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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2000

or

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-11316

OMEGA HEALTHCARE
INVESTORS, INC.
(Exact name of Registrant as specified in its charter)

Maryland	38-3041398
(State of Incorporation)	(I.R.S. Employer Identification No.)

900 Victors Way, Suite 350, Ann Arbor, MI 48108
(Address of principal executive offices)

(734) 887-0200
(Telephone number, including area code)

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

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 30, 2000

Common Stock, $.10 par value	20,025,201
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.

FORM 10-Q

September 30, 2000

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PART I Financial Information — Page No.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

<TABLE>
<CAPTION>

	September 30, 2000 (Unaudited)	December 31, 1999 (See Note)
<S>		
ASSETS		
Real estate properties		
Land and buildings at cost	$712,357	$754,285
Less accumulated depreciation	(84,462)	(67,929)
Real estate properties - net	627,895	686,356
Mortgage notes receivable - net	207,113	213,617
	835,008	899,973
Other investments	56,537	69,193
	891,545	969,166
Assets held for sale - net	7,344	36,406
Total Investments	898,889	1,005,572
Cash and short-term investments	4,276	4,091
Operating assets for owned properties	39,746	9,648
Accounts receivable	10,676	9,665
Other assets	11,102	9,755
Total Assets	$964,689	$1,038,731
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving lines of credit	$191,641	$166,600
Unsecured borrowings	229,480	310,996
Other secured borrowings	20,157	28,768
Subordinated convertible debentures	17,085	48,405
Accrued expenses and other liabilities	11,520	14,819
Operating liabilities for owned properties	17,771	12,062
Total Liabilities	487,654	581,650
Preferred Stock	207,500	107,500
Common stock and additional paid-in capital	439,120	449,292

Cumulative net earnings	185,119	232,105
Cumulative dividends paid	(353,594)	(331,341)
Stock option loans	-	(2,499)
Unamortized restricted stock awards	(716)	(526)
Accumulated other comprehensive income (loss)	(394)	2,550
Total Shareholders' Equity	477,035	457,081
Total Liabilities and Shareholders' Equity	$964,689	$1,038,731

</TABLE>

Note - The balance sheet at December 31, 1999, has been derived from audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In Thousands, Except Per Share Amounts)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Revenues				
Rental income	$15,503	$19,723	$49,652	$56,431
Mortgage interest income	5,888	8,671	17,800	29,076
Other investment income - net	534	1,937	4,277	5,650
Nursing home revenues of owned and operated assets	45,960	10,376	123,461	10,376
Miscellaneous	126	264	483	530
	68,011	40,971	195,673	102,063
Expenses				
Depreciation and amortization	5,657	6,488	17,385	17,948
Interest	9,846	11,134	32,221	31,948
General and administrative	1,830	1,236	4,631	3,890
Legal	481	123	974	166
State taxes	15	109	241	395
Severance and consulting agreement costs	4,665	-	4,665	-
Provision for uncollectible mortgages and notes receivable	12,100	-	12,100	-
Nursing home expenses of owned and operated assets	48,552	9,526	126,436	9,526
	83,146	28,616	198,653	63,873
(Loss) earnings before gain (loss) on assets sold and impairment charges	(15,135)	12,355	(2,980)	38,190

Provision for impairment (See Note C)	(49,849)	-	(54,349)	-		
(Loss)/gain on assets sold - net	(109)	-	10,342	-		
Net (loss) earnings	(65,093)	12,355	(46,987)	38,190		
Preferred stock dividends	(5,705)	(2,408)	(10,520)	(7,224)		
Net (loss) earnings available to common	($70,798)	$ 9,947	($57,507)	$30,966		
(Loss) earnings per common share:						
Basic before gain/(loss) on assets sold and impairment charges	($1.04)	$0.50	($0.67)	$1.56		
Diluted before gain/(loss) on assets sold and impairment charges	($1.04)	$0.50	($0.67)	$1.56		
Net (loss) earnings per share - basic	($3.53)	$0.50	($2.87)	$1.56		
Net (loss) earnings per share - diluted	($3.53)	$0.50	($2.87)	$1.56		
Dividends declared and paid per common share	$0.25	$0.70	$0.75	$2.10		
Weighted Average Shares Outstanding, Basic	20,064	19,872	20,058	19,872		
Weighted Average Shares Outstanding, Diluted	20,064	19,873	20,058	19,873		
Other comprehensive income (loss):						
Unrealized Gain (Loss) on Omega Worldwide, Inc	($1,745)	$ 36	($2,944)	$ 1,136		
Total comprehensive (loss) income	($66,838)	$12,391	($49,931)	$39,326		

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In Thousands)

	Nine Months Ended September 30,	
	2000	1999
Operating activities		
Net (loss) earnings	$(46,987)	$ 38,190

Adjustment to reconcile net (loss) earnings to cash provided by operating activities:		
Depreciation and amortization	17,385	17,948
Provision for impairment loss	54,349	-
Provision for loss on notes and mortgages receivable	12,100	-
Gain on assets sold and held for sale	(10,342)	-
Other	2,078	2,599
Net change in operating assets and liabilities	(27,772)	(4,134)
Net cash provided by operating activities	811	54,603
Cash flows from financing activities		
Proceeds of acquisition lines of credit	25,041	72,100
Payments of long-term borrowings	(121,447)	(1,226)
Receipts from Dividend Reinvestment Plan	430	1,878
Dividends paid	(22,253)	(49,017)
Proceeds from preferred stock offering	100,000	-
Costs of raising capital	(9,339)	-
Purchase of Company common stock	-	(8,740)
Deferred financing costs paid	(4,976)	-
Other	-	431
Net cash (used in) provided by financing activities	(32,544)	15,426
Cash flow from investing activities		
Acquisition of real estate (1)	-	(73,378)
Placement of mortgage loans	-	(22,944)
Proceeds from sale of real estate investments - net	35,793	7,829
Fundings of other investments - net	(5,507)	(9,846)
Collection of mortgage principal (1)	1,632	26,616
Net cash provided by (used in) investing activities	31,918	(71,723)
Increase (decrease) in cash and short-term investments	$ 185	$(1,694)

</TABLE>

(1) In addition to the amounts shown, during the third quarter of 1999 the Company acquired real estate in lieu of foreclosure of a mortgage in the amount of $67 million.

See notes to condensed consolidated financial statements.

Omega Healthcare Investors, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2000

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Omega Healthcare Investors, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and impairment provisions to adjust the carrying value of assets) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the 1999 financial statements for consistency with the presentation adopted for 2000. Such reclassifications have no effect on previously reported earnings or equity. Operating results for the three-month and nine-month periods ended September 30, 2000, are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1999.

Note B - Concentration of Risk and Related Issues

As of September 30, 2000, 92.4% of the Company's real estate investments ($919.5 million) consist of long-term care skilled nursing facilities, 5.0% of assisted living facilities, and 2.6% of rehabilitation hospitals. These healthcare facilities are located in 29 states and are operated by 26 independent healthcare operating companies.

Seven public companies operate approximately 77.8% of the Company's investments, including Sun Healthcare Group, Inc. (26.2%), Integrated Health Services, Inc. (17.6%, including 10.4% as the manager for Lyric Health Care LLC), Advocat, Inc. (11.6%), Vencor Operating, Inc. (7.1%), Genesis Health Ventures, Inc. (5.4%), Mariner Post-Acute Network (6.4%) and Alterra Healthcare Corporation (3.4%). Vencor and Genesis manage facilities for the Company's own account, as explained more fully in Note C. The two largest private operators represent 3.4% and 3.1%, respectively, of investments. No other operator represents more than 1.9% of investments. The three states in which the Company has its highest concentration of investments are Florida (15.5%), California (7.3%) and Illinois (7.2%).

The risks associated with investing in long-term healthcare facilities have increased during recent years, stemming in large part from government legislation and regulation of operators of the facilities. The Company's

tenants/mortgagors depend on reimbursement legislation which will provide them adequate payments for services. A significant portion of their revenue is derived from government programs funded under Medicare and Medicaid. The Medicare program implemented a prospective payment system for skilled nursing facilities, which replaced cost-based reimbursements with an acuity-based system. The immediate effect was to significantly reduce payments for services provided. Additionally, certain state Medicaid programs have implemented similar acuity-based systems. The reduction in payments to nursing home operators pursuant to the Medicare and Medicaid payment changes has negatively affected the revenues of the Company's nursing home facilities and the ability of the operators of these facilities to service the costs associated with capital provided by the Company. As a result, a number of the Company's operators have filed petitions seeking reorganization under chapter 11 of the U.S. Bankruptcy Code. The Company owns 69 facilities that were recovered from customers and are being operated for the Company's own account. These facilities are subject to the same risks as are faced by the Company's tenants/mortgagors. (See Note C - Portfolio Valuation Matters).

Most of the Company's nursing home investments were designed exclusively to provide long-term healthcare services. These facilities are subject to detailed and complex specifications affecting their physical characteristics, as mandated by various governmental authorities. If the facilities cannot be operated as long-term care facilities, finding alternative uses may be difficult. The Company's triple-net leases and mortgages require its tenants and mortgagors to comply with regulations affecting the physical characteristics of its facilities, and the Company regularly monitors compliance by tenants and mortgagors with healthcare facilities' regulations. Nevertheless, if tenants fail to perform these obligations, and the Company recovers facilities through repossession, the Company may be required to expend capital to comply with such regulations and maintain the value of its investments.

Many of the public nursing home companies operating the Company's facilities have recently reported significant operating and impairment losses. Each of Vencor Operating, Inc., Sun Healthcare Group, Inc., Mariner Post-Acute Network, Integrated Health Services, Inc., RainTree Healthcare Corporation and Genesis Health Ventures, Inc. has filed for protection under the Bankruptcy Code, with the last four filing during the first half of 2000. These operators collectively represent 52.2% of the Company's investments as of September 30, 2000. As a result of its filing, Mariner has suspended interest payments to the Company. Additionally, Advocat, Inc. has announced a restatement of certain of its financial statements, and other operators are experiencing financial difficulties. Advocat temporarily suspended the payment of rents during the first quarter of 2000, but reinstated partial payments under a standstill agreement executed in April 2000. In November 2000, the Company reached agreement with Advocat with respect to the restructuring of Advocat's obligations pursuant to leases and mortgages for thirty-one facilities operated by Advocat and owned by or mortgaged to Omega. (See Note K - Subsequent Events).

The Company has initiated discussions with all operators who are experiencing financial difficulties, as well as state officials who regulate its properties. It also has initiated various other actions to protect its interests under its leases and mortgages. Given the current challenges to its customers, the Company is actively involved with workout negotiations and bankruptcy proceedings to preserve and protect the value of its investments. While the earning capacity of certain properties has been reduced and the reductions may

extend to future periods, management believes that it has recorded appropriate accounting impairment provisions based on its assessment of current circumstances. However, upon foreclosure or lease termination, there can be no assurance that the Company's investments in facilities would not require further write-downs.

Note C - Portfolio Valuation Matters

In the ordinary course of its business activities, the Company periodically evaluates investment opportunities and extends credit to customers. It also regularly engages in lease and loan extensions and modifications. Additionally, the Company actively monitors and manages its investment portfolio with the objectives of improving credit quality and increasing returns. In connection with portfolio management, the Company engages in various collection and foreclosure activities, and it believes management has the skills, knowledge and experience to deal with such issues as may arise from time to time.

When the Company acquires real estate pursuant to a foreclosure or lease termination including in a bankruptcy proceeding and does not immediately re-lease the properties to new operators, the assets are included on the balance sheet as "real estate properties," and the value of such assets is reported at the lower of cost or fair value. (See "Owned and Operated Assets" below)

Additionally, when a formal plan to sell real estate is adopted, the real estate is classified as "Assets Held For Sale," with the net carrying amount adjusted to the lower of cost or fair value, less cost of disposal.

