, before $2.3 million of commissions. As a result of the termination of the 2010 ESP, no additional shares were issued under the 2010 ESP. The proceeds of the sale of our common stock were used for working capital and for general corporate purposes.

HUD Mortgage Payoffs

On June 29, 2012, we paid approximately $11.8 million to retire four HUD mortgages that were assumed as part of the December 2011 acquisition. The retirement of the four HUD mortgages resulted in a net gain of approximately $1.7 million. The net gain included the write-off of approximately $1.8 million the unamortized fair value adjustment of the assumed debt as well as a prepayment fee of approximately $0.1 million.

New Assumed HUD Mortgage Debt

In connection with the fourth quarter acquisitions, we assumed $71.9 million of HUD indebtedness with maturity dates range from April 2031and February 2045. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $10.1 million more than the face value of the debt assumed. We will amortize the fair value adjustment utilizing the effective interest method from the date of assumption. As of December 31, 2012, the assumed debt balance including the fair value adjustment was $81.9 million.

Prior $475 million Unsecured Revolving Credit Facility

On December 6, 2012, we terminated our $475 million 2011 Credit Facility and recorded a non-cash charge of approximately $2.5 million relating to the write-off of deferred financing costs associated with the termination of the 2011 Credit Facility.

Current $700 Million Unsecured Credit Facility

On December 6, 2012, concurrent with the termination of our 2011 Credit Facility, we entered into a new $700 million unsecured credit facility, comprised of a $500 million senior unsecured revolving credit facility (the “2012 Revolving Credit Facility”) and a $200 million unsecured, deferred draw term loan facility (the “2012 Term Loan Facility” and, together with the 2012 Revolving Credit Facility, collectively, the “2012 Credit Facilities”). The 2012 Credit Facilities include an “accordion feature” that permits us to expand our borrowing capacity by an additional $300 million, for a maximum aggregate commitment of $1 billion.

The Revolving Credit Facility is priced at LIBOR plus an applicable percentage (beginning at 150 basis points, with a range of 100 to 190 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, plus a facility fee based on the same ratings (initially 30 basis points, with a range of 15 to 45 basis points). At December 31, 2012, we had $158 million in borrowings outstanding under the 2012 Revolving Credit Facility. The 2012 Revolving Credit Facility matures in four years, on December 6, 2016, with an option by us to extend the maturity one additional year.

The 2012 Term Loan Facility is also priced at LIBOR plus an applicable percentage (beginning at 175 basis points, with a range of 110 to 230 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings. At December 31, 2012, we had $100 million in borrowings outstanding under the 2012 Term Loan Facility. We have until April 5, 2013 to borrow the full $200 million under the 2012 Term Loan Facility. The 2012 Term Loan Facility matures in five years, on December 6, 2017.

The Credit Agreement governing the 2012 Credit Facilities (the "2012 Credit Agreement") contains customary affirmative and negative covenants, including, without limitation, limitations on indebtedness; limitations on investments; limitations on liens; limitations on mergers and consolidations; limitations on sales of assets; limitations on transactions with affiliates; limitations on negative pledges; limitations on prepayment of debt; limitations on use of proceeds; limitations on changes in lines of business; limitations on repurchases of our capital stock if a default or event of default exists; and maintenance of REIT status. In addition, the 2012 Credit Agreement contains financial covenants, including, without limitation, those relating to maximum total leverage, maximum secured leverage, maximum unsecured leverage, minimum fixed charge coverage, minimum consolidated tangible net worth, minimum unsecured debt yield, minimum unsecured interest coverage and maximum distributions.

At December 31, 2012, we had a total of $258.0 million outstanding under the 2012 Credit Facilities, and no letters of credit outstanding, leaving availability of $442.0 million. For the year ended December 31, 2012, the weighted average interest rate was 1.81% for borrowings under our 2012 Credit Facilities.

As of December 31, 2011 and 2012, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

Dividends

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

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

In 2012, we paid dividends of $1.69 per share of common stock and a total of $182.2 million in dividends to common stockholders.

Common Dividends

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

On October 17, 2012, the Board of Directors declared a common stock dividend of $0.44 per share, increasing the quarterly common dividend by $0.02 per share, or 4.8% over the previous quarter, which was paid November 15, 2012 to common stockholders of record on October 31, 2012.

On July 17, 2012, the Board of Directors declared a common stock dividend of $0.42 per share, which was paid August 15, 2012 to common stockholders of record on July 31, 2012.

On April 17, 2012, the Board of Directors declared a common stock dividend of $0.42 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid May 15, 2012 to common stockholders of record on April 30, 2012.

On January 13, 2012, the Board of Directors declared a common stock dividend of $0.41 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid February 15, 2012 to common stockholders of record on January 31, 2012.

Liquidity

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

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

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

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

Cash and cash equivalents totaled $1.7 million as of December 31, 2012, an increase of $1.4 million as compared to the balance at December 31, 2011. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statement of Cash Flows.

Operating Activities – Net cash flow from operating activities generated $208.3 million for the year ended December 31, 2012, as compared to $169.8 million for the same period in 2011, an increase of $38.5 million. The increase was primarily due to: (i) the full year impact of rental revenue from the fourth quarter 2011 acquisitions and the 2012 acquisitions and (ii) the placement of additional mortgages, offset by additional interest associated with financing the acquisition and new mortgages.

Investing Activities – Net cash flow from investing activities was an outflow of $390.7 million for year ended December 31, 2012, as compared to an outflow of $257.6 million for the same period in 2011. The $133.1 million increase in cash outflow from investing activities relates primarily to the change in acquisition activities. During the year ended December 31, 2011, we acquired $86.7 million real estate facilities, placed five mortgage and construction-to-permanent mortgage loans for approximate $130.0 million, invested $19.6 million in capital improvement projects and had net cash outflow from other investments of $26.5 million. During the year ended December 31, 2012, we acquired $396.6 million real estate facilities, placed $12.0 million in new mortgages, invested $29.4 million in capital improvement projects and had net cash inflow from other investments of $5.6 million along with $12.7 million of cash collected on principal mortgage payments. In 2012, we also had an increase in cash inflows from the sale of real estate over 2011 of $23.9 million.

Financing Activities – Net cash flow from financing activities was an inflow of $183.8 million for the year ended December 31, 2012, as compared to an inflow of $81.3 million for the same period in 2011. The $102.5 million increase in cash inflow from financing activities was primarily a result of: (i) net proceeds of $400 million from our 5.875% Senior Notes due 2024 issued in March 2012; (ii) net proceeds of $111.9 million from our dividend reinvestment plan in 2012 as compared to $59.1 million in 2011; (iii) net proceeds of $77.6 million from our common stock issued through our Equity Shelf Program in 2012 as compared to $31.2 million 2011. Offsetting these increases were (i) a $188.1 million change in payments of long term borrowings including (a) $175.0 million tender offer and redemption payments for our outstanding $175 million 2016 Notes in March 2012, (b) $11.7 million early retirement of four HUD mortgages in June 2012 and (c) $4.0 million in routine HUD debt principal payments in 2012 as compared to $2.6 million in 2011; (ii) an increase in payment of $12.8 million related to deferred financing costs and refinancing costs primarily associated with (a) the issuance of our $400 million 5.875% Senior Notes due 2024 in March 2012, (b) the tender offer and redemption of our outstanding $175 million 2016 Notes in March 2012, (c) a prepayment penalty related to the early retirement of four HUD mortgages in June 2012 and (d) the issuance of our $700 million 2012 Credit Facilities in December 2012; (iii) an increase in dividend payments of $20.3 million related to an increase in number of shares outstanding and an increase of $0.14 per share in the common dividends; (iv) a net payment of $14.5 million on our credit facility during the twelve months of 2012 as compared to net proceeds of $272.5 million for the same period in 2011; (v) the impact of the $108.6 million preferred stock redemption in the first quarter of 2011 and (vi) $2.9 million repurchase of our common stock in 2011 under our $100 million Stock Repurchase Program.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition and Allowance for Doubtful Accounts

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

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

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

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

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

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

Depreciation and Asset Impairment

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

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

For the years ended December 31, 2012, 2011, and 2010, we recognized impairment losses of $0.3 million, $26.3 million and $0.2 million, respectively. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect for the sale of closed facilities.

Loan Impairment

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

We account for impaired loans using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost recovery method for impaired loans for which impairment reserves were recorded. We utilize the cash basis method for impairment loans for which no impairment reserves were recorded because the net present value of the discounted cash flows and/or the underlying collateral supporting the loan were equal to or exceeded the book value of the loans. Under the cost recovery method, we apply cash received against the outstanding loan balance prior to recording interest income. Under the cash basis method, we apply cash received to interest income. As of December 31, 2012 and 2011, we had loan loss reserve totaling \$2.0 million and \$2.0 million, respectively. In 2011, we recorded provisions for loan losses of \$2.3 related to a working capital note. In 2010 and 2012, we did not record provisions for loan losses or charges-offs related to our mortgage or note receivable portfolios. For additional information see “Note 5 – Mortgage Notes Receivable” and “Note 6 – Other Investments.”

Item 7A - Quantitative and Qualitative Disclosure about Market Risk

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

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

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

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

Borrowings under variable rate agreements - Our variable rate debt as of December 31, 2012 includes our credit facility. The fair value of our borrowings under variable rate agreements is estimated using an expected present value technique based on expected cash flows discounted using the current credit-adjusted risk-free rate.

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

The market value of our long-term fixed rate borrowings and mortgages is subject to interest rate risks. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of our total long-term borrowings at December 31, 2012 was approximately $2.1 billion. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $139 million at December 31, 2012. The estimated fair value of our total long-term borrowings at December 31, 2011 was approximately $1.6 billion. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $91 million at December 31, 2011.

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

Item 8 - Financial Statements and Supplementary Data

The consolidated financial statements and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on such financial statements are filed as part of this report beginning on page F-1. The summary of unaudited quarterly results of operations for the years ended December 31, 2012 and 2011 is included in “Note 17” to our audited consolidated financial statements, which is incorporated herein by reference in response to Item 302 of Regulation S-K.

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

None.

Item 9A - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of our Form 10-K as of and for the year ended December 31, 2012, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

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

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal

Control-Integrated Framework. Based on management's assessment, management believes that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included above a report of management's assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Our independent registered public accounting firm also reported on the effectiveness of internal control over financial reporting. The independent registered public accounting firm's attestation report is included in our 2012 financial statements under the caption entitled "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2012 identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10 – Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

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

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

Item 11 - Executive Compensation

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

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

The information required by this item, if any, is incorporated herein by reference to our Company's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 14 - Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

PART IV

Item 15 - Exhibits and Financial Statement Schedules

(a)(1) Listing of Consolidated Financial Statements

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

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

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

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

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

Schedule III — Real Estate and Accumulated Depreciation.

Schedule IV — Mortgage Loans on Real Estate.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omega Healthcare Investors, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Omega Healthcare Investors Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2013

Report of Independent Registered Public Accounting Firm

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

We have audited Omega Healthcare Investors, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Omega Healthcare Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Omega Healthcare Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Real estate properties		
Land and buildings	$ 3,038,553	$ 2,537,039
Less accumulated depreciation	(580,373)	(470,420)
Real estate properties – net	2,458,180	2,066,619
Mortgage notes receivable – net	238,621	238,675
	2,696,801	2,305,294
Other investments – net	47,339	52,957
	2,744,140	2,358,251
Assets held for sale – net	1,020	2,461
Total investments	2,745,160	2,360,712
Cash and cash equivalents	1,711	351
Restricted cash	36,660	34,112
Accounts receivable – net	125,180	100,664
Other assets	73,294	61,473
Total assets	$ 2,982,005	$ 2,557,312
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Revolving line of credit	$ 258,000	$ 272,500
Secured borrowings	366,538	303,610
Unsecured borrowings – net	1,200,394	975,290
Accrued expenses and other liabilities	145,744	127,428
Total liabilities	1,970,676	1,678,828
Stockholders’ equity:		
Common stock $.10 par value authorized – 200,000 shares issued and outstanding – 112,393 shares as of December 31, 2012 and 103,410 as of December 31, 2011	11,239	10,341
Common stock – additional paid-in-capital	1,664,855	1,471,381
Cumulative net earnings	754,128	633,430
Cumulative dividends paid	(1,418,893)	(1,236,668)
Total stockholders’ equity	1,011,329	878,484
Total liabilities and stockholders’ equity	$ 2,982,005	$ 2,557,312

See accompanying notes.

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

	Year Ended December 31,		
	2012	2011	2010
Revenues			
Rental income	$314,592	$273,517	$232,772
Mortgage interest income	30,446	16,274	10,391
Other investment income – net	4,760	2,070	3,936
Miscellaneous	662	343	3,886
Nursing home revenues of owned and operated assets	-	-	7,336
Total operating revenues	350,460	292,204	258,321
Expenses			
Depreciation and amortization	112,983	100,337	84,623
General and administrative	21,330	19,432	15,054
Acquisition costs	909	1,204	1,554
Impairment on real estate properties	272	26,344	155
Provisions for uncollectible mortgages, notes and accounts receivable	-	6,439	-
Nursing home expenses of owned and operated assets	-	653	7,998
Total operating expenses	135,494	154,409	109,384
Income before other income and expense	214,966	137,795	148,937
Other income (expense)			
Interest income	29	40	105
Interest expense	(95,527)	(81,154)	(67,340)
Interest – amortization of deferred financing costs	(2,649)	(2,674)	(3,780)
Interest – refinancing costs	(7,920)	(3,071)	(19,482)
Total other expense	(106,067)	(86,859)	(90,497)
Income before gain (loss) on assets sold	108,899	50,936	58,440
Gain (loss) on assets sold – net	11,799	1,670	(4)
Net income	120,698	52,606	58,436
Preferred stock dividends	-	(1,691)	(9,086)
Preferred stock redemption	-	(3,456)	-
Net income available to common stockholders	$120,698	$47,459	$49,350
Income per common share available to common stockholders:			
Basic:			
Net income	$1.12	$0.46	$0.52
Diluted:			
Net income	$1.12	$0.46	$0.52
Weighted-average shares outstanding, basic	107,591	102,119	94,056
Weighted-average shares outstanding, diluted	108,011	102,177	94,237

See accompanying notes.

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

	Preferred Stock	Common Stock Par Value	Common Stock Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends Paid	Total
Balance at December 31, 2009 (88,266 common shares)	$108,488	$ 8,827	$ 1,157,931	$ 522,388	$(932,407)	$865,227
Issuance of common stock:						
Grant of restricted stock (13 shares at $20.00 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	2,180	—	—	2,180
Vesting of restricted stock (grants 112 shares)	—	11	(2,119)	—	—	(2,108)
Dividend reinvestment and stock purchase plan (2,961 shares at $20.45 per share)	—	296	60,215	—	—	60,511
Exercised options (15 shares at an average exercise price of $6.12 per share)	—	1	88	—	—	89
Grant of stock as payment of directors fees (7 shares at an average of $20.07 per share)	—	1	149	—	—	150
Equity Shelf Program (6,865 shares at $20.74 per share, net of issuance costs)	—	687	138,094	—	—	138,781
Issuance of common stock for acquisition (995 shares at $19.80 per share)	—	99	19,594	—	—	19,693
Net income	—	—	—	58,436	—	58,436
Common dividends ($1.37 per share)	—	—	—	—	(129,807)	(129,807)
Preferred dividends (Series D of $2.09 per share)	—	—	—	—	(9,086)	(9,086)
Balance at December 31, 2010 (99,233 common shares)	108,488	9,923	1,376,131	580,824	(1,071,300)	1,004,066
Issuance of common stock:						
	—	1	(1)	—	—	—

Grant of restricted stock (13 shares at $22.00 per share)						
Amortization of restricted stock	—	—	5,984	—	—	5,984
Vesting of restricted stock (grants 68 shares)	—	7	(1,261)	—	—	(1,254)
Dividend reinvestment plan (2,853 shares at $20.78 per share)	—	285	58,833	—	—	59,118
Grant of stock as payment of directors fees (8 shares at an average of $19.43 per share)	—	1	149	—	—	150
Equity Shelf Program (1,419 shares at $22.61 per share, net of issuance costs)	—	142	31,068	—	—	31,210
Common stock repurchase (183 shares at $15.96 per share)	—	(18)	(2,910)	—	—	(2,928)
Preferred stock redemption	(108,488)	—	3,388	—	(3,456)	(108,556)
Net income	—	—	—	52,606	—	52,606
Common dividends ($1.55 per share)	—	—	—	—	(158,707)	(158,707)
Preferred dividends (Series D of $0.74 per share)	—	—	—	—	(3,205)	(3,205)
Balance at December 31, 2011 (103,410 common shares)	—	10,341	1,471,381	633,430	(1,236,668)	878,484
Issuance of common stock:						
Grant of restricted stock to company executives (428 shares)	—	43	(43)	—	—	—
Grant of restricted stock to company directors (13 shares at $20.29 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	5,880	—	—	5,880
Vesting of restricted stock to company executives, net of tax withholdings (72 shares)	—	7	(1,247)	—	—	(1,240)
Dividend reinvestment plan (5,063 shares at $22.11 per share)	—	506	111,408	—	—	111,914
Grant of stock as payment of directors fees (9 shares at an average of $22.17 per share)	—	1	199	—	—	200
	—	340	77,278	—	—	77,618

Equity Shelf Program (3,398 shares at $23.47 per share, net of issuance costs)						
Net income	—	—	—	120,698	—	120,698
Common dividends ($1.69 per share)	—	—	—	—	(182,225)	(182,225)
Balance at December 31, 2012 (112,393 common shares)	$—	$ 11,239	$ 1,664,855	$ 754,128	$(1,418,893)	$1,011,329

See accompanying notes.

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

	Year Ended December 31,		
	2012	2011	2010
Cash flow from operating activities			
Net income	$120,698	$52,606	$58,436
Adjustment to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	112,983	100,337	84,623
Impairment on real estate properties	272	26,344	155
Provisions for uncollectible mortgages, notes and accounts receivable	—	6,439	—
Amortization of deferred financing and refinancing costs	10,569	5,745	23,262
Restricted stock amortization expense	5,942	6,037	2,211
(Gain) loss on assets sold – net	(11,799)	(1,670)	4
Amortization of acquired in-place leases – net	(5,312)	(6,088)	(3,968)
Other	(663)	(150)	(93)
Gain on sale of securities	—	—	(789)
Change in operating assets and liabilities – net of amounts assumed/acquired:			
Accounts receivable, net	(246)	(1,463)	(45)
Straight-line rent	(25,404)	(12,560)	(11,210)
Lease inducement	3,369	3,380	(6)
Effective yield receivable on mortgage notes	(2,235)	(1,341)	—
Other operating assets and liabilities	97	(7,601)	2,762
Operating assets and liabilities for owned and operated properties	—	(244)	2,221
Net cash provided by operating activities	208,271	169,771	157,563
Cash flow from investing activities			
Acquisition of real estate – net of liabilities assumed and escrows acquired	(396,623)	(86,704)	(343,180)
Placement of mortgage loans	(11,969)	(130,042)	(20,657)
Proceeds from sale of real estate investments	29,023	5,150	81
Capital improvements and funding of other investments	(29,436)	(19,597)	(36,025)
Proceeds from other investments	15,355	6,983	21,324
Investments in other investments	(9,737)	(33,504)	(16,436)
Collection of mortgage principal – net	12,684	74	78
Net cash used in investing activities	(390,703)	(257,640)	(394,815)
Cash flow from financing activities			
Proceeds from credit line borrowings	712,000	569,000	385,000
Payments of credit line borrowings	(726,500)	(296,500)	(479,100)
Receipts of other long-term borrowings	400,000	—	779,770
Payments of other long-term borrowings	(190,686)	(2,593)	(470,478)
Payments of financing related costs	(17,124)	(4,305)	(31,579)
Receipts from Dividend Reinvestment Plan – net	111,914	59,118	60,511
Payments for exercised options and restricted stock – net	(1,240)	(1,254)	(2,019)
Net proceeds from issuance of common stock	77,618	31,210	138,781
Dividends paid	(182,190)	(161,893)	(138,883)

Repurchase of common stock	—	(2,928)	—
Redemption of preferred stock	—	(108,556)	—
Net cash provided by financing activities	183,792	81,299	242,003
Increase (decrease) in cash and cash equivalents	1,360	(6,570)	4,751
Cash and cash equivalents at beginning of year	351	6,921	2,170
Cash and cash equivalents at end of year	$1,711	$351	$6,921
Interest paid during the year, net of amounts capitalized	$94,841	$79,199	$60,290

Non-cash investing activities:

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Assumed debt obligations	$80,946	$101,259	$202,015
Assumed other assets/liabilities	13,640	—	—
Non-cash settlement of mortgage obligations	—	—	(12,395)
Non-cash acquisition of real estate properties	—	—	12,395
Stock consideration issued for acquisition	—	—	19,693
Total non-cash real estate acquisition related items	$94,586	$101,259	$221,708

See accompanying notes.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization

Omega Healthcare Investors, Inc. (“Omega” or the “Company”), a Maryland corporation, is a self-administered real estate investment trust (“REIT”). From the date that we commenced operations in 1992, we have invested primarily in income-producing healthcare facilities, which include long-term care nursing homes, assisted living facilities, independent living facilities and rehabilitation hospitals.

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

Substantially all depreciation expenses reflected in the consolidated statements of operations relate to the ownership of our investment in real estate. At December 31, 2012, we have investments in 478 healthcare facilities located throughout the United States, including two facilities that are currently held for sale.

Consolidation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Real Estate Investments and Depreciation

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

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

As of December 31, 2012 and 2011, we had identified conditional asset retirement obligations primarily related to the future removal and disposal of asbestos that is contained within certain of our real estate investment properties. The asbestos is appropriately contained, and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which asbestos must be handled and disposed. We are required to record the fair value of these conditional liabilities if they can be reasonably estimated. As of December 31, 2012 and 2011, sufficient information was not available to estimate our liability for conditional asset retirement obligations as the obligations to remove the asbestos from these properties have indeterminable settlement dates. As such, no liability for conditional asset retirement obligations was recorded on our accompanying consolidated balance sheets as of December 31, 2012 and 2011.

In-Place Leases

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

Owned and Operated Assets

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

Asset Impairment

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

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the years ended December 31, 2012, 2011 and 2010 we recognized impairment losses of $0.3 million, $26.3 million and $0.2 million, respectively. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect to receive for the sale of closed facilities. For additional information, see Note 3 – Properties.

Loan Impairment

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

We currently account for impaired loans using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost recovery method for impaired loans for which impairment reserves were recorded. We utilize the cash basis method for impairment loans for which no impairment reserves were recorded because the net present value of the discounted cash flows expected under the loan and/or the underlying collateral supporting the loan were equal to or exceeded the book value of the loans. Under the cost recovery method, we apply cash received against the outstanding loan balance prior to recording interest income. Under the cash basis method, we apply cash received to interest income. As of December 31, 2012 and 2011, we had loan loss reserves totaling $2.0 million. In 2011, we recorded provisions for loan losses of $2.3 million related to a working capital note. In 2010 and 2012, we did not record provisions for loan losses or charges-offs related to our mortgage or note receivable portfolios. For additional information, see Note 5 – Mortgage Notes Receivable and Note 6 – Other Investments.

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	December 31, 2012	2011
	(in thousands)	
Contractual receivables	$ 3,963	$ 4,683
Effective yield interest receivables	3,576	1,341
Straight-line receivables	98,973	73,604
Lease inducements	19,307	22,677
Allowance	(639)	(1,641)
Accounts receivable – net	$ 125,180	$ 100,664

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

Comprehensive Income

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

Deferred Financing Costs

External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings which approximates the effective interest method. Amortization of financing costs totaling $2.6 million, $2.7 million and $3.8 million in 2012, 2011 and 2010, respectively, is classified as "interest - amortization of deferred financing costs" in our consolidated statements of operations. When financings are terminated, unamortized deferred financing costs, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within income from continuing operations in the accompanying consolidated financial statements.

Revenue Recognition

We have various different investments that generate revenue, including leased and mortgaged properties, as well as other investments, including working capital loans. We recognize rental income and other investment income as earned over the terms of the related master leases and notes, respectively. Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected using the effective interest method. In applying the effective interest method, the effective yield on a loan is determined based on its contractual payment terms, adjusted for prepayment terms.

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

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

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

Assets Held for Sale and Discontinued Operations

The operating results of specified real estate assets that have been sold, or otherwise qualify as held for disposition, are reflected as assets held for sale-net in our consolidated balance sheets. Assets that qualify as held for sale may also be considered as a discontinued operation if, (a) the operation and cash flows of the asset have been or will be eliminated from future operations and (b) we will not have significant involvement with the asset after its disposition. For assets that qualify as discontinued operations, we have reclassified the operations of those assets to discontinued operations in the consolidated statements of operations for all periods presented and assets held for sale in the consolidated balance sheets for all periods presented. We had two facilities and one parcel of land classified as held for sale as of December 31, 2012 with a net book value of $1.0 million. The assets were not classified as discontinued operations.

Earnings Per Share

Basic earnings per common share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the year. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends or dividend equivalents that participate in undistributed earnings with common stockholders are considered participating securities that shall be included in the two-class method of computing basic EPS. The guidance does not address awards that contain rights to forfeitable dividends. Diluted EPS reflects the potential dilution that could occur from shares issuable through stock-based compensation, including stock options and restricted stock. For additional information, see Note 18 – Earnings Per Share.

Income Taxes

We were organized to qualify for taxation as a REIT under Section 856 through 860 of the Code. As long as we qualify as a REIT; we will not be subject to Federal income taxes on the REIT taxable income that we distributed to stockholders, subject to certain exceptions. In 2012, we paid common dividend payments of $182.2 million which satisfies the 2012 REIT requirements relating to qualifying income. We are permitted to own up to 100% of a taxable REIT subsidiary ("TRS"). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The loss carry forward of $1.1 million was fully reserved with a valuation allowance due to uncertainties regarding realization. We record interest and penalty charges associated with tax matters as income tax. For additional information on income taxes, see Note 11 – Taxes. As of December 31, 2012, we did not have any unrecognized tax benefits. We do not believe that there will be any material changes in our unrecognized tax positions over the next 12 months. We are subject to examination by the respective taxing authorities for the tax years 2007 through 2012.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Stock-Based Compensation

Stock-based compensation expense is adjusted for estimated forfeitures and is recognized on a straight-line basis over the requisite service period of the awards, see Note 14 – Stock-Based Compensation for additional details.

Risks and Uncertainties

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

NOTE 3 - PROPERTIES

Leased Property

Our leased real estate properties, represented by 418 SNFs, 16 ALFs and 11 specialty facilities at December 31, 2012, are leased under provisions of single leases and master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of the leases and master leases provide for minimum annual rentals that are typically subject to annual increases based upon fixed escalators or the lesser of a fixed amount or increases derived from changes in CPI. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

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

	December 31,	
	2012	2011
	(in thousands)	
Buildings	$ 2,580,400	$ 2,157,015
Site improvement and equipment	213,471	184,503
Land	244,682	195,521
	3,038,553	2,537,039
Less accumulated depreciation	(580,373)	(470,420)
Total	$ 2,458,180	$ 2,066,619

The future minimum estimated contractual rents due for the remainder of the initial terms of the leases are as follows at December 31, 2012:

	(in thousands)
2013	$ 338,520
2014	350,265
2015	355,798
2016	338,398
2017	342,487
Thereafter	1,793,621

Total	$	3,519,089

Below is a summary of the significant transactions that occurred from 2010 to 2012.

Genesis Healthcare

On December 1, 2012, Genesis Healthcare ("Genesis"), an existing operator to Omega, completed the purchase of Sun Healthcare Group ("Sun"), also an existing operator to Omega. Prior to the purchase, Sun was our second largest tenant with $235 million in leased assets representing 40 facilities located in 10 states. We leased the 40 facilities to Sun under a master lease with expiration dates in 2013 and 2017. Prior to the purchase, we also had a master lease with Genesis covering approximately $122 million in leased assets representing 13 facilities located in 5 states.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

In connection with the acquisition, on December 1, 2012, we entered into a new 53 facility master lease with Genesis expiring on December 31, 2025. At December 31, 2012, Genesis was our largest tenant with $357 million in leased assets (approximately 11% of our total gross investments) located in 13 states.