Based on management's current review of the Company's entire portfolio, provisions for impairment in the value of the assets of $49.8 million and $54.3 million were recorded for the three-month and nine-month periods ended September 30, 2000, respectively. The provision for the three-month period includes $41.1 million related to foreclosure assets now operated for the Company's account, $6.8 million for assets held for sale and $1.9 million related to a leased asset doubtful of recovery. Additionally, during the three-month period ended September 30, 2000 the Company recorded a $12.1 million provision for uncollectable mortgages ($4.9 million) and notes receivable ($7.2 million) primarily related to advances to operators of properties foreclosed and/or sold.

Real Estate Dispositions

The Company recognized a net gain on disposition of assets during the nine months ended September 30, 2000 of $10.3 million. The net gain was comprised of a $10.9 million gain on the sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a 57 bed facility in Colorado.

Assets Held For Sale

During 1998, management initiated a plan to dispose of certain properties judged to have limited long-term potential and to redeploy the

proceeds. Following a review of the portfolio, assets identified for sale in 1998 had a cost of $95 million, a net carrying value of $83 million and annualized revenues of approximately $11.4 million. In 1998, the Company recorded a provision for impairment of $6.8 million to adjust the carrying value of those assets judged to be impaired to their fair value, less cost of disposal. During 1998, the Company completed sales of two groups of assets, yielding sales proceeds of $42.0 million. Gains realized in 1998 from the dispositions approximated $2.8 million. During 1999, the Company completed asset sales yielding net proceeds of $18.2 million, realizing losses of $10.5 million. In addition, management initiated a plan in the 1999 fourth quarter for additional asset sales to be completed in 2000. The additional assets identified as assets held for sale had a cost of $33.8 million, a net carrying value of $28.6 million and annualized revenue of approximately $3.4 million. As a result of this review, the Company recorded a provision for impairment in 1999 of $19.5 million to adjust the carrying value of assets held for sale to their fair value, less cost of disposal.

During the first quarter of 2000, the Company recorded a $4.5 million provision for impairment on assets held for sale. In the third quarter of 2000, $24.3 million of assets held for sale were reclassified to owned and operated assets as the timing and strategy for sale, or alternatively, re-leasing, are being revised as a result of changing market conditions. For the three months ended September 30, 2000 an additional provision for impairment on assets held for sale of $6.8 million was recognized such that as of September 30, 2000, the carrying value of assets held for sale totals $7.3 million (net of impairment reserves of $7.8 million). During the nine-month period ended September 30, 2000, the Company realized disposition proceeds of $1.1 million. No assets were

disposed of during the three-month period ended September 30, 2000. The Company intends to sell the remaining facilities as soon as practicable. However, a number of other companies are actively marketing portfolios of similar assets and, in light of the existing conditions in the long-term care industry generally, it has become more difficult to sell such properties and for potential buyers to obtain financing for such acquisitions. Thus, there can be no assurance if or when such sales will be completed or whether such sales will be completed on terms that allow the Company to realize the fair value of the assets.

Owned and Operated Assets

The Company owns 69 facilities that were recovered from customers and are operated for the Company's own account. These facilities have 5,346 beds or assisted living units and are located in seven states. The investment in this real estate as of September 30, 2000 consists of the following:

The Company acquired 12 nursing homes located in Massachusetts and Connecticut on July 14, 1999 in lieu of foreclosure from Frontier Group. Eleven of these nursing homes, with 1,182 licensed beds, are included in owned and operated assets (the remaining nursing home is included in assets held for sale). Genesis Health Ventures, Inc. currently manages them for the Company's account.

The Company assumed operation of 18 facilities formerly leased to RainTree Healthcare Corporation ("RainTree") on February 29, 2000, when RainTree filed for bankruptcy, and, in connection with the bankruptcy proceeding, the

Company bid $3.1 million for the leasehold interests in 12 other RainTree facilities, all of which are now operated for the account of the Company under a management agreement with Vencor Operating, Inc.

The Company assumed operation of 22 facilities with 880 beds formerly leased to Extendacare of Indiana, Inc. on October 4, 1999. The Company also assumed operation of six facilities with 428 beds formerly operated by RainTree and Emerald Healthcare, Inc. in 1999. Atrium Living Centers, Inc. currently manages these facilities for the Company's account.

The Company intends to operate these owned and operated assets for its own account until such time as these facilities' operations are stabilized and are re-leasable or saleable at lease rates or sale prices that maximize the value of these assets to the Company. Due to the deterioration in market conditions affecting the long term care industry, the Company is unable to estimate when such re-leasing and sales objectives might be achieved and now intends to operate such facilities for an extended period. As a result, these facilities and their respective operations are presented on a consolidated basis in the Company's financial statements.

The revenues, expenses, assets and liabilities included in the Company's condensed consolidated financial statements which relate to such owned and operated assets are as follows:

Unaudited
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenues (1)				
Medicaid	$ 29,176	$ 6,302	$ 75,535	$ 6,302
Medicare	8,646	1,980	21,896	1,980
Private & Other	8,138	2,094	26,030	2,094
Total Revenues	45,960	10,376	123,461	10,376
Expenses (2)				
Administration	13,171	1,335	30,613	1,335
Property and Related	3,084	667	7,955	667
Patient Care Expenses	28,782	7,061	78,885	7,061
Total Expenses	45,037	9,063	117,453	9,063
Contribution Margin	923	1,313	6,008	1,313
Management Fees	2,337	463	6,235	463
Rent	1,178	-	2,748	-
EBITDA	$ (2,592)	$ 850	$ (2,975)	$ 850

(1) Nursing home revenues from these owned and operated assets are recognized as services are provided.

(2) Includes $1.1 million for the three-month period ended September 30, 2000 which represents a correction of an estimate made in the first six months of 2000.

Unaudited
(In Thousands)

	September 30, 2000	December 31, 1999
ASSETS		
Cash	$ 3,788	$ (14)
Accounts Receivable-Net	26,674	9,588
Other Current Assets	13,071	60
Total Current Assets	43,533	9,634
Land and buildings	131,687	69,090
Less Accumulated Depreciation	(16,528)	(815)
Land and buildings - net	115,159	68,275
TOTAL ASSETS	$ 158,692	$ 77,909
LIABILITIES		
Accounts Payable	$ 9,383	$ 3,962
Other Current Liabilities	8,388	8,100
Total Current Liabilities	17,771	12,062
TOTAL LIABILITIES	$ 17,771	$ 12,062

Notes and Mortgages Receivable

During the three-month period ended September 30, 2000 the Company recorded a charge of $12.1 million for a provision for loss on mortgages ($4.9 million) and notes receivable ($7.2 million). Income on notes and mortgages which are impaired will be recognized as cash is received.

Note D - Preferred Stock

Dividends

During the nine-month periods ended September 30, 2000 and September 30, 1999, the Company paid dividends of $4.0 million and $3.2 million, respectively, on its 9.25% Series A Cumulative Preferred Stock and 8.625% Series B Cumulative Preferred Stock. Dividends on the preferred stock are payable quarterly. Dividends on the new Series C Preferred Stock are also payable quarterly, beginning in the fourth quarter of 2000, however, effective as of November 15, 2000, Explorer Holdings, L.P., the holder of all of the outstanding shares of Series C Preferred Stock, agreed to defer until April 2, 2001, the accrued dividend of $4,666,667 payable on November 15, 2000 with respect to the Series C Preferred Stock. See Note K - Subsequent Events.

Series C Preferred Stock

In order to meet certain of the Company's maturing indebtedness, finance operations and fund future investments, the Company issued $100.0 million of Series C Preferred Stock (the "Equity Investment") to a private equity investor, with up to an additional $100.0 million investment available for future liquidity needs or growth opportunities under certain conditions. See "Equity Investment" below. The Company used a portion of the proceeds from the

Equity Investment to repay $81 million of maturing debt on July 17, 2000 and believes that the remaining proceeds together with the proceeds of certain asset dispositions and cash flow from operations will provide the Company sufficient liquidity to meet its debt maturity in February 2001 and working capital needs as well as enabling the Company to take advantage of potential growth opportunities.

Equity Investment
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On May 11, 2000, the Company announced the execution of definitive documentation with Explorer Holdings, L.P. ("Explorer"), a private equity investor, pursuant to which the Company agreed to issue and sell up to $200.0 million of its capital stock to Explorer (the "Equity Investment"). On July 17, 2000, 1.0 million shares of a new series of convertible preferred stock ("Series C Preferred") were issued for an aggregate purchase price of $100.0 million. The descriptions of the transaction documents set forth herein do not purport to be complete and are qualified in their entirety by the forms of such documents filed as exhibits to the Company's Form 10-Q dated June 30, 2000.

Terms of Series C Preferred: The shares of Series C Preferred were
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issued and sold for $100.00 per share and are convertible into Common Stock at any time by the holder at an initial conversion price of $6.25 per share of Common Stock. The conversion price is subject to possible future adjustment in accordance with customary antidilution provisions, including, in certain circumstances, the issuance of Common Stock at an effective price less than the then fair market value of the Common Stock. The Series C Preferred ranks on a parity with the Company's outstanding shares of Series A and Series B preferred stock as to priority with respect to dividends and upon liquidation. The shares of Series C Preferred will receive dividends at the greater of 10% per annum or the dividend payable on shares of Common Stock, with the Series C Preferred participating on an "as converted" basis. Dividends on Series C Preferred accrue from the date of issuance and, for dividend periods ending prior to February 1, 2001, may be paid at the option of the Company in cash or additional shares of Series C Preferred. Thereafter, dividends must be paid in cash. The Series C Preferred will vote (on an "as converted" basis) together with the Common Stock on all matters submitted to stockholders. However, without the consent of the Company's Board of Directors, no holder of Series C Preferred may vote or convert shares of Series C Preferred if the effect thereof would be to cause such holder to beneficially own more than 49.9% of the Company's Voting Securities. If dividends on the Series C Preferred are in arrears for four quarters, the holders of the Series C Preferred, voting separately as a class (and together with the holder of Series A and Series B Preferred if and when dividends on such series are in arrears for six or more quarters and special class voting rights are in effect with respect to the Series A and Series B Preferred), will be entitled to elect directors who, together with the other directors designated by the holders of Series C Preferred, would constitute a majority of the Company's Board of Directors.

Investment Agreement: The general terms of the Equity Investment are
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set forth in the Investment Agreement. In addition to setting forth the terms on which Explorer has acquired the initial $100.0 million of Series C Preferred, the Investment Agreement also contains provisions pursuant to which Explorer will make available, upon satisfaction of certain conditions, up to $50.0 million to be used to pay indebtedness maturing on or before February 1, 2001 (the "Liquidity Commitment"). Any amounts drawn under the Liquidity Commitment will be evidenced by the issuance of additional shares of Series C Preferred at a conversion price equal to the lower of $6.25 or the then fair market value of the Company's Common Stock.

Any amounts of the Liquidity Commitment not utilized by the Company are available to the Company through July 1, 2001, upon satisfaction of certain conditions, to fund growth (the "Growth Equity Commitment"). Draws under the Growth Equity Commitment will be evidenced by Common Stock issued at the then fair market value less a discount agreed to by Explorer and the Company representing the customary discount applied in rights offerings to an issuer's existing security holders, or, if not agreed, 6%. Draws under the Growth Equity Commitment will reduce the amounts available under the Liquidity Commitment. Following the drawing in full of the Growth Equity Commitment or upon expiration of the initial Growth Equity Commitment, Explorer will have the option to provide up to an additional $50.0 million to fund growth for an additional twelve month period (the "Increased Growth Equity Commitment"). Draws under the Increased Growth Equity Commitment will be subject to the same conditions as applied to the Growth Equity Commitment and the Common Stock so issued will be priced in the same manner described above.