2012 Acquisitions

Arizona and California Acquisitions

During the three-month period ended December 31, 2012, we completed the acquisition of approximately $203.4 million of new investments and leased them back to a new operator. The investments involved two separate transactions to purchase 14 facilities (12 SNFs, one assisted living facility ("ALF") and 1 combined SNF/ALF). The combined transactions consisted of the assumption of approximately $71.9 million of HUD indebtedness and payment of $131.5 million in cash. The $71.9 million of assumed HUD debt is comprised of 8 HUD mortgage loans with a blended interest rate of 5.50% and maturities between April 2031 and February 2045. The 14 facilities, representing 1,830 operating beds, are located in California (10) and Arizona (4). The transaction involved several separate master lease agreements covering all 14 facilities.

Transaction 1 (First Closing): On November 30, 2012, we purchased four Arizona facilities (2 SNFs, 1 ALF and 1 combined SNF/ALF) for an aggregate purchase price of $60.0 million. The transaction consisted of the assumption of $27.6 million of indebtedness guaranteed by HUD and $32.4 million in cash. The blended interest rate on the HUD indebtedness assumed for the Arizona facilities was 4.73%. The four facilities were simultaneously leased back to a new operator under a new 12 year master lease.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $64.6 million consisting of land ($5.5 million), building and site improvements ($55.9 million), and furniture and fixture ($3.2 million). We recorded approximately $4.6 million of fair value adjustment related to above market debt assumed based on the terms of comparable debt and other market factors. We estimate amortization of the fair value adjustment related to the above market debt will average approximately $0.2 million per year for the next five years. We have not recorded goodwill in connection with this transaction.

Transaction 2 (Second Closing): In November 2012, we entered into a Purchase and Sales Agreement to purchase and then leaseback 10 California SNFs. On November 30, 2012, we purchased five SNFs for approximately $70.2 million. The five SNFs were simultaneously leased back under a new 12 year master lease.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $70.2 million consisting of land ($11.5 million), building and site improvements ($55.5 million), and furniture and fixture ($3.2 million). We have not recorded goodwill in connection with this transaction.

Transaction 2 (Third Closing): On December 31, 2012, we purchased the remaining five California SNFs for an aggregate purchase price of $72.2 million (net of purchase price reduction of approximately $1.0 million related to funds escrowed by the seller to reimburse us for costs associated with refinancing some of the assumed HUD debt). The transaction consisted of the assumption of $44.3 million of HUD indebtedness and $28.9 million in cash. The blended interest rate on the HUD indebtedness assumed for the five California facilities was 5.97%. The five SNFs were then leased back to the new operator under new 12 year master leases.

We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $77.6 million consisting of land ($13.0 million), building and site improvements ($60.9 million), and furniture and fixture ($3.7 million). We recorded approximately $5.4 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt and other market factors. We estimate amortization of the fair value adjustment related to the above market debt will be approximately $0.3 million in 2013 and will average approximately $0.2 million per year from 2014 through 2017. We have not recorded goodwill in connection with this transaction.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Indiana Acquisitions

In 2012 we completed four transactions in Indiana involving two existing operators and 34 facilities. The following is a summary of the transactions:

Transaction 1: On June 29, 2012, we purchased one SNF encompassing 80 operating beds in Indiana for approximately $3.4 million and leased the facility back to an existing operator under an existing master lease. As of December 31, 2012, we allocated approximately $3.4 million consisting of land ($0.2 million), building and site improvements ($2.9 million), and furniture and fixture ($0.3 million). We have not recorded goodwill in connection with this transaction.

Transaction 2: On June 29, 2012, we purchased four facilities encompassing 383 operating beds in Indiana for approximately $21.7 million and leased the facilities to Health and Hospital Corporation. As of December 31, 2012, we allocated approximately $21.7 million consisting of land ($1.9 million), buildings and site improvements ($18.4 million) and furniture and fixtures ($1.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 3: On August 31, 2012, we purchased 27 facilities (17 SNFs, four ALFs and six independent living facilities) totaling 2,892 operating beds in Indiana from an unrelated third party for approximately $203 million in cash and assumed a liability associated with the lease of approximately $13.9 million. Simultaneous with the transaction, we also purchased one parcel of land for $2.8 million. The purchase price of both (i) 27 facilities and (ii) the parcel of land were funded from cash on hand and borrowings from our credit facility. The 27 facilities and land parcel were added to an existing master lease. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $219.7 million consisting of land ($16.1 million), building and site improvements ($189.2 million) and furniture and fixture ($14.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 4: On December 31, 2012, we purchased two SNFs encompassing 167 operating beds in Indiana for approximately $9.5 million and leased these facilities back to an existing operator under a new consolidated master lease. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $9.5 million consisting of land ($0.6 million), building and site improvements ($8.0 million), and furniture and fixture ($0.9 million). We have not recorded goodwill in connection with this transaction.

Michigan Acquisition

On November 30, 2012, we purchased one ALF for $20 million from an unrelated third party and added it to an existing master lease with an existing operator. The 171 operating bed ALF is located in Michigan. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $20.0 million consisting of land ($0.4 million), building and site improvements ($18.9 million), and furniture and fixture ($0.7 million). We have not recorded goodwill in connection with this transaction.

Texas Acquisition

On October 31, 2012, we purchased one SNF from an unrelated third party encompassing 90 operating beds in Texas for approximately $2.7 million and leased the facility to an existing operator. We are in the process of finalizing our fair value allocation and we expect the allocation process to be completed during the first half of 2013. As of December 31, 2012, we allocated approximately $2.7 million consisting of land ($0.2 million), building and site improvements ($2.2 million), and furniture and fixture ($0.3 million). We have not recorded goodwill in connection with this transaction.

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2012, we expensed $0.9 million of acquisition related expenses.

2011 Acquisitions

During the fourth quarter of 2011, we completed two acquisitions. The first acquisition was comprised of the purchase of four SNFs in Maryland and West Virginia; the second acquisition was comprised of the purchase/leaseback of 17 SNFs in five states, including Arkansas, Colorado, Florida, Michigan and Wisconsin. Acquisition costs related to the two acquisitions was approximately $1.2 million in 2011 and was expensed. The following is summary of the transactions and other investments:

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

2011 First Acquisition (Maryland and West Virginia)

During the fourth quarter of 2011, we purchased and leaseback four SNFs located in Maryland (3) and West Virginia (1), totaling 586 beds for a total investment of $61 million, including approximately $1 million to complete renovations at one facility. The consideration consisted of $31 million in cash and the assumption of $30 million in HUD – guaranteed indebtedness, which bears an interest rate of 4.87% (weighted-average) and matures between March 2036 and September 2040.

We completed our fair value allocation in 2012. We allocated approximately $62.7 million consisting of land ($4.4 million), buildings and site improvements ($55.0 million) and furniture and fixtures ($3.3 million). We funded approximately $1.3 million in renovation costs for one of the facilities acquired in connection with this transaction and completed the renovation during the third quarter of 2012. We recorded approximately $3.0 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately $0.2 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

2011 Second Acquisition (Arkansas, Colorado, Florida, Michigan and Wisconsin)

On December 23, 2011, we purchased 17 SNFs and leased them back to a new operator, for an aggregate purchase price of $128 million. The acquisition consisted of the assumption of $71.3 million of indebtedness guaranteed by the Department of Housing and Urban Development (“HUD”) and $56.7 million in cash.

The $71.3 million of assumed HUD debt was comprised of 15 HUD mortgage loans with a blended interest rate of 5.70% and maturities between October 2029 and July 2044.

The 17 SNFs, representing 1,820 operating beds, are located in Arkansas (12), Colorado (1), Florida (1), Michigan (2) and Wisconsin (1). The purchase/leaseback transaction involved two separate master lease agreements covering all 17 SNFs.

We completed our fair value allocation in 2012. We allocated approximately $129.9 million consisting of land ($9.0 million), buildings and site improvements ($111.5 million) and furniture and fixtures ($9.4 million). We recorded approximately $1.9 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We have not recorded goodwill in connection with this transaction.

143 Facility CapitalSource Acquisitions (2009 – 2010)

In November 2009, we entered into a securities purchase agreement (the “CapitalSource Purchase Agreement”) with CapitalSource Inc. (NYSE: CSE) (“CapitalSource”) and several of its affiliates, pursuant to which we agreed to purchase CapitalSource subsidiaries owning 80 long term care facilities, plus an option to purchase CapitalSource subsidiaries owning an additional 63 facilities (the “Option”), for approximately $858 million. Our acquisition of the CapitalSource subsidiaries pursuant to the terms of the purchase agreement was conducted in three separate closings: (i) on December 22, 2009, we acquired CapitalSource subsidiaries owning 40 long-term care facilities and an option to acquire an additional 63 facilities; (ii) on June 9, 2010, we exercised our option to acquire CapitalSource subsidiaries owning 63 long-term care facilities; and (iii) on June 29, 2010, we acquired CapitalSource subsidiaries owning 40 long-term care facilities. We accounted for these acquisitions as business combinations. We incurred approximately $3.1 million in transaction costs for the transactions, of which $1.6 million was expensed during 2009 and $1.5 million was expensed in 2010.

First Closing

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

We allocated approximately $282.0 million consisting of land ($22.5 million), building and site improvements ($241.9 million) and furniture and fixtures ($17.6 million). We allocated approximately $9.5 million to in-place above market leases assumed at the first closing and approximately $19.8 million to in-place below market leases assumed at the first closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the first closing was approximately $1.4 million, $1.3 million and $1.2 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the December 22, 2009 acquisition as follows (in millions):

1 year	1-3 years	3-5 years	Thereafter
$1.2	$2.1	$1.7	$1.8

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

HUD Portfolio Closing

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

$65 million in cash;

$202 million face value of assumed debt, which includes $20 million of 9.0% unsecured debt maturing in December 2021, $53 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040, and $129 million of new HUD Debt at a 4.85% annual interest rate maturing between January 2040 and January 2045; and

995 thousand shares of our common stock valued at approximately $19 million on June 29, 2010.

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

We allocated approximately $313.3 million consisting of land ($32.3 million), building and site improvements ($264.1 million) and furniture and fixtures ($16.9 million). We allocated approximately $4.9 million to in-place above market leases assumed and approximately $24.1 million to in-place below market leases assumed at the HUD portfolio closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the HUD portfolio closing was approximately$1.9 million, $3.5 million and $3.2 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 29, 2010 acquisition as follows (in millions):

1 year	1-3 years	3-5 years	Thereafter
$2.9	$5.1	$0.9	$1.7

In addition, we recorded approximately $22.5 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. In 2010, 2011 and 2012, we amortized approximately $0.7 million, $1.4 million and $1.3 million for the fair value adjustment, respectively. We estimate amortization will average approximately $1.2 million per year for the next five years. We did not record goodwill in connection with this transaction.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Option Exercise and Closing

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

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

We allocated approximately $328.9 million consisting of land ($35.8 million), building and site improvements ($276.0 million) and furniture and fixtures ($17.1 million). We allocated approximately $8.2 million to in-place above market leases assumed and approximately $18.8 million to in-place below market leases assumed at the Option portfolio closing. In 2010, 2011 and 2012, net amortization associated with net in-place below market leases assumed at the Option portfolio closing was approximately $0.7 million, $1.3 million and $0.9 million, respectively.

As of December 31, 2012, we estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 9, 2010 acquisition as follows:

1 year	1-3 years	3-5 years	Thereafter
$1.0	$2.4	$1.9	$2.5

We did not record goodwill in connection with this transaction.

The facilities acquired in 2011 and 2012 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operation reflect the impact of the transactions as if they occurred on January 1, 2011. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisition have been made. The following pro forma information is not indicative of future operations.

	Pro Forma Year Ended December 31,	
	2012	2011
	(in thousands, except per share amount, unaudited)	
Revenues	$ 393,484	$ 366,344
Net income available to common stockholders	138,644	74,975
Earnings per share – diluted:		
Net income available to common stockholders – as reported	$ 1.12	$ 0.46
Net income available to common stockholders – pro forma	$ 1.28	$ 0.73

Connecticut Properties

In January 2011, at our request, a complaint was filed by the State of Connecticut, Commissioner of Social Services (the "State") against the licensees/operators of four Connecticut SNFs, seeking the appointment of a receiver. The facilities were leased and operated by affiliates of FC/SCH Capital, LLC ("FC/SCH") and were managed by Genesis Healthcare ("Genesis"), and had approximately 472 licensed beds as of March 31, 2011. The Superior Court, Judicial District of Hartford, Connecticut (the "Court") appointed a receiver.

The receiver was responsible for (i) operating the facilities and funding all operational expenses incurred after the appointment of the receiver and (ii) for providing the Court with recommendations regarding the facilities. In March 2011, the receiver moved to close all four SNFs and we objected. At the hearing held on April 21, 2011, we stated our position that the receiver failed to comply with the statutory requirements prior to recommending the facilities' closure. In addition, alternative operators expressed interest in operating several of the facilities. On April 27, 2011, the Court granted the receiver's motion and ordered the facilities closed.

We timely filed our notice of appeal, taking the position that the Court's Order was final and appealable, and erroneous. Following our notice of appeal, we negotiated a stipulation with the State and the receiver which afforded us significant concessions. Those concessions included: (a) an agreed recognition of us as a secured lienholder with a priority claim, (b) an accelerated timeframe for the (i) allocation by the receiver of collected funds between pre- and post- receivership periods, and (ii) disbursement to us of pre-receivership funds collected, and (c) an agreement by the State that it would forego its right to seek recoupment of pre-receivership funds as reimbursement for post-receivership advances. In exchange for these concessions (among others), we withdrew our appeal.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

As a result of these developments, during the three month period ended March 31, 2011, we recorded an impairment charge of $24.4 million to reduce the carrying values of the Connecticut SNFs to their estimated fair values. We estimated the fair value of these facilities based on the facilities' potential sales value assuming that the facilities would not be used as SNFs. As of November 1, 2011, all of the residents of the four facilities had been relocated and the receiver surrendered possession of all of the facilities to us. In 2011, we classified these facilities as held-for-sale. We are actively marketing the last of the four facilities for sale (for purposes other than the provision of skilled nursing care).

FC/SCH Facilities

During the second quarter of 2011, we entered into a master transition agreement ("2011 MTA") with one of our current lessee/operators and a third party lessee/operator to transition the facilities from the current operator to the new operator. The 2011 MTA closing was subject to receipt of healthcare regulatory approvals from several states for the operating license transfer from the current operator to the new operator. On January 1, 2012, regulatory approval was provided and the former lease was terminated and a new operator entered into a new twelve-year master lease for the facilities. As a result of the 2011 MTA, during the second quarter of 2011, we evaluated the recoverability of the straight-line rent and lease inducements associated with the current lease and recorded a $4.1 million provision for uncollectible accounts associated with straight-line receivables and lease inducements.

Assets Sold or Held for Sale

For the year ended December 31, 2012, we sold nine facilities for total cash proceeds of $29.0 million, generating approximately an $11.8 million accounting gain. Three of the facilities sold were part of the Connecticut properties discussed above. Two of the facilities sold were the result of lessees exercising their purchase option. The sale of the other four facilities was the result of portfolio reconfiguration.

At December 31, 2012, we had two SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately $1.0 million.

NOTE 4 – OWNED AND OPERATED ASSETS

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

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

Effective September 1, 2008, we completed the operational transfer of 12 SNFs and one ALF to affiliates of FC/SCH, in accordance with the terms of the 2008 MTA. These 13 facilities are located in Connecticut (5), Rhode Island (4), New Hampshire (3) and Massachusetts (1). As part of the transaction, Genesis entered into a long-term management agreement with FC/SCH to oversee the day-to-day operations of each of these facilities. The two remaining facilities in Vermont, which were operated by TC Healthcare until May 31, 2010, were then transferred to FC/SCH upon licensure from the state of Vermont. As a result of the transition of the operations to FC/SCH, we no longer operate any owned and operated facilities, effective June 1, 2010. Our consolidated financial statements include the results of operations of the Vermont facilities from July 7, 2008 to May 31, 2010.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	For Year Ended December 31,		
	2012	2011 (2)	2010 (1)
		(in thousands)	
Nursing home revenues	$ —	$ —	$ 7,336
Nursing home expenses	—	653	7,998
Loss from nursing home operations	$ —	$ (653)	$ (662)

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

(2) 2011 expense relates to run-off expense associated with shutting down the operations.

NOTE 5 - MORTGAGE NOTES RECEIVABLE

As of December 31, 2012, mortgage notes receivable relate to 12 fixed-rate mortgages on 31 long-term care facilities and two construction mortgages on two facilities currently under construction. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in five (5) states, operated by five (5) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans.

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

	December 31,	
	2012	2011
	(in thousands)	
Two Construction Mortgage notes; interest at 12.50%	$ 11,751	$ 2,234
Mortgage note due 2013; interest at 11.00%	5,000	5,000
Mortgage note due 2016; interest at 11.50%	-	11,545
Mortgage note due 2021; interest at 12.50%	5,574	5,574
Mortgage note due 2021; monthly payment of $34,500, including interest at 11.00%	91,585	92,000
Mortgage note due 2022; interest at 12.50%	5,310	4,990
Mortgage notes due 2022; interest at 12.00%	7,076	6,504
Mortgage note due 2023; interest at 11.00%	69,928	69,928
Mortgage note due 2030; interest at 10.40%	15,897	15,900
Four Mortgage notes due 2046; interest at 12.00%	26,500	25,000
Total mortgages — net (1)	$ 238,621	$ 238,675

(1) As of December 31, 2011 and 2012 we have no allowance for loan loss for any of our mortgages.

2012 Mortgage Note Activity

2012 Mortgage Payoff

In October 2012, we received cash from the mortgagee for the payoff of a first mortgage loan on two Florida SNFs. As a result of the payoff, during the fourth quarter of 2012, we accelerated recognition of mortgage fees we had previously deferred. We recorded the accelerated deferred mortgage fees as Mortgage interest income.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Two Construction Mortgage Notes

In October 2011 we entered into a $7.8 million construction mortgage to construct a new 120 bed SNF in Michigan. The construction mortgage converts into a 10 year interest only mortgage upon completion of construction. The 120 bed SNF is still under construction with total funding of approximately $7.4 million as of December 31, 2012.

In July 2012, we entered into a $6.2 million construction mortgage to construct a new 138 bed SNF in Michigan. The construction mortgage converts into a 10 year interest only mortgage upon completion of construction. The 138 bed SNF is still under construction with total funding of approximately $4.3 million as of December 31, 2012.

Mortgage Note due 2021

In September 2011, the construction loan that we entered into in 2010 to construct a new SNF in Michigan was completed. The $5.6 million loan is an interest only loan and bears interest at an annual rate of 12.5% and matures on the 10th anniversary of the completion of construction of the facility.

Mortgage Note due 2022

In March 2012, the second construction loan that we entered into in 2010 to construct a new SNF in Michigan was completed. The $5.3 million loan is an interest only loan and bears interest at an annual rate of 12.5% and matures on the 10th anniversary of the completion of construction of the facility.

Mortgage Notes due 2022

On August 1, 2012, we entered into an additional $0.8 million mortgage loan with an existing operator. The loan was added to an existing mortgage for one property to fund renovations. As of December 31, 2012, the balance of the loan related to the property was approximately $7.1 million. The mortgage loans mature on July 31, 2022 and carry an annual interest rate of 12%.

Four Mortgage Notes due 2046

On November 30, 2012, we entered into a $1.5 million first mortgage loan secured by a lien on a 60 bed SNF located in Michigan. The mortgage currently bears interest at 12% and increases to 13.5% in year 7. The mortgage matures in 2046.

2011 Mortgage Note Activity

$92.0 Million Mortgage Note due 2021

On November 14, 2011, we entered into a $92.0 million first mortgage loan to finance a new operator’s purchase of 13 SNFs in Michigan, totaling 1,421 beds. The term of the mortgage is 10 years. The interest rate during the first 3 years will accrue at a fixed annual rate of 11%. During loan years 4, 5 and 6, interest will accrue at a fixed annual rate of 11.75% and during the remaining term of the note, interest will accrue at a fixed annual rate of 12.5%.

Four Mortgage Notes due 2046

On October 31, 2011, we entered into a $25.0 million first mortgage loan secured by a lien on three SNFs, totaling 352 beds, all located in Maryland. The mortgage currently bears interest at 12% and increases to 13.5% in year 7. The mortgages mature in 2046.

Mortgage Note due 2013

On July 18, 2011, we entered into a $5.0 million first mortgage loan with an existing operator to finance the purchase of one SNF in Texas. The mortgage loan matures in July 2013 and carries an annual interest rate of 10%.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 6 - OTHER INVESTMENTS

A summary of our other investments is as follows:

	December 31, 2012		December 31, 2011	
	(in thousands)			
Infinia on demand	$	-	$	225
Other Investment note due 2015		2,518		2,718
Other Investment notes due 2021 - 2023		9,775		4,996
Other Investment note due 2013(1)		1,018		12,938
Other Investment note due 2014		812		1,500
$28.0 million Other Investment note due 2017		26,500		28,000
$4.0 Million Other Investment note due 2013		3,450		-
Other Investment note due 2013		261		-
$1.3 million Other Investment note due 2017		425		-
Notes receivable, gross(2)		44,759		50,377
Allowance for loss on notes receivable		(1,977)		(1,977)
Notes receivable, net		42,782		48,400
Marketable securities and other		4,557		4,557
Total other investments	$	47,339	$	52,957

(1) The Formation note was assumed by Genesis on January 1, 2012.

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

For the years ended December 31, 2012 and 2011, apart from the normal scheduled monthly loan payments, we had the following transactions that impacted our other investments:

Other Investment note due 2013

In 2012, we received principal payments of approximately $11.9 million towards the working capital loan.

$1.3 million Other Investment note due 2017

In March 2012, we entered into a working capital loan with an existing operator for $1.3 million. The loan bears interest at 10% per year and matures in March 2017.

$4.0 Million Other Investment note due 2013

In November 2012, we entered into a short-term working capital note with a new operator for $4.0 million. The loan bears interest at 10% per year and matures in May 2013.

Other Investment note due 2013

In 2012, we entered into a working capital loan with an existing operator for $750,000. The loan bears interest at 10% per year and matures in March 2013.

$28.0 million Other Investment note due 2017

In December 2011, we entered into a five year $28.0 million loan agreement with an existing operator. The loan bears interest at 10% per annum. In 2012, we received $1.5 million in principal payments related to the loan.

Other Investment notes due 2021 - 2023

In 2011, we entered into six capital renovation loans with an existing operator to provide funds to renovate six facilities. The loans mature between 2021 and 2023 and bear interest at an initial rate of 10% with escalators of 2.5% per year. The maximum draw of all six of the loans is approximately $11.0 million.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 7 - CONCENTRATION OF RISK

As of December 31, 2012, our portfolio of real estate investments consisted of 478 healthcare facilities, located in 34 states and operated by 46 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $3.3 billion at December 31, 2012, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 418 SNFs, 16 ALFs, 11 specialty facilities, fixed rate mortgages on 31 SNFs, and two SNFs that are held-for-sale. At December 31, 2012, we also held miscellaneous investments of approximately $47.3 million, consisting primarily of secured loans to third-party operators of our facilities.

At December 31, 2012, we had two investments with operators and/or managers that exceeded 10% of our total investments: (i) Genesis (11%), and (ii) CommuniCare (10%). The three states in which we had our highest concentration of investments were Florida (18%), Ohio (11%) and Indiana (10%) at December 31, 2012.

For the year ended December 31, 2012, our revenues from operations totaled $350.5 million, of which approximately $44.5 million were from Genesis (on a pro forma basis including Sun Healthcare, which Genesis acquired in December 2012) (13%) and $44.2 million from CommuniCare (13%). No other operator generated more than 9% of our revenues from operations for the year ended December 31, 2012.

NOTE 8 - LEASE AND MORTGAGE DEPOSITS

We obtain liquidity deposits and letters of credit from most operators pursuant to our lease and mortgage contracts with the operators. These generally represent the rental and mortgage interest for periods ranging from three to six months with respect to certain of our investments. At December 31, 2012, we held $5.9 million in such liquidity deposits and $46.9 million in letters of credit. The liquidity deposits may be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators filing under Chapter 11 of the United States Bankruptcy Code. Liquidity deposits are recorded as restricted cash on our consolidated balance sheets with the offset recorded as a liability. 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.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 9 - BORROWING ARRANGEMENTS

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

	Maturity	Current Rate			2012		2011
					December 31, (in thousands)		
Secured borrowings:							
HUD Berkadia mortgages assumed June 2010 (1)	2036 - 2040	6.61	%	$	62,921	$	64,533
HUD Capital Funding mortgages assumed June 2010 (1)	2040 - 2045	4.85	%		130,887		133,061
HUD mortgages assumed October 2011 (1)	2036 - 2040	4.87	%		31,991		32,813
HUD mortgages assumed December 2011(1)	2044	5.55	%		58,884		73,203
HUD mortgages assumed December 2012(1)	2031 - 2045	5.50	%		81,855		—
Total secured borrowings					366,538		303,610
Unsecured borrowings:							
Revolving line of credit	2016 - 2017	1.81	%	$	258,000	$	272,500
2016 Notes	2016	7.00	%		—		175,000
2020 Notes	2020	7.50	%		200,000		200,000
2022 Notes	2022	6.75	%		575,000		575,000
2024 Notes	2024	5.875	%		400,000		—
Subordinated debt	2021	9.00	%		21,049		21,219
					1,196,049		971,219
Premium - net					4,345		4,071
Total unsecured borrowings					1,458,394		1,247,790
Totals – net				$	1,824,932	$	1,551,400

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

Secured Borrowings

HUD Berkadia Mortgages assumed June 2010

In connection with the June 29, 2010 Capital Source HUD Portfolio Closing, we assumed HUD indebtedness with maturity dates ranging from January 2036 and May 2040. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $13.7 million more than the face value of the debt assumed. We amortized the fair value adjustment utilizing the effective interest method from the date of assumption. As of December 31, 2012 and 2011, the fair value adjustment represents approximately $11.6 million and $12.4 million, respectively, of the above balances.

HUD Capital Funding Mortgages assumed June 2010

In connection with the June 29, 2010 Capital Source HUD Portfolio Closing, we assumed HUD indebtedness with maturity dates range from January 2040 and January 2045. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $7.4 million more than the face value of the debt assumed. We amortized the fair value adjustment utilizing the effective interest method from the date of assumption. As of December 31, 2012 and 2011, the fair value adjustment represents approximately $6.4 million and $6.8 million, respectively, of the above balances.

HUD Mortgages assumed October 2011

In connection with the October 31, 2011 acquisition, we assumed HUD indebtedness with maturity dates range from April 2036 and September 2040. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $3.0 million more than the face value of the debt assumed. We amortized the fair value adjustment utilizing the effective interest method from the date of assumption. As of December 31, 2012 and 2011, the fair value adjustment represents approximately $2.8 million and $3.0 million, respectively, of the above balances.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

HUD Mortgages assumed December 2011

In connection with the December 23, 2011 acquisition, we assumed HUD indebtedness with maturity dates ranging from October 2029 to July 2044. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $1.9 million more than the face value of the debt assumed. We amortized the fair value adjustment utilizing the effective interest method from the date of assumption.

On June 29, 2012, we paid approximately $11.8 million to retire four HUD mortgages that were assumed as part of the acquisition. The retirement of the four HUD mortgages resulted in a net gain of approximately $1.7 million. The net gain included the write-off of approximately $1.8 million of the unamortized fair value adjustment of the assumed debt as well as a prepayment fee of approximately $0.1 million. As of December 31, 2012, no fair value adjustment remains.

HUD Mortgages assumed December 2012

In connection with the fourth quarter 2012 acquisitions, we assumed $71.9 million of HUD indebtedness with maturity dates ranging from April 2031 to February 2045. On the date of the assumption, we estimated the fair value of the assumed debt to be approximately $10.1 million more than the face value of the debt assumed. We will amortize the fair value adjustment utilizing the effective interest method from the date of assumption. As of December 31, 2012, the assumed debt balance including the fair value adjustment was $81.9 million.

Unsecured Borrowings

$700 Million Unsecured Credit Facility

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

The 2012 Credit Facilities replaced our previous $475 million senior unsecured revolving credit facility (the “2011 Credit Facility”). The 2012 Credit Facilities include an “accordion feature” that permits us to expand its borrowing capacity by a combined $300 million, to a total of $1 billion.

The 2012 Revolving Credit Facility is priced at LIBOR plus an applicable percentage (beginning at 150 basis points, with a range of 100 to 190 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, plus a facility fee based on the same ratings (initially 30 basis points, with a range of 15 to 45 basis points). At December 31, 2012, we had $158 million in borrowings outstanding under the 2012 Revolving Credit Facility. The 2012 Revolving Credit Facility matures in four years, on December 6, 2016, with an option by us to extend the maturity one additional year.