If Explorer exercises its option to fund the Increased Growth Equity Commitment, the Company will have the option to engage in a Rights Offering to all common stockholders other than Explorer and its affiliates. In the Rights Offering, stockholders will be entitled to acquire their proportionate share of the Common Stock issued in connection with the Growth Equity Commitment at the

same price paid by Explorer. Proceeds received from the Rights Offering will be used to repurchase Common Stock issued to Explorer under the Growth Equity Commitment.

Upon the first to occur of the drawing in full of the Increased Growth Equity Commitment or the expiration of the Increased Growth Equity Commitment, the Company again will have the option to engage in a second Rights Offering. Stockholders (other than Explorer and its affiliates) will be entitled to acquire their proportionate share of the Common Stock issued in connection with the Increased Growth Equity Commitment at the same price paid by Explorer. Proceeds received in connection with the second Rights Offering will be used to repurchase Common Stock issued to Explorer under the Increased Growth Equity Commitment.

Stockholders Agreement: In connection with the Equity Investment, the Company entered into a Stockholders Agreement with Explorer pursuant to which Explorer is entitled to designate up to four members of the Company's Board of Directors depending on the percentage of either Series C Preferred or total Voting Securities acquired from time to time by Explorer pursuant to the Investment Agreement. The director designation rights will terminate upon the first to occur of the tenth anniversary of the Stockholders Agreement or when Explorer beneficially owns less than 5% of the total Voting Securities of the Company.

In addition, Explorer has agreed not to transfer any shares of Series C Preferred (or the Common Stock issuable upon conversion of the Series C Preferred) without approval of the Company's Board of Directors until the first anniversary of Explorer's initial investment. Thereafter, Explorer may transfer shares in accordance with certain exemptions from the registration requirements imposed by the Securities Act of 1933, as amended, or upon exercise of certain registration rights granted to Explorer by the Company and set forth in a Registration Rights Agreement (a "Public Sale"). After July 1, 2001, Explorer may transfer its voting securities to a Qualified Institutional Buyer ("QIB") if either (i) the total amount of voting securities does not exceed 9.9% of the Company's total voting securities or (ii) the QIB transferee becomes a party to the standstill agreement contained in the Stockholders Agreement. Any transfer of Voting Securities by Explorer or its affiliates to a third party (other than in connection with a Public Sale) is subject to a right of first offer that can be exercised by the Company or any other purchaser that the Company may designate. These transfer restrictions will terminate on the fifth anniversary of Explorer's initial investment.

Pursuant to the standstill provisions in the Stockholders Agreement, Explorer has agreed that until the fifth anniversary of the consummation of Explorer's initial investment, it will not acquire, without the prior approval of the Company's Board of Directors, beneficial ownership of any Voting Securities (other than pursuant to the Liquidity Commitment, the Growth Equity Commitment and the Increased Growth Equity Commitment and additional acquisitions of up to 5% of the Company's voting securities). If Explorer or its affiliates beneficially own voting securities representing more than 49.9% of the total voting power of the Company, the terms of the Series C Preferred and the Stockholders Agreement provide that no holder of Series C Preferred shall be entitled to vote any shares of Series C Preferred that would result in such holder, together with its affiliates, voting in excess of 49.9% of the then outstanding voting power of the Company. In addition, shares of Series C Preferred cannot be converted to the extent that such conversion would cause the converting stockholder to beneficially own in excess of 49.9% of the then outstanding voting power of the Company.

The Company has amended its Stockholders' Right Plan to exempt Explorer and any of its transferees that become parties to the standstill as Acquiring Persons under such plan. Subsequent acquisitions of voting securities by a transferee of more than 9.9% of voting securities from Explorer are limited to not more than 2% of the total amount of outstanding voting securities in any 12 month period.

Miscellaneous: The Company has agreed to indemnify Explorer, its affiliates and the individuals that will serve as directors of the Company against any losses and expenses that may be incurred as a result of the assertion of certain claims, provided that the conduct of the indemnified parties meets certain required standards. In addition, the Company has agreed to pay Explorer an

advisory fee if Explorer provides assistance to the Company in connection with evaluating growth opportunities or other financing matters. The amount of the advisory fee will be mutually determined by the Company and Explorer at the time the services are rendered based upon the nature and extent of the services provided. The Company will also reimburse Explorer for Explorer's out-of-pocket expenses, up to a maximum of $2.5 million, incurred in connection with the

Equity Investment. To date, the Company has reimbursed Explorer for approximately $964,000 of such expenses.

Note E - Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share reflect the dilutive effect, if any, of stock options and, beginning in the third quarter of 2000, the assumed conversion of the Series C Preferred Stock. The conversion of the Company's 1996 convertible debentures is anti-dilutive and therefore not assumed.

Note F - Omega Worldwide, Inc.

As of September 30, 2000 the Company holds a $5,071,500 investment in Omega Worldwide, Inc. ("Worldwide"), represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. The Company has guaranteed repayment of borrowings pursuant to a revolving credit facility in exchange for a 1% annual fee and a facility fee of 25 basis points. The Company has been advised that at September 30, 2000 borrowings of $4,850,000 are outstanding under Worldwide's revolving credit facility. Worldwide's credit agreement has been modified and calls for quarterly repayments of $2 million until the full amount is repaid in June 2001. Under this agreement, no further borrowings may be made by Worldwide under its revolving credit facility. The Company is required to provide collateral in the amount of $8.8 million related to the guarantee of Worldwide's obligations. Upon repayment by Worldwide of the remaining outstanding balance under its revolving credit facility, the subject collateral will be released in connection with the termination of the Company's guarantee.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Indirect costs allocated to Worldwide for the three-month and nine-month periods ending September 30, 2000 were ($19,000) and $370,000, respectively, compared with $186,000 and $580,000 for the same periods in 1999. The Services Agreement has expired and currently is being renegotiated. Based on a reduction in shared management resources, any charges to Worldwide under a new agreement would be significantly reduced.

Note G - Litigation

On June 20, 2000, the Company and its chief executive officer, chief financial officer and chief operating officer were named as defendants in certain litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York. In the complaint, Mr. Dickerman contends that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. The Company has reported the litigation to its directors and officers liability insurer. The Company believes that the litigation is without merit and intends to defend vigorously. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The plaintiffs have filed a motion to name Mr. LeBorys as lead plaintiff. The court has not yet ruled on the motion.

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached or anticipatorily breached a commercial contract. Mr. Dickerman is a partner of Madison and is a guarantor of Madison's obligations to the Company. The Company contends that Madison is in default under the contract in question; accordingly, the Company believes that the litigation is meritless. The Company intends to defend this action vigorously and pursue whatever rights and remedies against Madison and the guarantors as it determines to be appropriate.

No provision has been made in the financial statements for the matters discussed above.

Note H - Borrowing Arrangements

On July 17, 2000 the Company replaced its $200 million unsecured revolving credit facility with a new $175 million secured revolving credit

facility that expires in December 2002. Borrowings under the facility bear interest at 2.5% to 3.25% over LIBOR, based on the Company's leverage ratio.

On August 16, 2000, the Company replaced its $50 million secured revolving credit facility with The Provident Bank with a new $75 million secured revolving credit facility that expires in March, 2002 as to $10 million and June, 2005 as to $65 million. Borrowings under the facility bear interest at 2.5% to 3.25% over LIBOR, based on the Company's leverage ratio.

A portion of the proceeds from the issuance of Series C was used to repay $81 million of the Company's 10% and 7.4% Senior Notes in accordance with terms of the Notes.

During August 2000, the Company purchased and retired $31.3 million of its 8.5% Subordinated Convertible Debentures due February 1, 2000. At September 30, 2000, $17.1 million of these convertible debentures remain outstanding.

The Company has an interest rate cap for $100 million of its variable rate debt, capping LIBOR at 7.50% through March 15, 2001. The 30-day LIBOR rate on September 29, 2000 was approximately 6.62%.

Note I - Severance and Consulting Agreements

The Company recognized a $4.7 million charge for severance and consulting payments in the third quarter of 2000. The charges are comprised mainly of severance and consulting payments to the Company's former Chief Executive Officer and former Chief Financial Officer.

Note J - Effect of New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

Note K - Subsequent Events

On October 17, 2000, the Board of Directors declared its regular quarterly dividends of $.578 per share, $.539 per share and $.25 per conversion share, respectively, to be paid on November 15, 2000 to Series A, Series B and Series C Cumulative Preferred shareholders of record on October 31, 2000. The Board of Directors also declared a common stock dividend of $.25 per share payable on November 15, 2000 to common shareholders of record on October 31, 2000. Effective as of November 15, 2000, Explorer Holdings agreed to defer until April 2, 2001, payment of the $4,666,667 dividend then due with respect to the October 31, 2000 dividend period for the Series C Preferred Stock. As part of the dividend deferral agreement, Explorer Holdings has also waived the provisions of the Articles Supplementary to provide that the deferral of such dividend will not prevent the Company from paying in full the regular quarterly dividend on the outstanding Series A and Series B Preferred Stock or the Common Stock for the dividend period ended October 31, 2000 or for subsequent dividend periods. In consideration of the deferral and waiver as discussed above, the Company will pay Explorer Holdings a waiver fee equal to 10% per annum on the amount of the accrued and unpaid dividend from November 15, 2000 until the date of payment of such dividend. On April 2, 2001, the Company will have the option to either pay the deferred dividend amount in cash or in additional shares of Series C Preferred Stock in accordance with the terms of the Articles Supplementary.

In November 2000 the Company reached agreement with Advocat, Inc. with respect to the restructuring of Advocat's obligations pursuant to leases and mortgages for thirty-one facilities operated by Advocat and owned by or mortgaged to the Company. Pursuant to the restructuring agreement, the existing leases from the Company will be consolidated, amended and restated, effective as of October 1, 2000. The initial annual rent under the 10-year lease will be $10,875,000. In addition, Advocat paid the Company $3 million to bring current substantially all of its obligations with respect to the master lease and mortgage loan documents and will commit to make capital improvements at the leased facilities in an amount not less than $1 million over the next 18 months.

Advocat also has issued to the Company convertible preferred stock representing, on a fully diluted basis, 9.9% of the outstanding shares of Advocat, and an unsecured subordinated note in the amount of $1.7 million that matures September 30, 2007. The preferred stock is convertible at $4.6705 per share. Dividends accrue at the rate of 7% per annum and will be payable

quarterly. No dividends will be paid, however, until the later of October 1, 2002 or the end of the fiscal quarter following Advocat's payment of certain indebtedness to its primary lender.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

"Safe Harbor" Statement Under the United States Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding the Company's future development activities, the future condition and expansion of the Company's markets, the sale of certain assets that have been identified for disposition, the operation of certain assets recovered by the Company in foreclosure and bankruptcy proceedings for the Company's account, dividend policy, the Company's ability to meet its liquidity requirements and the Company's growth strategies, as well as other statements which may be identified by the use of forward-looking terminology such as "may," "will," "expect," "estimate," "anticipate," or similar terms, variations of those terms or the negative of those terms. These forward-looking statements involve risks and uncertainties that could cause actual results to differ from projected results. Some of the factors that could cause actual results to differ materially include: the financial strength of the Company's facilities as it affects the operators' continuing ability to meet their obligations to the Company under the terms of the Company's agreements with such operators; the Company's ability to complete the contemplated asset sales and, if completed, the ability to do so on terms contemplated as favorable to the Company; changes in the reimbursement levels under the Medicare and Medicaid programs; operators' continued eligibility to participate in the Medicare and Medicaid programs; changes in reimbursement by other third party payors; occupancy levels at the Company's facilities; the limited availability and cost of capital to fund or carry healthcare investments; the strength and financial resources of the Company's competitors; the Company's ability to make additional real estate investments at attractive yields; changes in tax laws and regulations affecting real estate investment trusts; and the risks identified in Item 1, Note C above.