The 2012 Term Loan Facility is also priced at LIBOR plus an applicable percentage (beginning at 175 basis points, with a range of 110 to 230 basis points) based our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings. At December 31, 2012, we had $100 million in borrowings outstanding under the 2012 Term Loan Facility. We have until April 5, 2013 to borrow the full $200 million under the 2012 Term Loan Facility. The 2012 Term Loan Facility matures in five years, on December 6, 2017.

At December 31, 2012, we had a total of $258.0 million outstanding under the 2012 Credit Facilities, and no letters of credit outstanding, leaving availability of $442.0 million. For the year ended December 31, 2012, the weighted average interest rate was 1.81% for borrowings under our 2012 Credit Facilities.

Termination of $475 Million Unsecured Revolving Credit Facility

On August 16, 2011, we entered into our new $475 million 2011 Credit Facility and concurrently terminated our 2010 Credit Facility. The 2011 Credit Facility was unsecured and was scheduled to mature in four years, on August 17, 2015.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

At December 31, 2011, we had $272.5 million outstanding under the 2011 Credit Facility, and no letters of credit outstanding, leaving availability of $202.5 million. For the year ended December 31, 2011, the weighted average interest rate was 2.85%.

On December 6, 2012, we terminated our 2011 Credit Facility and for the three month period ended December 31, 2012, we recorded a non-cash charge of approximately $2.5 million relating to the write-off of unamortized deferred financing costs associated with the termination of the 2011 Credit Facility.

Termination of $320 Million Secured Revolving Credit Facility

On August 16, 2011, we terminated our previous $320 million senior secured revolving credit facility (the “2010 Credit Facility”) and recorded a non-cash charge of approximately $3.1 million relating to the write-off of unamortized deferred financing costs associated with the termination of the 2010 Credit Facility.

$175 Million 7% Senior Notes due 2016 Tender Offer and Redemption

On March 5, 2012, we commenced a tender offer to purchase for cash any and all of our outstanding $175 million aggregate principal amount of 7% Senior Notes due 2016, or the 2016 Notes. Pursuant to the terms of the tender offer, on March 19, 2012, we purchased $168.9 million aggregate principal amount of the 2016 Notes.

On March 27, 2012, pursuant to the terms of the indenture governing the 2016 Notes, we redeemed the remaining $6.1 million aggregate principal amount of the 2016 Notes at a redemption price of 102.333% of their principal amount, plus accrued and unpaid interest up to the redemption date. Following redemption, the 2016 Notes, the indenture governing the 2016 Notes and the related guarantees were terminated.

The redemption resulted in approximately $7.1 million of redemption related costs and write-offs, including $4.5 million in payments made to bondholders for early redemption, $2.2 million of write-offs associated with unamortized deferred financing costs and $0.4 million of expenses associated with the tender and redemption.

$200 Million 7.5% Senior Notes due 2020 and Exchange Offer

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

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

The 2020 Notes were sold at an issue price of 98.278% of the principal amount, resulting in gross proceeds of approximately $197 million. We used the net proceeds from the sale of the 2020 Notes, after discounts and expenses, to (i) repay outstanding borrowings of approximately $59 million of debt assumed in connection with our December 22, 2009 CapitalSource acquisition, (ii) repay outstanding borrowings under our 2009 Credit Facility, and (iii) for working capital and general corporate purposes, including the acquisition of healthcare-related properties such as the CapitalSource acquisitions. The 2020 Notes are guaranteed by substantially all of our subsidiaries as of the date of issuance. The entities we acquired on June 29, 2010 from CapitalSource which own 40 facilities (see “HUD Portfolio Closing” in Note 3) and the entities created to effect the acquisition and the 18 HUD facilities and entities that we are acquired on October 31, 2011 and on December 23, 2011 are not guarantors of our 2020 Notes, or our outstanding 2022 or 2016 Notes. As of December 31, 2012, our subsidiaries that are not guarantors of the 2020 Notes accounted for approximately $597.9 million of our total assets.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

On October 20, 2010, we commenced an offer to exchange $200 million of our registered 7.5% Senior Notes due 2020 for all of the initial 2020 Notes. All $200 million outstanding aggregate principal amount of the initial notes were validity tendered and not withdrawn prior to the expiration of the exchange offer, and were exchanged for exchange notes as of November 22, 2010. The terms of the exchange notes are substantially identical to the terms of the initial notes, except that provisions of the initial notes relating to transfer restrictions, registration rights and additional interest do not apply to exchange notes.

$575 Million 6.75% Senior Notes due 2022 and Exchange Offer

On October 4, 2010, we issued and sold $225 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the “Initial 2022 Notes”). The Initial 2022 Notes mature on October 15, 2022 and pay interest semi-annually on April 15th and October 15th. On November 23, 2010, we issued and sold $350 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the “Additional 2022 Notes”). The Additional 2022 Notes are of the same series as, and thus have the same terms, as our Initial 2022 Notes. The Initial 2022 Notes together with the Additional 2022 Notes, are collectively the (“2022 Notes”).

The Initial 2022 Notes were sold at an issue price of 98.984% of the principal amount, resulting in gross proceeds of approximately $223 million. We used the net proceeds from the sale of the Initial 2022 Notes, after discounts and expenses, to (i) pay off borrowings under the 2010 Credit Facility and (ii) for general corporate purposes. The Additional 2022 Notes were sold at an issue price of 103% of their face value, before initial purchasers’ discount, plus accrued interest from October 4, 2010, resulting in gross proceeds to us of approximately $364 million. We used the net proceeds from the sale of the Additional 2020 Notes (i) to fund our tender offer for our outstanding $310 million aggregate principal amount of 7% Senior Notes due 2014, and (ii) for working capital and general corporate purposes.

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

On June 2, 2011, we commenced an offer to exchange $575 million of our 6.75% Senior Notes due 2022 for all of the 2022 Notes. All $575 million outstanding aggregate principal amount of the notes were validly tendered and not withdrawn prior to the expiration of the exchange offer, and were exchanged for exchange notes as of July 14, 2011, pursuant to the terms of the exchange offer. The exchange notes are identical in all material respects to the notes, except that the issuance of the exchange notes was registered under the Securities Act of 1933 and the provisions of the notes relating to transfer restrictions, registration rights and additional interest relating to registrations delays do not apply to the exchange notes.

As of December 31, 2012, our subsidiaries that are not guarantors of the 2022 Notes accounted for approximately $597.9 million of our total assets.

Issuance of $400 Million 5.875% Senior Notes due 2024 and Exchange Offer

On March 19, 2012, we issued $400 million aggregate principal amount of our 5.875% Senior Notes due 2024, or the 2024 Notes. The 2024 Notes mature on March 15, 2024 and pay interest semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012.

We may redeem the 2024 Notes, in whole at any time or in part from time to time, at redemption prices of 102.938%, 101.958% and 100.979% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on March 15 of the years 2017, 2018 and 2019, respectively, and at a redemption price of 100% of the principal amount thereof on and after March 15, 2020, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until March 15, 2015 we may redeem up to 35% of the 2024 Notes with the net cash proceeds of one or more public equity offerings at a redemption price of 105.875% of the principal amount of the 2024 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The 2024 Notes were sold at an issue price of 100% of the principal amount. We used the net proceeds of the offering to fund the tender offer and consent solicitation for the 2016 Notes (described below), to fund the redemption of the untendered 2016 Notes (described below) and to repay a portion of our indebtedness outstanding under our 2011 Credit Facility. As of December 31, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately $597.9 million of our total assets.

On August 15, 2012, we commenced an offer to exchange $400 million of our 5.875% Senior Notes due 2024 for all of the 2024 Notes. All $400 million outstanding aggregate principal amount of the initial notes were validly tendered and not withdrawn prior to the expiration of the exchange offer, and were exchanged for exchange notes as of September 20, 2012, pursuant to the terms of the exchange offer. The Exchange Notes are identical in all material respects to the Initial Notes, except that the Exchange Notes were registered under the Securities Act of 1933 and the provisions of the Initial Notes relating to transfer restrictions, registration rights and additional interest will not apply to the Exchange Notes.

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of December 31, 2011 and 2012, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

The required principal payments, excluding the premium/discount on the 2024, 2022 and 2020 Notes, for each of the five years following December 31, 2012 and the aggregate due thereafter are set forth below:

	(in thousands)
2013	$ 5,251
2014	5,540
2015	5,845
2016	164,168
2017	106,509
Thereafter	1,501,398
Totals	$ 1,788,711

The following summarizes the refinancing related costs:

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Write off of deferred finance cost due to refinancing (1) (2)(3)	$ 3,024	$ 3,055	$ 8,231
Prepayment and other costs associated with refinancing (4)	4,896	16	11,251
Total debt extinguishment costs	$ 7,920	$ 3,071	$ 19,482

(1) In 2012, we wrote-off: (a) $2.2 million deferred financing costs associated with the tender offer and redemption of our $175 million 7% 2016 Notes; and (b) $2.5 million deferred financing costs associated with the termination of

our $475 million 2011 Credit Facility. These costs were offset by a $1.7 million gain resulting from the write-off of unamortized premium on the four HUD loans that were paid off in the second quarter of 2012.

(2) In 2011, we terminated our $320 million 2010 Credit Facility and wrote-off deferred financing costs of $3.1 million.

(3) In 2010, we wrote-off: (a) $3.5 million associated with the termination of our $200 million 2009 Credit Facility, (b) $2.2 million associated with the termination of a $100 million GECC term loan and (c) $2.6 million associated with the tender offer and retirement of our outstanding $310 million 7% Senior Notes due 2014.

(4) In 2012, we incurred $4.9 million prepayment penalties and other costs associated with the tender offer and redemption of our $175 million 7% 2016 Notes. In 2010, we made prepayment penalties of: (a) $3.0 million for the early termination of a $100 million GECC term loan and (b) $8.3 million for the tender offer and retirement of our outstanding $310 million 7% Senior Notes due 2014.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 10 - FINANCIAL INSTRUMENTS

At December 31, 2012 and 2011, the carrying amounts and fair values of our financial instruments were as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	$ 1,711	$ 1,711	$ 351	$ 351
Restricted cash	36,660	36,660	34,112	34,112
Mortgage notes receivable – net	238,621	235,705	238,675	241,494
Other investments – net	47,339	44,077	52,957	48,903
Totals	$ 324,331	$ 318,153	$ 326,095	$ 324,860
Liabilities:				
Revolving line of credit	$ 258,000	$ 258,000	$ 272,500	$ 272,500
7.00% Notes due 2016 – net	—	—	174,376	186,398
7.50% Notes due 2020 – net	197,546	252,363	197,202	216,114
6.75% Notes due 2022 – net	581,799	724,240	582,493	582,684
5.875% Notes due 2024 – net	400,000	441,761	—	—
HUD debt	366,538	433,803	303,610	321,949
Subordinated debt	21,049	27,896	21,219	23,198
Totals	$ 1,824,932	$ 2,138,063	$ 1,551,400	$ 1,602,843

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

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

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

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

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

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

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 11 – TAXES

We were organized, have operated, and intend to continue to operate in a manner that enables us to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code. On a quarterly and annual basis we perform several analyses to test our compliance within the REIT taxation rules. In order to qualify as a REIT, in addition to other requirements, we must: (i) distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (a) 90% of our “REIT taxable income” (computed without regard to the dividends paid deduction and our net capital gain), and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (B) the sum of certain items of non-cash income on an annual basis, (ii) ensure that at least 75% and 95%, respectively of our gross income is generated from qualifying sources that are described in the REIT tax law, (iii) ensure that at least 75% of our assets consist of qualifying assets, such as real property, mortgages, and other qualifying assets described in the REIT tax law, (iv) ensure that we do not own greater than 10% of the voting or value of any one security, (v) ensure that we do not own either debt or equity securities of another company that are in excess of 5% of our total assets and (vi) ensure that no more that 25% of our assets are invested in one or more taxable REIT subsidiaries. In addition to the above requirements, the REIT rules require that no less than 100 stockholders own shares or an interest in the REIT and that five or fewer individuals do not own (directly or indirectly) more than 50% of the shares or proportionate interest in the REIT. If we fail to meet the above or any other requirements for qualification as a REIT in any tax year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be able to qualify as a REIT for the four subsequent years, unless we qualify for certain relief provisions that are available in the event we fail to satisfy any of these requirements.

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

So long as we qualify as a REIT, we generally will not be subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. In 2012, we paid common dividend payments of $182.2 million which satisfies the 2012 REIT requirements relating to the distribution of our REIT taxable income. On a quarterly and annual basis we tested our compliance within the REIT taxation rules described above to ensure that we were in compliance with the rules.

In July 2008, we assumed operating responsibilities for the 15 Haven facilities due to the bankruptcy of one of our operators/tenants. In September 2008, we entered into an agreement to lease these facilities to a new operator/tenant. Effective September 1, 2008, the new operator/tenant assumed operating responsibility for 13 of the 15 facilities, and, as a result, we retained operating responsibility for two properties as of December 31, 2008. We also were in the process at that time of addressing state regulatory requirements necessary to transfer the final two properties to the new operator/tenant. We made an election on our 2008 federal income tax return to treat the Haven facilities as foreclosure properties. Because we acquired possession in connection with a foreclosure, the Haven facilities were eligible to be treated as foreclosure property until the end of 2011. On June 1, 2010, the two remaining facilities were transitioned to the new tenant/operator upon approval by state regulators of the operating license transfer and as of such date, TC Healthcare no longer operates these facilities. So long as the Haven facilities qualify as foreclosure property, our gross income from the properties will be qualifying income for the 75% and 95% gross income tests, but we will generally be subject to corporate income tax at the highest rate on the net income from the properties. If one or more of the Haven facilities were to inadvertently fail to qualify as foreclosure property, we would likely recognize nonqualifying income from such property for purposes of the 75% and 95% gross income tests, which could cause us to fail to qualify as a REIT. In addition, any gain from a sale of such property could be subject to the 100% prohibited transactions tax. Since the year 2000, the definition of foreclosure property has included any “qualified health care property,” as defined in Code Section 856(e)(6) acquired by us as the result of the termination or expiration of a lease of such property. We have from time to time operated qualified healthcare facilities acquired in this manner for up to two years (or longer if an extension was granted), including the Haven properties mentioned in the previous paragraph. Properties that we had taken back in a foreclosure or bankruptcy and operated for our own account were treated as foreclosure properties for income tax purposes, pursuant to Internal Revenue Code Section 856(e). Gross income from foreclosure properties was classified as “good income” for purposes of the annual REIT income tests upon making the election on the tax return. Once made, the income was classified as “good” for a period of three years, or until the properties were no longer operated for our own account. In all cases of foreclosure property, we utilized an independent contractor to conduct day-to-day operations to maintain REIT status. In certain cases we operated these facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we formed a new entity (TC Healthcare) on our behalf through the use of an eligible independent contractor to conduct day-to-day operations to maintain REIT status. As a result of the foregoing, we do not believe that our participation in the operation of nursing homes increased the risk that we would fail to qualify as a REIT. Through our 2012 taxable year, we had not paid any tax on our foreclosure property because those properties had been producing losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Subject to the limitation described above under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more TRSs. Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of December 31, 2012 and 2011 of $1.1 million. The loss carry-forward was fully reserved at December 31, 2012 and 2011 with a valuation allowance due to uncertainties regarding realization. There is currently no activity in the TRS.

NOTE 12 - RETIREMENT ARRANGEMENTS

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

We have a deferred compensation plan which is an unfunded plan under which we can award units that result in participation in the dividends and future growth in the value of our common stock. As of December 31, 2012 we had approximately $0.4 million in liabilities associated with the deferred compensation plan.

Amounts charged to operations with respect to these retirement arrangements totaled approximately $233,500, $222,500 and $168,700 in 2012, 2011 and 2010, respectively.

NOTE 13 – STOCKHOLDERS’ EQUITY

Stockholders’ Equity

$245 Million Equity Shelf Program

On June 19, 2012, we entered into separate Equity Distribution Agreements (collectively, the “2012 Agreements”) to sell shares of our common stock having an aggregate gross sales price of up to $245 million (the “2012 ESP”) with several financial institutions, each as a sales agent and/or principal (collectively, the “Managers”). Under the terms of the 2012 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to $245 million. Sales of the shares will be made by means of ordinary brokers’ transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager. We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2012 Agreements. No assurance can be given that we will sell any shares under the 2012 Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place.

For the year ended December 31, 2012, we issued 2.6 million shares under the 2012 ESP, at an average price of $24.10 per share, generating gross proceeds of approximately $63.6 million, before $1.3 million of commissions.

Termination of $140 Million Equity Shelf Program

On June 25, 2010, we entered into separate equity distribution agreements (the “2010 ESP Agreements”) to sell shares of our common stock having an aggregate gross sales price of up to $140 million (the “2010 ESP”) with several financial intuitions, each as sales agents and/or principal (collectively, the “2010 ESP Managers”). On June 19, 2012, we terminated our $140 million 2010 ESP agreement.

For the year ended December 31, 2012, we issued approximately 759,000 shares of our common stock under the 2010 ESP at an average price per share of $21.27, generating gross proceeds of approximately $16.1 million, before $0.3 million of commissions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the year ended December 31, 2011, 1.4 million shares of our common stock were issued through the 2010 ESP for net proceeds of approximately $31.4 million, net of $0.6 million of commissions. For the year ended December 31, 2010, 3.1 million shares of our common stock were issued through the 2010 ESP for approximately $65.4 million, net of $1.3 million of commissions.

Since inception of the 2010 ESP, we have sold a total of 5.3 million shares of common stock generating total gross proceeds of $114.9 million under the program, before $2.3 million of commissions. As a result of the termination of the 2010 ESP, no additional shares were issued under the 2010 ESP. The proceeds of the sale of our common stock were used for working capital and for general corporate purposes.

$100 Million Stock Repurchase Program

On August 30, 2011, the Board of Directors authorized the repurchase of up to $100 million of our outstanding common stock from time to time over a period of 12 months following such authorization. On September 30, 2011, we entered into open market transactions to repurchase 183,310 shares of our common stock at an average price of $15.96 per share. This repurchase of these common shares settled in the ordinary course on October 5, 2011. No other shares have been repurchased.

Redemption of Series D Preferred Stock

On March 7, 2011, pursuant to authorization from our Board of Directors, we redeemed all of the outstanding shares of our 8.375% Series D Cumulative Redeemable Preferred Stock at a redemption price of $25 per share plus $0.21519 per share in accrued and unpaid dividends up to and including the redemption date, for an aggregate redemption price of $25.21519 per share. Dividends on the shares of Series D Preferred Stock ceased to accrue on and after the redemption date, after which the Series D Preferred Stock ceased to be outstanding.

We borrowed approximately $103 million under our previous 2010 Credit Facility to fund the redemption price. In connection with the redemption of the Series D Preferred Stock, we wrote-off $3.5 million of preferred stock issuance costs that reduced 2011 net income available to common stockholders by approximately $0.03 per common share.

1.0 Million Share Common Stock Issuance

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

Dividend Reinvestment and Common Stock Purchase Plan

We have a Dividend Reinvestment and Common Stock Purchase Plan (the “DRSPP”) that allows for the reinvestment of dividends and the optional purchase of our common stock. For the year ended December 31, 2012, we issued 5.1 million shares of common stock for approximately $111.9 million. For the year ended December 31, 2011, we issued 2.9 million shares of common stock for approximately $59.1 million in net proceeds.

NOTE 14 –STOCK-BASED COMPENSATION

As of December 31, 2012, 1,670,244 shares of common stock were reserved for issuance to our employees, directors and consultants under our stock incentive plans, including 372,735 shares subject to outstanding awards. Awards under our stock incentive plans may be in the form of stock, stock options, restricted stock, and performance restricted stock units.

Stock Options and Tax Withholding

At December 31, 2012, there were no options outstanding.

Cash received from the exercise under all stock-based payment arrangements for the years ended December 31, 2012, 2011 and 2010 was $0, $0 and $89,000, respectively. Cash used to pay minimum tax withholdings for equity instruments granted under stock-based payment arrangements for the years ended December 31, 2012, 2011 and 2010, was $1.2 million, $1.3 million and $2.1 million, respectively.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Restricted Stock Awards

Restricted stock awards are subject to forfeiture if the holder’s service to us terminates prior to vesting, subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. Prior to vesting, ownership of the shares cannot be transferred. The restricted stock has the same dividend and voting rights as the common stock. We expense the cost of these awards ratably over their vesting period.

In May 2007, we granted 286,908 shares of restricted stock to five executive officers under the 2004 Plan. The restricted stock award vested one-seventh on December 31, 2007 and two-sevenths on December 31, 2008, December 31, 2009, and December 31, 2010. As of December 31, 2010, all shares were vested.

Effective January 2011, we granted 428,503 shares of restricted stock and 496,979 performance restricted stock units (“PRSUs”) to six employees. The restricted stock awards vest 100% on December 31, 2013, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. As of December 31, 2012, no shares of restricted stock have vested under these restricted stock awards.

In addition, we grant restricted stock to directors each year as part of the director compensation. These shares vest ratably over a three year period, subject to exceptions for death, disability, mandatory retirement or a change in control of the Company.

The following table summarizes the activity in restricted stock for the years ended December 31, 2010, 2011 and 2012:

	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Compensation Cost (1) (in millions)
Non-vested at December 31, 2009	102,374	$ 16.81	
Granted during 2010	15,500	20.00	$ 0.3
Vested during 2010	(91,607)	16.96	
Non-vested at December 31, 2010	26,267	$ 18.19	
Granted during 2011	444,003	22.42	$ 10.0
Vested during 2011	(11,968)	17.42	
Non-vested at December 31, 2011	458,302	$ 22.31	
Granted during 2012	15,500	20.29	$ 0.3
Vested during 2012	(14,300)	19.56	
Non-vested at December 31, 2012	459,502	$ 22.33	

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

Performance Restricted Stock Units

Performance Restricted Stock Units ("PRSU") are subject to forfeiture if the employee terminates service prior to vesting, subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. Prior to vesting and distribution of shares, ownership of the shares cannot be transferred. The dividends on the PRSUs accumulate and if vested are paid. We expense the cost of these awards ratably over the employee's service period.

In May 2007, we awarded two types of PRSU (annual and cliff vesting awards) to five employees totaling 247,992 shares. One half of the PRSU awards were eligible for annual vesting based on performance in equal increments on December 31, 2008, December 31, 2009, and December 31, 2010, respectively. The other half of the PRSU awards were eligible for cliff vesting on December 31, 2010. Vesting on both types of awards requires achievement of total shareholder return ("TSR") as defined in the agreements filed with the SEC on May 8, 2007. On March 29, 2010, the Compensation Committee of Omega's Board of Directors (the "Committee") determined that, based on the 26% TSR actually achieved for the twelve month period ended December 31, 2009 and in light of the challenging economic and capital market conditions that prevailed generally during 2009, it was appropriate to waive the vesting requirement solely with respect to the PRSUs that would have vested on December 31, 2009 had a cumulative, annualized TSR of 11% been achieved. As a result of the modification to the 2009 PRSUs, we recorded approximately $0.4 million of additional expense which was recorded during the first quarter of 2010 and accrued dividends of approximately $0.1 million related to this vesting. As of December 31, 2010, the performance targets for all of the awards were achieved and all shares became vested in respect of these PRSUs. All vested shares have been delivered to the executives.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Effective January 1, 2011, we awarded three types of PRSUs to the six employees: (i) 124,244 annual total shareholder return ("TSR") PRSUs for the year ended December 31, 2011 ("2011 Annual TSR PRSUs"); (ii) 279,552 multi-year absolute TSR PRSUs and (iii) 93,183 multi-year relative TSR PRSUs. On January 1, 2012, we awarded to the six employees 124,244 annual TSR PRSUs for the year ended December 31, 2012 ("2012 Annual TSR PRSUs"). On January 1, 2013, we awarded to the six employees 124,244 annual TSR PRSUs for the year ended December 31, 2013 ("2013 Annual TSR PRSUs").

Annual TSR PRSUs

The number of shares earned under the annual TSR PRSUs depends generally on the level of achievement of TSR for the year. The annual TSR PRSUs vest on December 31 of the year, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

The 2011 Annual TSR PRSUs were forfeited because the required TSR for 2011 was not achieved. At December 31, 2012, the performance requirement for the 2012 Annual TSR PRSUs was achieved and the 124,244 shares vested and were distributed to the employees.

Multi-year TSR PRSUs

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

Multi-year Relative TSR PRSUs

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

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

As of December 31, 2012, none of these PRSUs are vested or earned.

We used a Monte Carlo model to estimate the fair value and derived service periods for PRSUs granted to the employees in January 2011 and in January 2012.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table summarizes the activity in PRSU for the years ended December 31, 2010, 2011 and 2012:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Compensation Cost (1) (in millions)
Non-vested at December 31, 2009	247,992	$ 7.28	
Granted during 2010	-	-	
Modification during 2010	-	1.48	$ 0.4
Vested during 2010	(247,992)	8.76	
Non-vested at December 31, 2010	-	$ -	
Granted during 2011	496,979	11.28	$ 5.6
Vested during 2011	-	-	
Forfeited during 2011	(124,244)	11.04	
Non-vested at December 31, 2011	372,735	$ 11.36	
Granted during 2012	124,244	9.61	$ 1.2
Vested during 2012	(124,244)	9.61	
Non-vested at December 31, 2012	372,735	$ 11.36	

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

NOTE 15 - DIVIDENDS

Common Dividends

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

On October 17, 2012, the Board of Directors declared a common stock dividend of $0.44 per share, increasing the quarterly common dividend by $0.02 per share, or 4.8% over the previous quarter, which was paid November 15, 2012 to common stockholders of record on October 31, 2012.

On July 17, 2012, the Board of Directors declared a common stock dividend of $0.42 per share, which was paid August 15, 2012 to common stockholders of record on July 31, 2012.

On April 17, 2012, the Board of Directors declared a common stock dividend of $0.42 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid May 15, 2012 to common stockholders of record on April 30, 2012.

On January 13, 2012, the Board of Directors declared a common stock dividend of $0.41 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid February 15, 2012 to common stockholders of record on January 31, 2012.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Per Share Distributions

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

	Year Ended December 31, 2012	2011	2010
Common			
Ordinary income	$ 0.884	$ 0.989	$ 0.777
Return of capital	0.806	0.561	0.593
Long-term capital gain	—	—	—
Total dividends paid	$ 1.690	$ 1.550	$ 1.370
Series D Preferred			
Ordinary income	$ —	$ 0.739	$ 2.094
Return of capital	—	—	—
Long-term capital gain	—	—	—
Total dividends paid	$ —	$ 0.739	$ 2.094

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

NOTE 16 - LITIGATION

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

On January 7, 2010, LCT SE Texas Holdings, L.L.C., an affiliate of Mariner Health Care and the lessee of four facilities located in the Houston area, filed a petition in the District Court of Harris County, Texas (No. 2010-01120) against four landlord entities, the member interests of which we purchased as part of the December 2009 acquisition from CapitalSource. On April 19, 2011, the Court dismissed with prejudice Plaintiff's claims against the Defendants, all pursuant to a joint motion to dismiss filed by the parties.

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 17 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summarizes quarterly results of operations for the years ended December 31, 2012 and 2011.

	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2012				
Revenues	$ 84,515	$ 83,825	$ 87,108	$ 95,012
Net income	26,084	30,572	30,119	33,923
Net income available to common stockholders	26,084	30,572	30,119	33,923
Net income available to common per share:				
Basic net income	$ 0.25	$ 0.29	$ 0.28	$ 0.30
Diluted net income	$ 0.25	$ 0.29	$ 0.27	$ 0.30
Cash dividends paid on common stock	$ 0.41	$ 0.42	$ 0.42	$ 0.44
2011				
Revenues	$ 70,476	$ 72,606	$ 72,818	$ 76,304
Net (loss) income	(5,913)	17,790	21,436	19,293
Net (loss) income available to common stockholders	(11,076)	17,806	21,436	19,293
Net income available to common per share:				
Basic net (loss) income	$ (0.11)	$ 0.17	$ 0.21	$ 0.19
Diluted net (loss) income	$ (0.11)	$ 0.17	$ 0.21	$ 0.19
Cash dividends paid on common stock	$ 0.37	$ 0.38	$ 0.40	$ 0.40

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 18 - EARNINGS PER SHARE

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

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

	Year Ended December 31,		
	2012	2011	2010
	(in thousands, except per share amounts)		
Numerator:			
Net income	$ 120,698	$ 52,606	$ 58,436
Preferred stock dividends	-	(1,691)	(9,086)
Preferred stock redemption	-	(3,456)	-
Numerator for net income available to common per share - basic and diluted	$ 120,698	$ 47,459	$ 49,350
Denominator:			
Denominator for basic earnings per share	107,591	102,119	94,056
Effect of dilutive securities:			
Restricted stock	401	45	171
Stock option incremental shares	-	-	3
Deferred stock	19	13	7
Denominator for diluted earnings per share	108,011	102,177	94,237
Earnings per share - basic:			
Net income - basic	$ 1.12	$ 0.46	$ 0.52
Earnings per share - diluted:			
Net income - diluted	$ 1.12	$ 0.46	$ 0.52

NOTE 19– CONSOLIDATING FINANCIAL STATEMENTS

As of December 31, 2012, we had outstanding (i) $200 million 7.5% Senior Notes due 2020, (ii) $575 million 6.75% Senior Notes due 2022 and (iii) $400 million 5.875% Senior Notes due 2024, which we collectively refer to as the Senior Notes. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by each of our subsidiaries that guarantee other indebtedness of Omega or any of the subsidiary guarantors. Any subsidiary that we properly designate as an “unrestricted subsidiary” under the indentures governing the Senior Notes will not provide guarantees of the Senior Notes. As of and prior to March 31, 2010, the non-subsidiary guarantors were minor and insignificant. On June 29, 2010, we designated as “unrestricted subsidiaries” the 39 subsidiaries we acquired from CapitalSource subject to HUD indebtedness. During the fourth quarter of 2011, we designated as “unrestricted subsidiaries" 20 subsidiaries we acquired subject to HUD indebtedness. During the fourth quarter of 2012, we designated as "unrestricted subsidiaries" eight subsidiaries we acquired subject to HUD indebtedness.