Following is a discussion of the consolidated results of operations, financial position and liquidity and capital resources of the Company, which should be read in conjunction with the condensed consolidated financial statements and accompanying notes. See also, Item 1, Note B, regarding Concentration of Risk and Related Issues and Note C, regarding portfolio valuation matters above.

Results of Operations

Revenues for the three-month and nine-month periods ending September 30, 2000 totaled $68.0 million and $195.7 million, an increase of $27.0 million and $93.6 million, respectively, over the periods ended September 30, 1999. The increase in 2000 revenue is due in large part to an increase of approximately $35.6 million and $113.1 million, respectively, from nursing home revenues for owned and operated assets as a result of foreclosures occurring subsequent to the third quarter of 1999, and $2.4 million in additional revenue from 1999 investments for the nine-month period and $0.4 million and $1.4 million for the three-month and nine-month periods, respectively, relating to contractual

increases in rents and mortgage interest that became effective in 2000 as defined under the related agreements. These increases are offset by $2.4 million and $8.8 million from reductions in lease revenue and mortgage interest revenue due to foreclosure and bankruptcy, $3.0 million and $7.4 million from reduced investments caused by 1999 and 2000 asset sales and the prepayment of mortgages, and a $1.5 million and $4.5 million reduction in revenues relating to the anticipated resolution of restructuring certain of the Company's leases and mortgages. As of September 30, 2000, gross real estate investments, excluding owned and operated assets, of $787.5 million have an average annualized yield of approximately 11.0%. Other investment income includes losses of $1.9 million for the three-month and nine-month periods ended September 30, 2000 due to suspension of operations and closing of two facilities during the period.

Expenses for the three-month and nine-month periods ended September 30, 2000 totaled $83.1 million and $198.7 million, an increase of $54.5 million and $134.8 million, respectively, over expenses for 1999. The increase in 2000

expenses is due primarily to an increase in expenses of $39.0 million and $116.9 million for the three-month and nine-month periods ending September 30, 2000, attributable to the increase in the number of nursing homes operated for the Company's account.

The provision for depreciation and amortization for the three-month and nine-month periods ended September 30, 2000 totaled $5.7 million and $17.4 million, respectively, decreasing $0.8 million and $0.6 million, respectively, over the same periods in 1999. The decrease for the nine-month period primarily consists of $1.7 million depreciation expense for properties sold or held for sale and a reduction in amortization of non-compete agreements of $0.7 million offset by $1.8 million additional depreciation expense from properties previously classified as mortgages and new 1999 investments placed in service in June of 1999.

Interest expense for the three-month and nine-month periods ended September 30, 2000 was $9.8 million and $32.2 million, respectively, compared with $11.1 million and $31.9 million, respectively, for the same periods in 1999. The decrease of $1.3 million in the three-month period ended September 2000 is primarily due to lower average borrowings during the quarter compared to the same period in the prior year. The increase of $0.3 million in the nine-month period ended September 30, 2000 is primarily due to higher average borrowing rates on the Company's revolving credit lines as compared to the same period in the prior year, partially offset by lower average borrowings.

General and administrative expenses for the three-month and nine-month periods ended September 30, 2000 totaled $1.8 million and $4.6 million, respectively, versus $1.2 million and $3.9 million for the same periods in 1999. These expenses for the three-month and nine-month periods were approximately 2.5% and 2.3% of revenues, respectively, as compared to 3.0% and 3.8%, respectively, for the 1999 periods. The decrease in 2000 is due to inclusion of nursing home revenues on owned and operated assets. Excluding these revenues, general and administrative expenses were 8.1% and 6.4% of revenues for the three-month and nine-month periods in 2000, respectively and 4.0% and 4.2% for the same periods in 1999. The increase is due in part to the creation of a new

department in 2000 to manage the owned and operated assets, non-cash compensation expense relating to the issuance of Dividend Equivalent Rights in conjunction with certain management options granted, and increased consulting costs.

Legal expenses for the three-month and nine-month periods ended September 30, 2000 totaled $0.5 million and $1.0 million, respectively, as compared to $0.1 million and $0.2 million for the same periods in 1999. The increase is largely attributable to the bankruptcy filings and financial difficulties of the Company's operators, as well as costs related to recent litigation in which the Company was named as defendant. (See Note G - Litigation).

Nursing home expenses for owned and operated assets increased $39.0 million and $116.9 million for the three-month and nine-month periods ended September 30, 2000, respectively, as compared to the same periods in the prior year as a result of foreclosures occurring subsequent to the third quarter of 1999. These expenses include $1.1 million for the three-month period ended September 30, 2000 which represent a correction of an estimate made during the first six months of 2000.

The Company recognized a net gain on disposition of assets during the nine-months ended September 30, 2000 of $10.3 million. The net gain was composed of a $10.9 million gain on sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a 57 bed facility in Colorado.

During the first quarter of 2000, the Company recorded a $4.5 million provision for impairment on assets held for sale. Based on management's current review of the Company's entire portfolio, an additional provision for impairment in the value of the assets of $49.8 million was recorded for the three-month period ended September 30, 2000. The provision for the three-month period includes $41.1 million related to foreclosure assets now operated for the Company's account, $6.8 million for assets held for sale and $1.9 million related to a leased asset doubtful of recovery. Additionally, during the three-month period ended September 30, 2000 the Company recorded a $12.1 million provision for uncollectable mortgages ($4.9 million) and notes receivable ($7.2 million) primarily related to advances to operators of properties subsequently foreclosed and/or sold.

The Company recognized a $4.7 million charge for severance payments in the third quarter of 2000. The charges are comprised mainly of severance and consulting payments to the Company's former Chief Executive Officer and former Chief Financial Officer.

Net (losses) earnings available to common were a loss of $70.8 million and a loss of $57.5 million for the three-month and nine-month periods ended

September 30, 2000, respectively, decreasing approximately $80.7 million and $88.5 million from the 1999 periods. This decrease is largely the result of the factors described above.

Funds from (used in) Operations ("FFO") totaled ($15,182,000) and $3,885,000 for the three-month and nine-month periods ending September 30, 2000, representing a decrease of approximately $31,198,000 and $63,597,000 respectively, over the same periods in 1999 due to factors mentioned above. FFO is net earnings available to common shareholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. Excluding the

provision for uncollectable mortgages and notes receivable and severance and consulting agreement costs, FFO totaled $1,583,000 and $20,650,000 for the three-month and nine-month periods ended September 30, 2000, respectively, representing a decrease of approximately $14,433,000 and $46,832,000 respectively over the same periods in 1999. Properties recovered by the Company required funding of $0.4 million and $27.9 million for working capital during the three-month and nine-month periods ending September 30, 2000, respectively.

No provision for Federal income taxes has been made since the Company intends to continue to qualify as a real estate investment trust under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Accordingly, the Company will not be subject to Federal income taxes on amounts distributed to shareholders, provided it distributes at least 95% of its real estate investment trust taxable income and meets certain other conditions. Profits from operations of recovered properties are subject to federal tax of up to 35%, and the Company intends to hold and operate recovered properties only for so long as is necessary in management's opinion to stabilize the subject properties to facilitate the re-leasing or sale at lease rates or sale prices that maximize the value of these assets to the Company.

Liquidity and Capital Resources

Overview
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At September 30, 2000, the Company had total assets of $965 million, shareholders' equity of $477 million, and long-term debt of $267 million, representing approximately 28% of total capitalization. Long-term debt excludes funds borrowed under its acquisition credit agreements. The Company had $192.0 million drawn on its revolving credit facilities at September 30, 2000.

During the quarter ended September 30, 2000, the Company repurchased $31.3 million of its convertible debentures maturing in February 2001. At September 30, 2000, $17.1 million of these convertible debentures remain outstanding.

Dividend Policy
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The Company distributes a large portion of its cash available from operations. The Company has historically made distributions on common stock of approximately 80% of FFO. Cash dividends paid totaled $0.75 per common share for the nine-month period ending September 30, 2000, compared with $2.10 per common share for the same period in 1999. The dividend payout ratio, i.e., the ratio of per share amounts for dividends paid to the per share amounts of funds from operations, was approximately 72.8% for the nine-month period ending September 30, 2000 (excluding non-cash charges) compared with 81.1% for the same period in 1999.

On October 17, 2000, the Board of Directors declared its regular quarterly dividends of $.578 per share and $.539 per share, respectively, to be paid on November 15, 2000 to Series A and Series B Cumulative Preferred shareholders of record on October 31, 2000 and declared a quarterly dividend of $.25 per

conversion share on the series C preferred stock. The Board of Directors also declared a common stock dividend of $.25 per share payable on November 15, 2000 to common shareholders of record on October 31, 2000.

The shares of Series C Preferred are entitled to receive dividends at the greater of 10% per annum or the dividend payable on shares of Common Stock (with

the Series C Preferred participating on an "as converted" basis). Dividends on Series C Preferred accrue from the date of issuance and, for any dividend period ending prior to February 1, 2001, may be paid in cash or additional shares of Series C Preferred, as determined by the Company. Thereafter, all dividends must be paid in cash. (See Note D - Preferred Stock).

Effective as of November 15, 2000, Explorer Holdings agreed to defer until April 2, 2001, payment of the $4,666,667 dividend then due with respect to the October 31, 2000 dividend period for the Series C Preferred Stock. As part of the dividend deferral agreement, Explorer Holdings has also waived the provisions of the Articles Supplementary to provide that the deferral of such dividend will not prevent the Company from paying in full the regular quarterly dividend on the outstanding Series A and Series B Preferred Stock or the Common Stock for the dividend period ended October 31, 2000 or for subsequent dividend periods. In consideration of the deferral and waiver as discussed above, the Company will pay Explorer Holdings a waiver fee equal to 10% per annum on the amount of the accrued and unpaid dividend from November 15, 2000 until the date of payment of such dividend. On April 2, 2001, the Company will have the option to either pay the deferred dividend amount in cash or in additional shares of Series C Preferred Stock in accordance with the terms of the Articles Supplementary.

Credit Facilities

Depending on the availability and cost of external capital and the ability to deploy such capital at favorable spreads, the Company anticipates making additional investments in healthcare facilities. New investments generally are funded from temporary borrowings under the Company's acquisition credit line agreements. Interest cost incurred by the Company on borrowings under the revolving credit line facilities will vary depending upon fluctuations in prime and/or LIBOR rates. On July 17, 2000, the Company replaced its $200.0 million unsecured revolving credit facility with a new $175.0 million secured revolving credit facility that expires in December 2002. Borrowings under the new facility will bear interest at 3.25% over LIBOR until March 31, 2001 and at 2.5% to 3.25% over LIBOR thereafter, based on the Company's leverage ratio.

On August 16, 2000, the Company replaced its $50 million loan agreement with The Provident Bank with a $75 million secured revolving credit facility. Borrowings under the facility will bear interest at 2.5% to 3.25% over LIBOR, based on the Company's leverage ratio.

The Company has an interest rate cap for $100 million of its variable rate debt, capping LIBOR at 7.50% through March 15, 2001. The 30-day LIBOR rate on September 29, 2000 was approximately 6.62%.

The Company historically has replaced funds drawn on the revolving credit facilities through fixed-rate long-term borrowings, the placement of convertible debentures, or the issuance of additional shares of common and/or preferred stock. Industry turmoil and continuing adverse economic conditions affecting the long-term care industry have caused the terms on which the Company can obtain additional borrowings to become unfavorable. The Company may be required to dispose of properties at times when it may be unable to maximize its recovery on such investments, if needed to provide additional capital to repay indebtedness as it matures or to remain in compliance with its loan covenants. In recent periods, the Company's ability to execute its asset disposition strategy has been severely limited by conditions in the credit and capital markets and the long-term care industry. The Company may also draw upon Explorer's Liquidity Commitment to repay indebtedness maturing on or before February 2, 2001 as described in Note D - Preferred Stock.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company seeks to mitigate the effects of fluctuations in interest

rates by matching the term of new investments with new long-term fixed rate borrowing to the extent possible.