On July 17, 2012, our Board of Directors approved removing the unrestricted subsidiary designation from five subsidiaries due to the retirement of the HUD related mortgages. The total assets related to these five "unrestricted subsidiaries" at June 30, 2012 was approximately $47.9 million. As a result, the December 31, 2011 consolidating balance sheet reflects the removal of the restriction from these five subsidiaries.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the years ended December 31, 2012 and 2011, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense. For the years ended December 31, 2012 and 2011, the non-guarantor subsidiaries have not engaged in investing or financing activities other than routine principal payments on its HUD mortgage debt of $4.0 million and $2.6 million, respectively. All of the subsidiary and non-subsidiary guarantors of our outstanding senior notes are 100 percent owned by Omega.

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	December 31, 2012			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
ASSETS				
Real estate properties				
Land and buildings	$ 2,466,866	$ 571,687	$ —	$ 3,038,553
Less accumulated depreciation	(535,223)	(45,150)	—	(580,373)
Real estate properties – net	1,931,643	526,537	—	2,458,180
Mortgage notes receivable – net	238,621	—	—	238,621
	2,170,264	526,537	—	2,696,801
Other investments – net	47,339	—	—	47,339
	2,217,603	526,537	—	2,744,140
Assets held for sale – net	1,020	—	—	1,020
Total investments	2,218,623	526,537	—	2,745,160
Cash and cash equivalents	1,711	—	—	1,711
Restricted cash	7,078	29,582	—	36,660
Accounts receivable – net	118,473	6,707	—	125,180
Investment in affiliates	163,610	—	(163,610)	—
Other assets	38,224	35,070	—	73,294
Total assets	$ 2,547,719	$ 597,896	(163,610)	$ 2,982,005
LIABILITIES AND STOCKHOLDERS' EQUITY				
Revolving line of credit	$ 258,000	$ —	$ —	$ 258,000
Secured borrowings	—	366,538	—	366,538
Unsecured borrowings – net	1,179,345	21,049	—	1,200,394
Accrued expenses and other liabilities	99,045	46,699	—	145,744
Intercompany payable	—	143,158	(143,158)	—
Total liabilities	1,536,390	577,444	(143,158)	1,970,676
Stockholders' equity:				
Common stock	11,239	—	—	11,239
Common stock – additional paid-in-capital	1,664,855	—	—	1,664,855
Cumulative net earnings	754,128	20,452	(20,452)	754,128
Cumulative dividends paid	(1,418,893)	—	—	(1,418,893)
Total stockholders' equity	1,011,329	20,452	(20,452)	1,011,329
Total liabilities and stockholders' equity	$ 2,547,719	$ 597,896	$ (163,610)	$ 2,982,005

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	December 31, 2011			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
ASSETS				
Real estate properties				
Land and buildings	$ 2,095,441	$ 441,598	$ —	$ 2,537,039
Less accumulated depreciation	(446,581)	(23,839)	—	(470,420)
Real estate properties – net	1,648,860	417,759	—	2,066,619
Mortgage notes receivable – net	238,675	—	—	238,675
	1,887,535	417,759	—	2,305,294
Other investments – net	52,957	—	—	52,957
	1,940,492	417,759	—	2,358,251
Assets held for sale – net	2,461	—	—	2,461
Total investments	1,942,953	417,759	—	2,360,712
Cash and cash equivalents	351	—	—	351
Restricted cash	6,511	27,601	—	34,112
Accounts receivable – net	97,407	3,257	—	100,664
Investment in affiliates	119,564	—	(119,564)	—
Other assets	32,798	28,675	—	61,473
Total assets	$ 2,199,584	$ 477,292	(119,564)	$ 2,557,312
LIABILITIES AND STOCKHOLDERS' EQUITY				
Revolving line of credit	$ 272,500	$ —	$ —	$ 272,500
Secured borrowings	13,652	289,958	—	303,610
Unsecured borrowings – net	954,071	21,219	—	975,290
Accrued expenses and other liabilities	80,877	46,551	—	127,428
Intercompany payable	—	109,907	(109,907)	—
Total liabilities	1,321,100	467,635	(109,907)	1,678,828
Stockholders' equity:				
Common stock	10,341	—	—	10,341
Common stock – additional paid-in-capital	1,471,381	—	—	1,471,381
Cumulative net earnings	633,430	9,657	(9,657)	633,430
Cumulative dividends paid	(1,236,668)	—	—	(1,236,668)
Total stockholders' equity	878,484	9,657	(9,657)	878,484
Total liabilities and stockholders' equity	$ 2,199,584	$ 477,292	$ (119,564)	$ 2,557,312

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	Year Ended December 31, 2012			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
Revenue				
Rental income	$ 266,213	$ 48,379	$ -	$ 314,592
Mortgage interest income	30,446	-	-	30,446
Other investment income – net	4,760	-	-	4,760
Miscellaneous	662	-	-	662
Total operating revenues	302,081	48,379	-	350,460
Expenses				
Depreciation and amortization	91,672	21,311	-	112,983
General and administrative	20,913	417	-	21,330
Acquisition costs	909	-	-	909
Impairment loss on real estate properties	272	-	-	272
Total operating expenses	113,766	21,728	-	135,494
Income before other income and expense	188,315	26,651	-	214,966
Other income (expense):				
Interest income	2	27	-	29
Interest expense	(79,644)	(15,883)	-	(95,527)
Interest – amortization of deferred financing costs	(2,649)	-	-	(2,649)
Interest – refinancing costs	(7,920)	-	-	(7,920)
Equity in earnings	10,795	-	(10,795)	-
Total other expense	(79,416)	(15,856)	(10,795)	(106,067)
Income before gain on assets sold	108,899	10,795	(10,795)	108,899
Gain on assets sold - net	11,799	-	-	11,799
Net income available to common stockholders	$ 120,698	$ 10,795	$ (10,795)	$ 120,698

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	Year Ended December 31, 2011			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
Revenue				
Rental income	$239,077	$ 34,440	$-	$ 273,517
Mortgage interest income	16,274	-	-	16,274
Other investment income – net	2,070	-	-	2,070
Miscellaneous	343	-	-	343
Total operating revenues	257,764	34,440	-	292,204
Expenses				
Depreciation and amortization	84,568	15,769	-	100,337
General and administrative	19,138	294	-	19,432
Acquisition costs	1,204	-	-	1,204
Impairment loss on real estate properties	26,344	-	-	26,344
Provisions for uncollectible accounts receivable	6,439	-	-	6,439
Nursing home expenses of owned and operated assets	653	-	-	653
Total operating expenses	138,346	16,063	-	154,409
Income before other income and expense	119,418	18,377	-	137,795
Other income (expense):				
Interest income	15	25	-	40
Interest expense	(69,881)	(11,273)	-	(81,154)
Interest – amortization of deferred financing costs	(2,674)	-	-	(2,674)
Interest – refinancing costs	(3,071)	-	-	(3,071)
Equity in earnings	7,129	-	(7,129)	-
Total other expense	(68,482)	(11,248)	(7,129)	(86,859)
Income before gain on assets sold	50,936	7,129	(7,129)	50,936
Gain on assets sold - net	1,670	-	-	1,670
Net income	52,606	7,129	(7,129)	52,606
Preferred stock dividends	(1,691)	-	-	(1,691)
Preferred stock redemption	(3,456)	-	-	(3,456)
Net income available to common stockholders	$47,459	$ 7,129	$(7,129)	$ 47,459

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	Year Ended December 31, 2010			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated
Revenue				
Rental income	$215,992	$ 16,780	$-	$ 232,772
Mortgage interest income	10,391	-	-	10,391
Other investment income – net	3,936	-	-	3,936
Miscellaneous	3,886	-	-	3,886
Nursing home revenues of owned and operated assets	7,336	-	-	7,336
Total operating revenues	241,541	16,780	-	258,321
Expenses				
Depreciation and amortization	76,553	8,070	-	84,623
General and administrative	14,744	310	-	15,054
Acquisition costs	1,554	-	-	1,554
Impairment loss on real estate properties	155	-	-	155
Nursing home expenses of owned and operated assets	7,998	-	-	7,998
Total operating expenses	101,004	8,380	-	109,384
Income before other income and expense	140,537	8,400	-	148,937
Other income (expense):				
Interest income	86	19	-	105
Interest expense	(61,449)	(5,891)	-	(67,340)
Interest – amortization of deferred financing costs	(3,780)	-	-	(3,780)
Interest – refinancing costs	(19,482)	-	-	(19,482)
Equity in earnings	2,528	-	(2,528)	-
Total other expense	(82,097)	(5,872)	(2,528)	(90,497)
Income before gain (loss) on assets sold	58,440	2,528	(2,528)	58,440
Loss on assets sold – net	(4)	-	-	(4)
Net income	58,436	2,528	(2,528)	58,436
Preferred stock dividends	(9,086)	-	-	(9,086)
Net income available to common	$49,350	$ 2,528	$(2,528)	$ 49,350

OMEGA HEALTHCARE INVESTORS, INC.

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION
OMEGA HEALTHCARE INVESTORS, INC.
December 31, 2012

		Initial Cost to Company Buildings	Cost Capitalized Subsequent to Acquisition			(3) Gross Amount at Which Carried at Close of Period Buildings and Land	(4)
Description (1)	Encumbrances	and Land Improvements	Improvements	Impairment	Other	Improvements Total	Ac De
Genesis HealthCare:							
Alabama (LTC)		23,584,956	6,523,220	-	-	30,108,176	12,
California (LTC)		15,618,263	26,652	-	-	15,644,915	6,8
Colorado (LTC, ILF)		38,341,877	5,444,311	-	-	43,786,188	8,0
Idaho (LTC)		21,705,267	974,011	-	-	22,679,278	6,5
Massachusetts (LTC)		57,139,658	2,660,093	(8,257,521)	-	51,542,230	15,
New Hampshire (LTC, AL)		21,619,503	1,462,797	-	-	23,082,300	5,8
North Carolina (LTC)		22,652,488	3,550,986	-	-	26,203,474	13,
Ohio (LTC)		11,653,451	20,246	-	-	11,673,697	5,1
Rhode Island (LTC)		38,740,812	4,792,882	-	-	43,533,694	9,6
Tennessee (LTC)		7,905,139	2,537,508	-	-	10,442,647	4,7
Vermont (LTC)		14,145,776	1,235,807	-	-	15,381,583	3,5
Washington (LTC)		10,000,000	1,798,844	-	-	11,798,844	9,2
West Virginia (LTC)		44,277,206	6,528,560	-	-	50,805,766	16,
Total Genesis HealthCare		327,384,396	37,555,917	(8,257,521)	-	356,682,792	11
Health and Hospital Corporation:							
Indiana (LTC, AL, ILF)		280,915,346	380,317	(1,820,624)	-	279,475,039	10,
Total Health and Hospital Corporation		280,915,346	380,317	(1,820,624)	-	279,475,039	10,
Airamid Health Management							
Florida (LTC, AL)	(2)	248,788,474	-	-	-	248,788,474	34,

Pennsylvania (LTC)		14,771,868	-	-	-	14,771,868	2,1
Total Airamid Health Management		263,560,342	-	-	-	263,560,342	37,
CommuniCare Health Services, Inc:							
Ohio (LTC, AL, SH)		218,726,757	14,817,410	-	-	233,544,167	52,
Pennsylvania (LTC)		20,286,067	1,788,193	-	-	22,074,260	4,5
Total CommuniCare Health Services, Inc		239,012,824	16,605,603	-	-	255,618,427	57,
Signature Holdings II, LLC.:							
Florida (LTC)		110,896,405	6,800,763	-	-	117,697,168	26,
Georgia (LTC)		14,679,314	3,721,982	-	-	18,401,296	5,0
Kentucky (LTC)		44,737,440	3,221,326	-	-	47,958,766	10,
Maryland (LTC)		28,629,686	1,786,688	-	-	30,416,374	3,9
Tennessee (LTC)		11,230,702	357,255	-	-	11,587,957	3,0
Total Signature Holdings II, LLC		210,173,547	15,888,014	-	-	226,061,561	48,
S&F Management Company, LLC:							
Arizona (LTC, AL)	(2)	64,642,862	-	-	-	64,642,862	16
California (LTC)	(2)	147,805,458	-	-	-	147,805,458	20
Total S&F Management Company, LLC		212,448,320	-	-	-	212,448,320	37
Other:							
Alabama (LTC)		17,939,710	6,392,567	-	-	24,332,277	11,
Arizona (LTC)		34,318,094	5,657,143	(6,603,745)	-	33,371,492	10,
Arkansas (LTC)	(2)	117,091,565	8,856,328	(36,350)	-	125,911,543	29,
California (LTC)		21,879,146	1,778,353	-	-	23,657,499	8,1
Colorado (LTC)		33,527,071	2,346,167	-	-	35,873,238	8,4
Florida (LTC, AL)	(2)	219,369,045	4,068,109	(970,000)	-	222,467,154	41,
Georgia (LTC)		10,000,000	-	-	-	10,000,000	2,3
Illinois (LTC)		13,961,501	444,484	-	-	14,405,985	6,4
Indiana (LTC, AL)		37,220,697	1,897,203	(22,776)	-	39,095,124	7,7
Iowa (LTC)		19,116,936	2,084,807	-	-	21,201,743	6,0