The market value of the Company's long-term fixed rate borrowings and mortgages are subject to interest rate risk. 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 the Company's total long-term borrowings at September 30, 2000 was $233 million. A 1% increase in interest rates would result in a decrease in fair value of long-term borrowings by approximately $5.8 million.

The Company is subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. If the Company were unable to refinance its indebtedness on acceptable terms, it might be forced to dispose of properties on disadvantageous terms, which might result in losses to the Company and adversely affect the cash available for distribution to shareholders. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, the Company's interest expense would increase, which might affect the Company's ability to make distributions on its Common Stock.

The majority of the Company's borrowings were completed pursuant to indentures that limit the amount of total indebtedness and the amount of secured indebtedness the Company may incur. Accordingly, if the Company is unable to raise additional equity or borrow money because of these limitations, the Company's ability to acquire additional properties may be limited. If the Company is unable to acquire additional properties, its ability to increase the distributions with respect to common shares will be limited to management's ability to increase funds from operations, and thereby cash available for distribution, from the existing properties in the Company's portfolio.

Potential Risks from Bankruptcies

Generally, the Company's lease arrangements with a single operator who operates more than one of the Company's facilities is pursuant to a single master lease (a "Master Lease" or collectively, the "Master Leases"). Although each lease or Master Lease provides that the Company may terminate the Master Lease upon the bankruptcy or insolvency of the tenant, the Bankruptcy Reform Act of 1978 ("Bankruptcy Code") provides that a trustee in a bankruptcy or reorganization proceeding under the Bankruptcy Code (or debtor-in-possession in a reorganization under the Bankruptcy Code) has the power and the option to assume or reject the unexpired lease obligations of a debtor-lessee. If the

unexpired lease is assumed on behalf of the debtor-lessee, all the rental obligations thereunder generally would be entitled to a priority over other unsecured claims. However, the court also has the power to modify a lease if a debtor-lessee in reorganization were required to perform certain provisions of a lease that the court determined to be unduly burdensome. It is not possible to determine at this time whether or not any lease or Master Lease contains any such provisions. If a lease is rejected, the lessor has a general unsecured claim limited to any unpaid rent already due plus an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of such lease, not to exceed three years. If any lease is rejected, the Company retains ownership of the real estate, but may lose the benefit of any participation interest or conversion right.

Generally, with respect to the Company's mortgage loans, the imposition of an automatic stay under the Bankruptcy Code precludes lenders from exercising foreclosure or other remedies against the debtor. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and (2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as the Company is entitled to the recovery of interest and costs only if and to the extent that the value of the collateral exceeds the amount owed. If the value of the collateral is less than the debt, a lender such as the Company would not receive or be entitled to any interest for the time period between the filing of the case and confirmation. If the value of the collateral does exceed the debt, interest and allowed costs may not be paid during the bankruptcy proceeding, but accrue until confirmation of a plan or reorganization or some other time as the court orders. Finally, while a lease generally would either be rejected or assumed with all of its benefits and burdens intact, the terms of a mortgage, including the rate of interest and timing of principal payments, may be modified if the debtor is able to effect a "cramdown" under the Bankruptcy Code.

The receipt of liquidation proceeds or the replacement of an operator

that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment (such as real estate taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment. In order to protect its investments, the Company may take possession of a property or even become licensed as an operator, which might expose the Company to successorship liability to government programs or require indemnity of subsequent operators to whom it might transfer the operating rights and licenses. Additionally, changes in federal and state regulatory environments could cause an increase in the costs of operating such investments, including the cost of professional liability insurance coverage. Should such events occur, the Company's income and cash flows from operations would be adversely affected.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.

On July 17, 2000, the Company issued 1,000,000 shares of Series C Preferred of the Company to Explorer for $100 million pursuant to the Investment Agreement. The shares of Series C Preferred are governed by the Articles Supplementary for Series C Convertible Preferred Stock (the "Articles Supplementary") filed with the State Department of Assessments and Taxation of Maryland on July 14, 2000, and the shares of Series C Preferred are presently convertible into 16,000,000 shares of Common Stock of the Company. The stockholders of the Company approved the transaction on July 14, 2000. The shares of Series C Preferred were issued without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the private placement exemption provided by Section 4(2) of the Securities Act. (See Note D - Preferred Stock-Equity Investment and Note K - Subsequent Events.)

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company's Special Meeting of Shareholders was held on July 14, 2000.

(b) Stockholders were requested to vote on the approval of the issuance of shares of the Company's Series C Preferred and Common Stock pursuant to an investment agreement with Explorer Holdings, L.P. and also to approve the Company's 2000 Stock Incentive Plan.

(c) The results of the vote were as follows:

Manner of Vote Cast	Issuance of Shares	2000 Stock Incentive Plan
For	11,574,327	9,971,567
Withheld	0	0
Against	661,517	2,166,092
Abstentions and broker nonvotes	139,913	238,098

(d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - The following Exhibits are filed herewith:

Exhibit	Description
10.1	Amended and Restated Advisory Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C., dated October 4, 2000
10.2	Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent

and Various Lenders Describe Herein, dated August 16, 2000

10.3 Settlement and Restructuring Agreement by and among Omega Healthcare Investors, Inc. and Sterling Acquisition Corp., and Advocat, Inc., Diversicare Leasing Corp., Sterling Health Care Management Inc., Diversicare Management Services Co. and Advocat Finance, Inc. dated October 1, 2000

10.4 Consolidated Amended and Restated Master Lease by and among Sterling Acquisition Corp. and Diversicare Leasing Corporation, effective October 1, 2000 and dated November 8, 2000

10.5 Letter Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. regarding deferral of dividends and waiver of certain provisions of Articles Supplementary pertaining to Series C Preferred Stock

27 Financial Data Schedule

(b) Reports on Form 8-K

The following reports on Form 8-K were filed since June 30, 2000:

Form 8-K dated July 12, 2000: Report with the following exhibits:

Press release issued by Omega Healthcare Investors, Inc. on July 12, 2000

SIGNATURES

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

OMEGA HEALTHCARE INVESTORS, INC.
Registrant

Date: November 22, 2000 By: /s/ Thomas W. Erickson
Thomas W. Erickson
Interim Chief Executive Officer

Date: November 22, 2000 By: /s/ Richard M.FitzPatrick
Richard M. FitzPatrick
Acting Chief Financial Officer

AMENDED AND RESTATED ADVISORY AGREEMENT

THIS AMENDED AND RESTATED ADVISORY AGREEMENT, dated as of October 4, 2000 (this "Agreement") is made and entered into between Omega Healthcare Investors, Inc., a Maryland corporation (the "Company"), and The Hampstead Group, L.L.C., a Texas limited liability company (the "Advisor").

A. Explorer Holdings, L.P. (the "Purchaser"), an affiliate of the Advisor, has made a substantial equity investment in the Company (the "Investment") pursuant to an Investment Agreement, dated as of July 14, 2000, between Purchaser and the Company (the "Investment Agreement");

B. Simultaneously with the Investment, the Advisor and the Company entered into an advisory agreement (the "Prior Agreement"). This Agreement amends and restates the Prior Agreement in its entirety and supersedes the Prior Agreement in all respects;

C. The Advisor, by and through itself, its affiliates and their respective officers, employees and representatives, has expertise in the areas of management, finance, strategy, investment and acquisitions relating to the business of the Company; and

D. Pursuant to the terms of the Investment Agreement, the Company may desire to avail itself, during the term of this Agreement, of the expertise of the Advisor in the aforesaid areas and the Advisor may wish to provide the services to the Company as herein set forth.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

1. Advisory Services. (a) The Advisor may, from time to time, consider advising and assisting the Company in connection with the development of its strategic plan, including acquisitions, divestitures, new development and financing matters. The precise nature of the services to be performed hereunder by the Advisor will be determined from time to time by mutual agreement of the Advisor and the Company. The Company hereby acknowledges that the persons performing the foregoing services are full-time employees of the Advisor or other entities and will not be expected to devote substantially all of their efforts to the Company but rather only so much of their efforts as, from time to time, the Advisor determines in its reasonable discretion to be appropriate in the circumstances. The Advisor will disclose to the Company any material interest of the Advisor, or its affiliates or designees providing services hereunder, in matters that are the subject of the advisory services contemplated hereby, other than the Advisor's interest as a shareholder of the Company and designees as directors of the Company.

(b) The Advisor and the individuals acting on its behalf that are actually providing the services contemplated hereby will be independent contractors, rather than employees or agents, and will have only such authority as is incident to the discharge of the duties herein contemplated or specifically authorized from time to time by the Board of Directors of the Company (the "Board").

2. Consideration. In consideration for the services provided by the Advisor under this Agreement, the Company will pay to the Advisor such customary advisory fees (the "Fees") based upon the type and amount of services provided by the Advisor and as are agreed upon by the Advisor and a majority of those members of the Board who are "independent directors" having no material affiliation or relationships with the Purchaser, the Advisor or the Company.

3. Reimbursements. In addition to the Fees, the Company will pay directly or reimburse the Advisor for its Out-of-Pocket Expenses. Promptly following the Company's request therefor, the Advisor will provide written substantiation in reasonable detail relating to any Out-of-Pocket Expenses to be paid or reimbursed by the Company pursuant to this Agreement. For the purposes of this Agreement, the term "Out-of-Pocket Expenses" means the out-of-pocket costs and expenses that are actually and reasonably incurred by the Advisor or its affiliates in connection with the services rendered hereunder. All reimbursements for Out-of-Pocket Expenses will be made promptly upon or as soon as practicable after presentation by the Advisor to the Company of a written statement therefor.

4. Confidentiality. (a) All non-public information concerning the Company which is given to the Advisor or its officers, directors, employees and/or agents (its "Representatives") by the Company or its Representatives from time to time will be used solely in the course of the performance of the Advisor's services hereunder or, in the case of any of such persons who are also officers and/or directors of the Company, in their capacities as officers and/or directors of the Company. Except as contemplated by this Agreement or as

otherwise required by applicable law or judicial or regulatory process, the Advisor will not disclose any non-public information to a third party without the Company's consent.

(b) The Advisor acknowledges that the Advisor and its Representatives are subject to the Company's insider trading policy and the Advisor has so advised its Representatives.