Kansas (LTC)		3,210,020	-	-	-	3,210,020	494
Kentucky (LTC)		15,151,027	4,141,902	-	-	19,292,929	9,3
Louisiana (LTC)		55,343,066	170,509	-	-	55,513,575	11,
Maryland (LTC)	(2)	48,731,498	-	-	-	48,731,498	2,3
Massachusetts (LTC)		5,804,554	-	-	-	5,804,554	1,0
Michigan (LTC, AL)		36,500,317	-	-	-	36,500,317	823
Mississippi (LTC)	(2)	52,416,905	566,614	-	-	52,983,519	6,2
Missouri (LTC)		12,301,560	-	(149,386)	-	12,152,174	4,8
Nevada (LTC, SH)		20,926,778	-	-	-	20,926,778	3,1
New Mexico (LTC)		7,097,600	130,323	-	-	7,227,923	1,7
North Carolina (LTC)		33,092,980	-	-	-	33,092,980	4,0
Ohio (LTC)		106,991,529	6,250,513	-	-	113,242,042	26,
Oklahoma (LTC)		22,642,639	-	-	-	22,642,639	2,4
Pennsylvania (LTC, AL, ILF)		138,881,687	-	-	-	138,881,687	32,
Tennessee (LTC)		94,531,371	2,350,869	-	-	96,882,240	21,
Texas (LTC)		159,153,913	6,926,311	-	-	166,080,224	38,
Washington (AL)		5,673,693	-	-	-	5,673,693	2,2
West Virginia (LTC)	(2)	24,641,423	348,641	-	-	24,990,064	4,4
Wisconsin (LTC)		30,561,506	-	-	-	30,561,506	3,7
Total Other		1,398,077,831	54,410,843	(7,782,257)	-	1,444,706,417	308
Total		2,931,572,606	124,840,694	(17,860,402)	-	3,038,552,898	580

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

(2) Certain of the real estate indicated are security for the HUD loan borrowings totaling $366,537,510, including FMV of $30,826,565, at December 31, 2012.

(3)	Year Ended December 31, 2010	2011	2012
Balance at beginning of period	$ 1,669,842,724	$ 2,366,856,229	$ 2,537,038,892
Acquisitions	661,148,185	192,612,147	491,207,838
Impairment		(26,344,298)	
Improvements	35,905,544	19,865,623	29,436,456
	(40,224)	(15,950,809)	(19,130,288)

Disposals/other			
Balance at close of period	$ 2,366,856,229	$ 2,537,038,892	$ 3,038,552,898

(4)	2010	2011	2012
Balance at beginning of period	$ 296,441,131	$ 380,995,243	$ 470,420,023
Provisions for depreciation	84,554,112	100,237,951	112,871,408
Dispositions/other		(10,813,171)	(2,918,220)
Balance at close of period	$ 380,995,243	$ 470,420,023	$ 580,373,211

(5) The reported amount of our real estate at December 31, 2012 is greater than the tax basis of the real estate by approximately $17.1 million.

OMEGA HEALTHCARE INVESTORS, INC.

SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE
OMEGA HEALTHCARE INVESTORS, INC.
December 31, 2012

Description (1)	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages (3) (4)	Principal Amount of Loans Subject to Delinquent Principal or Interest
Florida (3 LTC facilities)	10.40%	2030	Interest payable monthly	None	15,900,000	15,896,641	
Maryland (7 LTC facilities)	11.00%	2023	Interest payable monthly	None	74,927,751	69,927,759	
Maryland (1 LTC facilities)	12.00%	2046	Interest payable monthly	None	10,000,000	10,000,000	
Maryland (1 LTC facilities)	12.00%	2046	Interest payable monthly	None	9,500,000	9,500,000	
Maryland (1 LTC facilities)	12.00%	2046	Interest payable monthly	None	5,500,000	5,500,000	
Michigan (1 LTC facility)	12.50%	2022	Interest payable monthly	None	5,310,000	5,310,000	
Michigan (1 LTC facility)	12.50%	2021	Interest payable monthly	None	5,573,500	5,573,500	
Michigan (1 LTC facility)	12.50%	* See (2)	Interest payable monthly	None	7,411,231	7,411,231	
Michigan (1 LTC facility)	12.50%	* See (2)	Interest payable monthly	None	4,340,209	4,340,209	
Michigan (13 LTC facilities)	11.00%	2021	Interest plus $34,500 of principal payable monthly	None	92,000,000	91,585,884	
Michigan (1 LTC	12.00%	2046	Interest payable monthly	None	1,500,000	1,500,000	

facility)						
Ohio (1 LTC facility)	12.00%	2022	Interest plus $1,600 of principal payable monthly	None	6,112,406	6,100,330
	12.00%	2022	Interest payable monthly	None	345,011	345,011
	12.00%	2022	Interest payable monthly		630,596	630,596
Texas (1 LTC facility)	11.00%	2013	Interest payable monthly	None	5,000,000	5,000,000
					$244,050,704	238,621,161

(1) Mortgage loans included in this schedule represent first mortgages on facilities used in the delivery of long-term healthcare of which such facilities are located in the states indicated.
(2) This loan is a construction loan and matures 10 years after construction is completed.
(3) The aggregate cost for federal income tax purposes is equal to the carrying amount.

	Year Ended December 31,		
(4)	2010	2011	2012
Balance at beginning of period	$ 100,222,734	$ 108,556,518	$ 238,674,601
Additions during period - Placements	20,656,391	130,191,254	11,967,892
Deductions during period - collection of principal/other	(12,322,607)	(73,171)	(12,021,332)
Balance at close of period	$ 108,556,518	$ 238,674,601	$ 238,621,161

INDEX TO EXHIBITS TO 2012 FORM 10-K

EXHIBIT NUMBER	DESCRIPTION
2.1	Securities Purchase Agreement dated November 17, 2009 between CapitalSource Inc., CHR HUD Borrower LLC, CSE Mortgage LLC, CSE SLB LLC, CSE SNF Holding LLC and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed November 23, 2009).
3.1	Amended and Restated Bylaws. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on April 20, 2011).
3.2	Articles of Amendment and Restatement of Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on June 14, 2010).
4.0	See Exhibits 3.1 to 3.2.
4.1	Indenture, dated as of March 19, 2012, among Omega Healthcare Investors, Inc., each of the subsidiary guarantors listed therein and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2024. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on March 19, 2012).
4.1A	Form of 5.875% Senior Notes due 2024. (Incorporated by reference to Exhibit A of Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 19, 2012).
4.1B	Form of Subsidiary Guarantee relating to the 5.875% Senior Notes due 2024. (Incorporated by reference to Exhibit E of Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 19, 2012).
4.1C	First Supplemental Indenture, dated as of July 2, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset HUD SF, LLC, OHI Asset (IN) Greensburg, LLC, OHI Asset (IN) Indianapolis, LLC, OHI Asset (IN) Wabash, LLC and OHI Asset (IN) Westfield, LLC and U.S. Bank National Association, as trustee, together with Second Supplemental Indenture, dated as of August 9, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, that Third Supplemental Indenture, dated as of September 24, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, and that Fourth Supplemental Indenture, effective as of December 31, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee.*
4.2	Indenture, dated as of February 9, 2010, among Omega Healthcare Investors, Inc., each of the subsidiary guarantors listed therein and U.S. Bank National Association, as trustee, related to the 7.5% Senior Notes due 2020, including the Form of 7.5% Senior Notes and Form of Subsidiary Guarantee related thereto. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on February 10, 2010).
4.2A	

	First Supplemental Indenture, dated as of June 23, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, together with Second Supplemental Indenture, dated as of September 2, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset (MI), LLC and U.S. Bank National Association, as trustee, and Third Supplemental Indenture, dated as of January 13, 2011, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL) Lender, LLC and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.2A to the Company's Annual Report on Form 10-K, filed on February 28, 2011).
4.2B	Fourth Supplemental Indenture, dated as of June 10, 2011, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset HUD WO, LLC, OHI Asset (MD), LLC and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.2A to the Company's Annual Report on Form 10-K, filed on February 27, 2012).
4.2C	Fifth Supplemental Indenture, dated as of July 2, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset HUD SF, LLC, OHI Asset (IN) Greensburg, LLC, OHI Asset (IN) Indianapolis, LLC, OHI Asset (IN) Wabash, LLC and OHI Asset (IN) Westfield, LLC and U.S. Bank National Association, as trustee, together with that Sixth Supplemental Indenture, dated as of August 9, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, that certain Seventh Supplemental Indenture, dated as of September 24, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, and that Eighth Supplemental Indenture, effective as of December 31, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee.*

4.3	Indenture, dated as of October 4, 2010, by and among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto and U.S. Bank National Association, as trustee, related to the 6.75% Senior Notes due 2022, including the Form of 6.75% Senior Notes and Form of Subsidiary Guarantee related thereto. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 5, 2010).
4.3A	First Supplemental Indenture, dated as of January 13, 2011, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL) Lender, LLC and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.3A to the Company's Annual Report on Form 10-K, filed on February 28, 2011).
4.3B	Second Supplemental Indenture, dated as of June 10, 2011, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset HUD WO, LLC, OHI Asset (MD), LLC and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.2A to the Company's Annual Report on Form 10-K, filed on February 27, 2012).
4.3C	Third Supplemental Indenture, dated as of July 2, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset HUD SF, LLC, OHI Asset (IN) Greensburg, LLC, OHI Asset (IN) Indianapolis, LLC, OHI Asset (IN) Wabash, LLC and OHI Asset (IN) Westfield, LLC and U.S. Bank National Association, as trustee, together with that Fourth Supplemental Indenture, dated as of August 9, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, that certain Fifth Supplemental Indenture, dated as of September 24, 2012, among Omega Healthcare investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, and that Sixth Supplemental Indenture, effective as of December 31, 2012, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee.*
10.1	Form of Directors and Officers Indemnification Agreement. (Incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q, filed on August 14, 2000).
10.2	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and C. Taylor Pickett, including forms of equity awards. (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q, filed on November 8, 2010).+
10.3	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Daniel Booth, including forms of equity awards. (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q, filed on November 8, 2010).+
10.4	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and R. Lee Crabill, including forms of equity awards. (Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q, filed on November 8, 2010).+
10.5	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Robert O. Stephenson, including forms of equity

	awards. (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q, filed on November 8, 2010).+
10.6	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Michael Ritz, including forms of equity awards. (Incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q, filed on November 8, 2010).+
10.7	Form of Restricted Stock Unit Award for 2007 to 2010 officer grants. (Incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q, filed on May 8, 2007).+
10.8	Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on November 2, 2004).+
10.8A	First Amendment to the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan, dated as of May 22, 2008 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed May 29, 2008).+
10.8B	2000 Stock Incentive Plan (as amended January 1, 2001). (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on November 10, 2003).+
10.8C	Amendment to 2000 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q, filed on August 14, 2000).+
10.9	Form of Officers' Multi-Year Performance Restricted Stock Unit Award for 2011 to 2014 (Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K, filed on February 27, 2012).+
10.9A	Form of Officers' Annual Performance Restricted Stock Unit Award for 2011 to 2014.*
10.10	Form of Incentive Stock Option Award for the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.30 of the Company's Annual Report Form 10-K, filed on February 18, 2005).+
10.11	Form of Non-Qualified Stock Option Award for the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K, filed on February 18, 2005).+
10.12	Form of Directors' Restricted Stock Award (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on August 7, 2012).+
10.12A	Form of Officers' Restricted Stock Award for 2011 to 2014 (Incorporated by reference to Exhibit 10.15A of the Company's Annual Report on Form 10-K, filed on February 27, 2012).+

10.12B	Form of Amendment to Restricted Stock Award or Deferred Restricted Stock Agreement Pursuant to the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q, filed on August 7, 2012).+
10.13	Amended and Restated Deferred Stock Plan, dated October 16, 2012, and forms of related agreements (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 7, 2012).
10.14	Form of 2012 Bonus Payout and True-Up Agreement.+*
10.15	Form of Equity Distribution Agreement, dated June 19, 2012, entered into by and between Omega Healthcare Investors, Inc. and each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and UBS Securities LLC. (Incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K, filed June 20, 2012).
10.16	Credit Agreement, dated as of December 6, 2012, among Omega Healthcare Investors, Inc., certain subsidiaries of Omega Healthcare Investors, Inc. identified therein as guarantors, the lenders named therein and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 12, 2012).
10.17	Casablanca Option Agreement dated December 22, 2009 between CapitalSource Inc., CSE SLB LLC and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 29, 2009).
10.17A	First Amendment to Casablanca Option Agreement, dated as of June 9, 2010, among Omega Healthcare Investors, Inc. CapitalSource Inc. and CSB SLB LLC. (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed August 6, 2010).
12.1	Ratio of Earnings to Fixed Charges.*
12.2	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.*
21	Subsidiaries of the Registrant.*
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**

* Exhibits that are filed herewith.

\+ Management contract or compensatory plan, contract or arrangement.
** In accordance with Rule 406T of Regulation S-T, this XBRL-related information shall be deemed to be "furnished" and not "filed."

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OMEGA HEALTHCARE INVESTORS, INC.

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

Date: February 28, 2013

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

Signatures	Title	Date
PRINCIPAL EXECUTIVE OFFICER		
/s/ C. Taylor Pickett C. Taylor Pickett	Chief Executive Officer	February 28, 2013
PRINCIPAL FINANCIAL OFFICER		
/s/ Robert O. Stephenson Robert O. Stephenson	Chief Financial Officer	February 28, 2013
/s/ Michael D. Ritz Michael D. Ritz	Chief Accounting Officer	February 28, 2013
DIRECTORS		
/s/ Bernard J. Korman Bernard J. Korman	Chairman of the Board	February 28, 2013
/s/ Thomas F. Franke Thomas F. Franke	Director	February 28, 2013
/s/ Harold J. Kloosterman Harold J. Kloosterman	Director	February 28, 2013
/s/ Edward Lowenthal	Director	

Edward Lowenthal		February 28, 2013
/s/ C. Taylor Pickett C. Taylor Pickett	Director	February 28, 2013
/s/ Stephen D. Plavin Stephen D. Plavin	Director	February 28, 2013

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