5. Indemnification. (a) The Company will indemnify and hold harmless the Advisor, its affiliates, and their respective partners (both general and limited), members (both managing and otherwise), officers, directors, employees, agents and representatives (each such person being an "Indemnified Party") from and against any and all losses, claims, damages and liabilities, whether joint or several (the "Indemnifiable Losses"), related to, arising out of or in connection with the services contemplated by this Agreement or the engagement of the Advisor pursuant to, and the performance by the Advisor of the services contemplated by, this Agreement, whether or not pending or threatened, whether or not an Indemnified Party is a party and whether or not such action, claim, suit, investigation or proceeding (a "Claim") is initiated or brought by the Company directly, derivatively or otherwise, including without limitation any action, suit, proceeding or investigation arising out of any action or failure to take action by the Company or any of its subsidiaries, whether or not based on a theory of primary or secondary liability, and will reimburse any Indemnified Party for all reasonable costs and expenses (including reasonable attorneys' fees and expenses) as they are incurred in connection with investigating, preparing, pursuing, defending or assisting in the defense of any Claim for which the Indemnified Party would be entitled to indemnification under the terms of this sentence, or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party thereto, provided that, subject to the following sentence, the Company, upon execution of a written undertaking reasonably satisfactory to the Advisor confirming the Company's indemnity obligations hereunder (without any reservation of rights other then as permitted elsewhere herein) and expressly releasing all Indemnified Parties from any and all liability related to the matter in question subject to the limitations contained herein (such undertaking, an "Indemnity Undertaking") will be entitled to assume the defense thereof at its own expense, with counsel satisfactory to such Indemnified Party in its reasonable judgment. Any Indemnified Party may, at its own expense, retain separate counsel to participate in such defense, and in

any Claim in which both the Company and/or one or more of its subsidiaries, on the one hand, and an Indemnified Party, on the other hand, is, or is reasonably likely to become, a party, such Indemnified Party will have the right to employ separate counsel at the expense of the Company and to control its own defense of such Claim if, in the reasonable opinion of counsel to such Indemnified Party, a conflict or potential conflict exists between the Company, on the one hand, and such Indemnified Party, on the other hand, that would make such separate representation advisable. The Indemnified Party shall give prompt notice to the Company of any actual or asserted event or occurrence that could reasonably be expected to give rise to a Claim. The failure by an Indemnified Party to notify the Company of a Claim will not relieve the Company from any liability hereunder unless, and only to the extent that, the Company did not learn of such Claim and such failure shall materially prejudice the ability of the Company to defend such Claim or otherwise perfect rights to any insurance coverage relating thereto. The Company will not, without the prior written consent of the applicable Indemnified Party, settle, compromise or consent to the entry of any judgment in any pending or threatened Claim relating to the matters contemplated hereby (if any Indemnified Party is a party thereto or has been threatened to be made a party thereto) unless such settlement, compromise or consent includes an unconditional release of the applicable Indemnified Party from all liability arising or that may arise out of such Claim. Provided the Company is not in breach of its indemnification obligations hereunder, no Indemnified Party may settle or compromise any Claim subject to indemnification hereunder without the consent of the Company provided that prior thereto such Indemnified Party has been furnished with an Indemnity Undertaking.

(b) If any indemnification sought by any Indemnified Party pursuant to this Section is unavailable for any reason or is insufficient to hold the Indemnified Party harmless against any Indemnifiable Losses referred to herein, then the Company will contribute to the Indemnifiable Losses for which such indemnification is held unavailable or insufficient in such proportion as is appropriate to reflect the relative benefits received (or anticipated to be received) by the Company, on the one hand, and the Advisor, on the other hand, in connection with the transactions which gave rise to such Indemnifiable Losses or, if such allocation is not permitted by applicable law, not only such relative benefits but also the relative faults of the Company, on the one hand, and the Advisor, on the other hand, as well as any other equitable considerations, subject to the limitation that in any event the aggregate

contribution by the Indemnified Parties to all Indemnifiable Losses with respect to which contribution is available hereunder will not exceed the Fees paid through the date on which (or, if more than one date, the last date on which the conduct occurred that gave rise to the Indemnifiable Loss).

(c) Notwithstanding any other provision hereof, none of the Advisor nor any employee, officer, director or other related person or entity will have any liability or obligation by reason of this Agreement for performance or nonperformance of services contemplated hereby except and solely to the extent that it is judicially determined by a court of competent jurisdiction that such person intentionally breached or caused to be breached a material provision of this Agreement. The parties hereto hereby expressly disclaim any liability or obligation of the Advisor and its affiliates or any of their respective employees, officers, directors and other related persons or entities for actual or alleged negligence of any character in connection with the services contemplated by this Agreement.

(d) The provisions of this Section 5 will be in addition to and in no manner limit or otherwise affect any other right that the Advisor or any other Indemnified Party may have, whether by contract, or arising as a matter of law or the constituent documents of any other entity.

6. Term. This Agreement will terminate by (i) mutual consent of the parties or (ii) on or after July 1, 2001, by either the Company or the Advisor with or without cause on 60 calendar days prior notice to the other. The termination or expiration of the term of this Agreement will not affect the Advisor's rights (i) under Sections 3 or 5 hereof (which will survive any termination or expiration of this Agreement) and (ii) under Section 2 to receive the amount of Fees pro rated based upon the portion of services performed prior to such termination.

7. Miscellaneous. (a) No amendment or waiver of any provision of this Agreement, or consent to any departure by either party hereto from any such provision, shall be effective unless the same shall be in writing and signed by each of the parties hereto. Any amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The waiver by any party of any breach of this Agreement shall not operate as or be construed to be a waiver by such party of any subsequent breach.

(b) Any notices or other communications required or permitted hereunder shall be sufficiently given if delivered personally or sent by facsimile, Federal Express or other nationally recognized overnight courier, addressed as follows or to such other address of which the parties may have given notice:

If to the Advisor:
The Hampstead Group, L.L.C.
4200 Texas Commerce Tower West
2000 Ross Avenue
Dallas, Texas 75201
Attention: William T. Cavanaugh, Jr.
Facsimile: (214) 220-4949

If to the Company:
Omega Healthcare Investors, Inc.
900 Victors Way
Suite 350
Ann Arbor, Michigan 48108
Attention: Susan Allene Kovach
Facsimile: (734) 887-0322

Unless otherwise specified herein, such notices or other communications shall be deemed received (i) on the date delivered, if delivered personally or sent by facsimile, and (ii) one business day after being sent by Federal Express or other overnight courier.

(c) This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Delaware. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns. The provisions of Section 5 shall inure to the benefit of each Indemnified Party.

(d) This Agreement may be executed by one or more parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

(e) The waiver by any party of any breach of this Agreement shall not operate as or be construed to be a waiver by such party of any subsequent breach.

(f) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall be not invalidate or render unenforceable such provision in any other jurisdiction.

(g) For purposes of this Agreement, (i) "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such first person and (ii) "person" means an individual, corporation, partnership,

limited liability company, joint venture, association, trust, unincorporated organization or other entity.

(h) When a reference is made in this Agreement to a Section, such reference is to a Section of this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation". The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement will have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. References to a person are also to its permitted successors and assigns.

(i) This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and (ii) except for the provisions of Section 5, are not intended to confer upon any person other than the parties any rights or remedies.

(j) Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned, in whole or in part, by operation of law or otherwise by either of the parties hereto without the prior written consent of the other party; provided however, that the Advisor may assign its rights and obligations under this Agreement to an Affiliate of Advisor without the consent of the Company provided that no such assignment shall relieve Advisor of its obligations under this Agreement. Any assignment in violation of the preceding sentence will be void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

(k) The parties agree that irreparable damage would occur and that the parties would not have any adequate remedy at law in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties will be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any federal court located in the State of Delaware or in Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (i) consents to submit itself to the personal jurisdiction of any federal court located in the State of Delaware and or any Delaware state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (iii) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal court sitting in the State of Delaware or a Delaware state court.

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereto duly authorized.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ Susan A. Kovach

Susan A. Kovach
Vice President

THE HAMPSTEAD GROUP, L.L.C.

By: /s/ William T. Cavanaugh, Jr.

William T. Cavanaugh, Jr.
Vice President

LOAN AGREEMENT

BY AND AMONG

OMEGA HEALTHCARE INVESTORS, INC.
STERLING ACQUISITION CORP. AND
DELTA INVESTORS I, LLC,

THE PROVIDENT BANK, AGENT

AND

VARIOUS LENDERS DESCRIBED HEREIN

August 16, 2000

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LOAN AGREEMENT

This Loan Agreement (the "Agreement") is made and entered into as of the 16th day of August, 2000, by and among Omega Healthcare Investors, Inc., a Maryland corporation ("Omega"), and its subsidiaries, Sterling Acquisition Corp., a Kentucky corporation and Delta Investors I, LLC, a Maryland limited liability company (Omega and such subsidiaries being hereafter sometimes collectively referred to as "Borrowers", or individually as a "Borrower"), the "Lenders" (as hereafter defined), and The Provident Bank, an Ohio banking corporation in its capacity as Agent for the Lenders under this Agreement.

ARTICLE 1 DEFINITIONS.

Section 1.1 Provisions Pertaining to Definitions.

For all purposes of this Agreement, unless otherwise expressly specified:

(a) The expression "this Agreement" shall mean this Loan Agreement (including all of the Schedules and Exhibits hereto) as originally executed, or, if supplemented, amended or restated from time to time, as so supplemented, amended or restated;

(b) Unless the context clearly indicates the contrary, words importing the singular only shall include the plural and vice versa, and all references to dollars shall be United States Dollars;

(c) All of the uncapitalized terms contained in this Agreement which are defined under the UCC will, unless defined in the Loan Documents or the context clearly indicates otherwise, have the meanings provided for in the UCC;

(d) The term "including" is used by way of illustration and not by way of limitation; and

(e) The definition of any document, agreement or instrument includes all schedules, attachments and exhibits thereto and all renewals, extensions, supplements, restatements and amendments thereof

Section 1.2 Defined Terms.

As used in this Agreement, the following terms shall have the following meanings:

"Accountants" mean Ernst & Young LLP or such other firm of certified public accountants selected by Omega and acceptable to Agent and Requisite Lenders.

"Accounts" mean, with respect to any Person, such Person's "accounts" (as defined in the UCC), rental agreements, contracts, notes, bills, drafts, acceptances, documents of title and other contract rights, rights to payment and

other forms of obligation for the payment of money, whether now owned or existing or hereafter acquired or arising or in which such Person now has or hereafter acquires any rights or interests, including, without limitation, all (i) accounts receivable (whether or not specifically listed on schedules furnished to Agent or any Lender), accounts created by or arising from all of such Person's sales of goods, financial instruments, documents, permits or other items, or rendition of services, including funds transfer services, made under any of such Person's trade names or styles, or through any of such Person's subsidiaries or divisions, and all accounts acquired by assignment in the ordinary course of business; (ii) unpaid seller's rights (including rescission, replevin, reclamation and stopping in transit) relating to the foregoing or arising therefrom; (iii) rights to any goods represented by any of the foregoing, including returned or repossessed goods; (iv) reserves and credit balances held by such Person with respect to any such accounts or account debtors; (v) guarantees or collateral for any of the foregoing; and (vi) insurance policies or rights relating to any of the foregoing.

"Additional Equity Contribution" has the same meaning as in the Investment Agreement.

"Adjusted EBITDA" means for any period, with respect to Omega on a consolidated basis, determined in accordance with GAAP, the sum of net income (or net loss) for such period plus the sum of all amounts treated as expenses for: (a) interest, (b) depreciation, (c) amortization, and (d) all accrued or paid taxes on or measured by income to the extent included in the determination of such net income (or net loss); provided, however, that net income (or net loss) shall be computed without giving effect to extraordinary losses or gains (it being acknowledged that non-cash gains or losses associated with or resulting from property dispositions or non-cash impairment charges shall be treated as extraordinary); and provided further, however, that the calculation of Adjusted EBITDA for any period during which an Investment or a Disposition was effected shall be determined on a pro forma basis as if such Investment or Disposition were effected on the first day of such period.

"Affiliate" means, as to any Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event: (a) any Person that owns directly or indirectly five (5%) percent or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or five (5%) percent or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person; and (b) each shareholder, director and officer of any Borrower shall be deemed to be an Affiliate of Borrowers.

"Agency Fees" mean annual fees, in an aggregate amount not to exceed $50,000 per annum, payable by Borrowers (i) to Agent, for its own benefit, in the amount of $25,000, and (ii) to Agent for each Lender in the amount of $5,000.

"Agent" means Provident acting in the capacity as Agent for Lenders under the Loan Documents and includes any other Person or Persons succeeding to the functions of Agent on, and subject to, the terms of this Agreement.

"Aggregate EBITDAR" means, for any period, the sum of the amounts of EBITDAR for each Facility included in Real Property Collateral during such period attributable to the time during which each such facility was included in Real Property Collateral, or for the immediately preceding four (4) consecutive quarters if the Facility has been included in the Real Property Collateral for fewer than four (4) quarters.

"Aggregate Rent Ratio" means, for all of the Facilities included in the Real Property Collateral, the ratio, as of each Computation Date, of (i) the Aggregate EBITDAR for such Facilities for the four fiscal quarters ending on the date ninety (90) days before such Computation Date, to (ii) the aggregate rental payments made to the Borrowers under the lease, master lease, management agreement or similar agreement between the Borrowers and the Operators of such Facilities for the same four fiscal quarters (or such shorter period included within such four quarter period as each such Facility was included in the Real Property Collateral).

"Appraisal" means an appraisal providing an assessment of the fair market value of a Property (whether appraised on a stand-alone basis or "in bulk" together with similar Properties) which is independently and impartially prepared by a nationally recognized appraiser or an appraiser acceptable to Agent and having substantial experience in the appraisal of health care facilities and conforming to Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

"Borrowing Base" means, as of any date as of which the amount thereof shall be determined, an amount, determined based on the most recent Compliance Certificate submitted by Borrowers pursuant to the terms hereof, equal to 75% of the product of (i) Aggregate EBITDAR, multiplied by (ii) 6.14. In no event shall the Borrowing Base exceed the Maximum Commitment for the Loans.

"Borrowing Base Certificate" means a certificate, in form and substance satisfactory to Agent, setting forth the calculation of the Borrowing Base.

"Business Day" means any day other than Saturday, Sunday or any other day on which commercial banks in Cincinnati, Ohio are authorized or required to close.

"Capital Expenditures" mean, for any period, the aggregate amount of all payments made or to be made during such period by any Person directly or indirectly for the purpose of acquiring, constructing or maintaining fixed assets, real property or equipment that, in accordance with GAAP, would be added as a debit to the fixed asset account of such Person, including, without limitation, all amounts paid or payable during such period with respect to Capitalized Lease Obligations and interest that are required to be capitalized in accordance with GAAP.

"Capitalized Lease" means any lease, the obligations to pay rent or other amounts under which constitute Capitalized Lease Obligations.

"Capitalized Lease Obligations" mean, as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Cash" means, as to any Person, such Person's cash and Cash Equivalents

"Cash Equivalents" mean (i) marketable direct obligations issued or unconditionally guaranteed or insured by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within three (3) months from the date of acquisition thereof; (ii) investments in certificates of deposit or bankers' acceptances maturing within three (3) months from the date of acquisition issued by any Lender or any other commercial bank organized under the laws of the United States or any state thereof that is a member of the Federal Reserve System having capital surplus and undivided profits aggregating at least Two Hundred Fifty Million Dollars ($250,000,000); (iii) investments in commercial paper of any Lender or of any other Person and maturing not more than six (6) months from the date of acquisition thereof; (iv) obligations of the type described in (i), (ii) or (iii) above purchased pursuant to a repurchase agreement obligating the counterpart to repurchase such obligations not later than thirty (30) days after the purchase thereof, secured by a fully perfected security interest in any such obligation, and having a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of the issuing bank, (v) time deposits or Eurodollar time deposits maturing no more than thirty (30) days from the date of creation with commercial banks having membership in the Federal Deposit Insurance Corporation in amounts not exceeding the lesser of One Hundred Thousand Dollars ($100,000) or the maximum insurance applicable to the aggregate amount of such Person's deposits in such institution, and (vi) investments in money market funds in aggregate amount of no more than $3,000,000 at any time outstanding and substantially all of whose assets are comprised of securities described in clauses (i) through (v) above.

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. ss.9601, et seq.

"Certificate of Need" means all necessary licenses, permits and governmental authorizations required by any governmental authority in order to

permit the operation of each Facility from time to time included within the Real Property Collateral as a health care facility.

"Change in Control" means the occurrence of any of the following: (a) any Person, or a group of related Persons, other than Explorer Holdings, L.P., or any successor or assign thereof, shall acquire (i) beneficial ownership in

excess of 25% of the outstanding stock of Omega or other voting interest having ordinary voting powers to elect a majority of the directors, managers or trustees of Omega (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) or (ii) all or substantially all of the Investments of Omega, or (b) a majority of the Board of Directors of Omega, at any time, shall be composed of Persons other than (i) Persons who were members of the Board of Directors on the date of this Agreement, or (ii) Persons who subsequently become members of the Board of Directors on the date of this Agreement, or (iii) Persons who subsequently become members of the Board of Directors and who either (x) are appointed or recommended for election with the affirmative vote of a majority of the directors in office as of the date of this Agreement or (y) are appointed or recommended for election with the affirmative vote of a majority of the Board of Directors of Omega then in office.

"Chattel Paper" means "chattel paper" as such term is defined in the UCC, now owned or existing or hereafter acquired or arising or in which a Person now has or hereafter acquires any rights or interests.

"Closing Date" means the day on which the Lenders become obligated to make the Loans pursuant to this Agreement.

"Closing Fee" means a fee payable by Borrowers to each Lender on or before the Closing Date in the respective amounts set forth in Schedule 1.2 hereto.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time, and the regulations promulgated thereunder.

"Collateral" means the Real Property Collateral and all of the following located on, generated by, arising from, or used in connection with, the Real Property Collateral: a Borrower's Certificates of Need, Accounts, Inventory, Equipment, General Intangibles, fixtures, leases, money, goods, motor vehicles, leasehold improvements, Documents, Instruments, Chattel Paper, Intellectual Property, inventory subject to leases and rights under lease agreements for the leasing of inventory, money, deposit accounts, securities, funds, rights to draw on letters of credit, permits, licenses and the Cash or noncash produces and Proceeds (including insurance or other rights to receive payment with respect thereto) of any of the foregoing and all accessions and additions to and replacements and substitutions for the foregoing, and all books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records of Omega and each Subsidiary) (whether or not stored in written or electronic form) pertaining to any of the foregoing.

"Compliance Certificate" means a certificate in form and substance satisfactory to Agent, executed by the chief executive officer or chief financial officer of Omega: (a) to the effect that as of the effective date of the certificate, no Default or Event of Default under this Agreement exists or would exist after giving effect to any action intended to be taken by any Borrower as described in such certificate, including, without limitation, that

the covenants set forth in Section 7.9 hereof are and will be fully complied with, together with a calculation in reasonable detail, and in form and substance satisfactory to Agent, of such compliance, and (b) to the effect that the representations and warranties contained in Article 4 are true and with the same effect as though such representations and warranties were made on the date of such certificate, except for changes in the ordinary course of business none of which, either singly or in the aggregate, have had a Material Adverse Effect.

"Computation Date" means the last day of each fiscal quarter of Omega.

"Debenture" means these certain Subordinated Debentures maturing on February 1, 2001.

"Default" means an event which with notice or lapse of time, or both, would constitute an Event of Default.

"Disposition" means the sale, lease, conveyance, transfer or other disposition of any Real Property Collateral (whether in one or a series of transactions), including accounts and notes receivable (with or without recourse) and sale-leaseback transactions.

"Document" means any "document," as such term is defined in the UCC, now owned or existing or hereafter arising or acquired or in which a Person now has or hereafter acquires any rights or interests.

"Dollars" and "$" mean lawful money of the United States of America.

"EBITDA" means, for any period, with respect to Omega on a consolidated basis, determined in accordance with GAAP, the sum of net income (or net loss) for such period, plus the sum of all amounts treated as expenses for: (a) interest, (b) depreciation, (c) amortization, and (d) all accrued taxes on or measured by income to the extent included in the determination of such net income (or net loss); provided, however, that net income (or net loss) shall be computed without giving effect to extraordinary losses or gains or interest income.

"EBITDAR" means, for any period, with respect to a Facility included in Real Property Collateral during such period, determined in accordance with GAAP, the sum of net income (or net loss) after first subtracting a 4% management fee for such period, and then adding the sum of all amounts treated as expenses for: (a) interest, (b) depreciation, (c) amortization, (d) all accrued taxes on or measured by income to the extent included in the determination of such net income (or net loss), and (e) the amount of all rental payments to a Borrower with respect to such Facility; provided, however, that net income (or net loss) shall be computed without giving effect to extraordinary losses or gains or interest income.

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA which is subject to ERISA.

"Environmental Laws and Regulations" mean individually or collectively any applicable local, state or federal law, statute, rule, regulation, order, ordinance, common law, or permit or license term or condition pertaining to the environment or to environmental contamination, regulation, management, control, treatment, storage, disposal, containment, removal, clean-up, reporting or disclosure, including, but not limited to CERCLA (including, but not limited to, the Superfund Amendments and Reauthorization Act), the Resource Conservation and Recovery Act (including, but not limited to, the Hazardous and Solid Waste Amendments of 1984), the Toxic Substances Control Act, the Clean Water Act, the Safe Drinking Water Act, and the Clean Air Act, all as now or hereafter amended.

"Environmental Liability" means any liability under any applicable Environmental Laws and Regulations for any disposal, release or threatened release of a hazardous substance pollutant or contaminant as those terms are defined under CERCLA, and any liability which would require a removal, remedial or response action, as those terms are defined under CERCLA, by any person or by any environmental regulatory body having jurisdiction over Omega and its Subsidiaries and/or any liability arising under any Environmental Laws and Regulations for Omega's or any Subsidiary's failure to comply with such laws and regulations, including without limitation, the failure to comply with or obtain any applicable environmental permit.

"Environmental Proceeding" means any judgment, action, proceeding or investigation pending before any court or governmental authority, with respect to Omega or any Subsidiary and arising under or relating to any Environmental Laws and Regulations.

"Equipment" means any "equipment," as such term is defined in the UCC, now owned or existing or hereafter acquired or arising (or in which a Person now has or hereafter acquires any rights or interests), and shall include, without limitation, any and all additions, substitutions, and replacements of any of the foregoing, wherever located, together with all attachments, components, parts and accessories installed thereon or affixed thereto, and all other tangible personal property not otherwise described herein.

"Equity Contribution" means the $100,000,000 purchase of Omega's Series C Preferred Stock by Explorer Holdings, L.P.

"ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and the regulations promulgated thereunder.

"ERISA Affiliate" means, as applied to any Borrower, any corporation, person or trade or business which is a member of a group which is under common control with any Borrower, who together with any Borrower, is treated as a single employer within the meaning of Section 414(b) - (o) of the Code and, if applicable, Section 4001(a)(14) and (b) of ERISA.

"Event of Default" has the meaning provided in Article 9 hereof.

"Facility" means a health care facility offering health care-related products and services, including any acute care hospital, rehabilitation hospital, nursing home, retirement center, long-term care facility, assisted living facility, or medical office building, and facilities directly related thereto.

"Fleet Obligations" means the obligations of Omega and certain of its Affiliates under the Loan Agreement dated as of June 15, 2000, among Omega and certain of its Affiliates, the "Banks" named therein, and Fleet Bank, N.A., as Agent for such Banks, and under the other agreements, documents and instruments

entered into in connection therewith.

"Funded Indebtedness" means as of any date of determination, all Indebtedness of Omega on a consolidated basis (other than contingent liabilities).

"GAAP" means generally accepted accounting principles, as in effect in the United States.

"General Intangibles" mean any "general intangibles," as such term is defined in the UCC, now owned or existing or hereafter acquired or arising (or in which a Person now has or hereafter acquires any rights or interests) and, in any event, shall include, without limitation, all right, title and interest now in existence or hereafter arising in or to all customer lists, trademarks, service marks, patents, rights in intellectual property, trade names, copyrights, trade secrets, proprietary or confidential information, inventions and technical information, procedures, designs, knowledge, know-how, software, data bases, data, processes, models, drawings, materials, and records now owned or hereafter acquired, and any and all goodwill and rights of indemnification, and tax refunds and tax refund claims, pension plan refunds and reversions.

"Hazardous Materials" mean any toxic chemical, hazardous substances, contaminants or pollutants, medical wastes, infectious wastes, or hazardous wastes defined as such, or included under or regulated by the Environmental Laws and Regulations.

"Head Office" means, in relation to Agent, the head office of Provident located at One East Fourth Street, Cincinnati, Ohio 45202, or such office designated in writing to Borrowers and Lenders by Provident or any successor Agent.

"Healthcare Assets" means as of any date as of which the amount thereof is to be determined, the aggregate amount equal to the sum of:

(i) the Appraised Value of each Facility owned entirely by a "borrower" (as defined in the loan agreement with respect to the Fleet Obligations) and leased to an Operator; plus

(ii) the lesser of the Appraised Value of any Facility encumbered by a "mortgage" (as defined in the loan agreement with respect to the Fleet Obligations) or the outstanding principal amount of the "mortgage" which encumbers any such Facility.

"Indebtedness" means, with respect to any Person, all: (a) liabilities or obligations, direct and contingent, which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person at the date as of which Indebtedness is to be determined, including, without limitation, contingent liabilities that in accordance with such principles, would be set forth in a specific Dollar amount on the liability side of such balance sheet, and Capitalized Lease Obligations of such Person; (b) liabilities or obligations of others for which such Person is directly or indirectly liable, by way of guaranty (whether by direct guaranty, suretyship, discount, endorsement, take-or-pay agreement, agreement to purchase or advance or keep in funds or other agreement having the effect of a guaranty) or otherwise; (c) liabilities or obligations secured by Liens on any assets of such Person, whether or not such liabilities or obligations shall have been assumed by it; and (d) liabilities or obligations of such Person, direct or contingent, with respect to letters of credit issued for the account of such Person and bankers acceptances created for such Person.

"Indebtedness for Borrowed Money" means at any particular time, all Indebtedness (i) in respect of any money borrowed; (ii) evidenced by any loan or credit agreement, promissory note, debenture, bond, guaranty or other similar written obligation to pay money; or (iii) under any Capitalized Lease, all as determined in accordance with GAAP.

"Instruments" mean "instruments," as such term is defined in the UCC, now owned or existing or hereafter acquired or arising or in which a Person now has or hereafter acquires any rights or interests.

"Intellectual Property" means all copyrights, patents and trademarks, together with (a) all inventions, processes, production methods, proprietary information, know-how and trade secrets; (b) all licenses or user or other agreements granted to any obligor with respect to any of the foregoing, in each case whether now or thereafter owned or used including, without limitation, the licenses or other agreements with respect to copyrights, patents or trademarks; (c) all information, customer lists, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, catalogs, computer and automatic machinery software and programs; (d) all field repair data, sales data and other information relating to sales or service of products now or hereafter manufactured; (e) all accounting information and all media on which or in which any information or knowledge or data or records may be recorded or stored and all computer programs used for the compilation or printout of such information,

knowledge, records or data; (f) all licenses, consents, permits, variances, certifications and approvals of governmental agencies now or hereafter held by a Person; and (g) all causes of action, claims and warranties now or hereafter owned or acquired by a Person in respect of any of the items listed above.

"Interest Coverage" means, as at the last day of any fiscal quarter, the ratio, determined by dividing EBITDA by Interest Expense; all of the foregoing calculated by reference to the immediately preceding four (4) fiscal quarters of Omega ending on such date of determination, but excluding interest on the Debentures and any other Indebtedness repaid with the proceeds of the Equity Contribution or the Additional Equity Contribution.

"Interest Expense" means, for any period, on a combined basis, the sum of all interest paid or payable (excluding unamortized debt issuance costs) on all items of Indebtedness of Omega on a consolidated basis outstanding at any time during such period.

"Interest Rate" means (a) the Prime-Based Rate, with respect to any portions of the Loans that are not LIBOR Loans, and the LIBOR-Based Rate, with respect any portions the Loans that are LIBOR Loans, and (b) with respect to any other Obligations, a rate equal to the Prime Rate plus two percent (2%).

"Interest Rate Adjustment Date" means (i) with respect to those portions of the Loans which are LIBOR Loans, the first day of the LIBOR Period for which LIBOR-Based Rate is being determined for each such LIBOR Loan, and (ii) with respect to those portions of the Loans which are not LIBOR Loans, each date upon which the Prime Rate from time to time changes.

"Interest Rate Protection" means one or more agreements providing interest rate protection with respect to the interest payable by Borrowers in connection with the Loans, in form and substance satisfactory to Agent.

"Inventory" means, with respect to any Person, such Person's "inventory" (as defined in the UCC) and other goods (as defined in the UCC), including without limitation: (i) all raw materials, work in process, parts, components, assemblies, supplies and materials used or consumed in such Person's business, wherever located and whether in the possession of such Person or any other Person; (ii) all goods, wares and merchandise, finished or unfinished, held for sale or lease or leased or furnished or to be furnished under contracts of service, wherever located and whether in the possession of such Person or any other Person; and (iii) all goods returned to or repossessed by such Person.

"Investment" means all investments in any other Person by stock purchase, capital contribution, loan, advance, guaranty of any Indebtedness or creation or assumption of any other liability in respect of any Indebtedness of such other Person, or the transfer or sale of Property (otherwise than in the ordinary course of the business) to any other Person for less than payment in full in cash of the transfer or sale price or the fair value thereof (whichever of such price or value is higher), or the acquisition or purchase of Property (otherwise than in the ordinary course of business) of any other Person.

"Investment Agreement" means the Investment Agreement dated as of May 11, 2000 by and between Omega and Explorer Holdings, L.P., a Delaware limited partnership, as the same has been amended as of the date hereof.

"Latest Balance Sheet" has the meaning provided in Section 4.9 hereof.

"Lenders" mean collectively each of the banks or lending institutions set forth on Schedule 1.1 and their respective successors and assigns, and any financial institutions which, pursuant to the terms of this Agreement, become from time to time a party to this Agreement after the date of this Agreement, and "Lender" means any one of Lenders.

"Leverage Ratio" means, as of any date of determination thereof, the quotient of (a) Funded Indebtedness as of such date divided by (b) Adjusted EBITDA for the period of four consecutive fiscal quarters ending on, or most recently before, such date.

"LIBOR-Based Rate" means an annual rate of interest equal to the sum of (i) the LIBOR Rate in effect as of the first day of LIBOR Period for which the LIBOR-Based Rate is being determined, plus (ii) the LIBOR Margin.

"LIBOR Election" means an effective election by Borrowers to have the principal balance of the Loans, or one or more designated portions thereof, bear interest at the LIBOR-Based Rate for the LIBOR Period as designated therein in accordance with the provisions of Section 2.5(a).

"LIBOR Loan" means all or such portions of the Loans with respect to which a LIBOR Election shall have been made for the applicable LIBOR Period with respect thereto.

"LIBOR Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio LIBOR Margin Greater than or equal to 5.0:1 3.25% Greater than or equal to 4.5:1, but less than 5.0:1 3.00% Greater than or equal to 4.0:1, but less than 4.5:1 2.75% Less than 4.0:1 2.50%

"LIBOR Period" means a period consisting of one (1), two (2), three (3) or six (6) calendar months, as designated by Borrowers from time to time in a LIBOR Election.

"LIBOR Rate" means, as applicable to any LIBOR Loan, an interest rate per annum equal to the quotient of (i) the rate of interest Agent may quote to Borrowers, from time to time and subject to change without notice, determined on the basis of the offered per annum rate, estimated per annum rate, or the arithmetic mean of the per annum rates determined by Agent and rounded upward to two decimal points in its reasonable discretion for deposits in U.S. Dollars in an amount comparable to the LIBOR Loan for the LIBOR Period, which shall appear on page BBAM, captioned British Bankers Assoc. Interest Settlement Rates, of Bloomberg, a service of Bloomberg Partners (or such other page that may replace

such page on that service for the purpose of displaying the LIBOR Rate), or if such service ceases to be available, such other reasonable source reporting "London Interbank Offered Rates" of major banks on the date that is two Business Days prior to the commencement of the LIBOR Period, divided by (ii) a number equal to one minus the aggregate (without duplication) of the rates (expressed as a decimal fraction) of the LIBOR Reserve Requirements current on the date two Business Days prior to the commencement of the LIBOR Period.

"LIBOR Reserve Requirements" means, for any LIBOR Period for which a LIBOR Election is effective, the maximum reserves (whether basic, supplemental, marginal, emergency or otherwise) prescribed by the Board of Governors of the Federal Reserve System (or any successor) with respect to liabilities or assets consisting of or including eurocurrency funding, currently referred to as "Eurocurrency liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System), having a term equal to the LIBOR Period.

"Licenses and Permits" mean all licenses, permits, registrations and recordings thereof and all applications incorporated into such licenses, permits and registrations now owned or hereafter acquired by any Person and required from time to time for the business operations of such Person.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, lien, claim or charge of any kind (including any agreement to give any of the foregoing), any conditional sale or other title retention agreement, any lease in the nature of any of the foregoing, and the filing of or agreement to give any financing statement under the UCC.

"Loan Commitment" means, in relation to any particular Lender, such Lender's Revolving Loan A Commitment and Revolving Loan B Commitment.

"Loan Documents" mean this Agreement, the Notes, Security Documents, and all other documents executed and delivered in connection herewith or therewith, including all amendments, modifications and supplements of or to all such documents.

"Loan Limit" means, as of any date of determination, an amount equal to the lesser of (i) the Maximum Commitment for the Loans, and (ii) the Borrowing Base.

"Loans" mean, collectively, Revolving Loan A and Revolving Loan B. "Loan" means, individually, each advance of Revolving Loan A and/or Revolving Loan B.

"Material Adverse Effect" means any fact or circumstance which (a) materially and adversely affects the business, operation, property or financial condition of the Borrowers taken as a whole, or (b) has a material adverse effect on the ability of the Borrowers to perform their respective obligations under this Agreement, the Notes or the other Loan Documents.

"Maximum Commitment" means (i) Sixty-Five Million and 00/100 Dollars ($65,000,000.00) with respect to Revolving Loan A, (ii) Ten Million and 00/100

Dollars ($10,000,000.00) with respect to Revolving Loan B, (iii) Seventy-Five Million and 00/100 Dollars ($75,000,000.00) with respect to the Loans on and after the Closing Date and prior to the Termination Date of Revolving Loan B, and (iv) Sixty-Five Million and 00/100 Dollars ($65,000,000.00) on and after the Termination Date of Revolving Loan B and prior to the Termination Date of Revolving Loan A.

"Mortgage(s)" mean mortgages of Real Property Collateral in favor of Agent, for the benefit of Lenders, in form and substance satisfactory to Agent.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which any Borrower or any ERISA Affiliate is making, or is accruing an obligation to make, contributions or has made, or been obligated

to make, contributions within the preceding six (6) years.

"Net Issuance Proceeds" mean, in respect of any issuance of Indebtedness or equity, the proceeds in Cash received by any Borrower upon or simultaneously with such issuance, net of direct costs of such issuance and any taxes paid or payable by the recipient of such proceeds.

"Net Loss" means with respect to any period, the excess, if any of: (i) the aggregate amount of expenses of Omega on a consolidated basis, over (ii) the aggregate amount of revenues of Omega on a consolidated basis, in each case, during such period, as to all the foregoing, as determined in accordance with GAAP.

"Net Proceeds" mean, in respect of any Disposition, the proceeds in Cash received by a Borrower upon or simultaneously with such Disposition, net of (i) direct costs of such Disposition, (ii) any taxes paid or payable by the recipient of such proceeds, and (iii) amounts required to be applied to repay any Indebtedness secured by a lien on the asset which is the subject of the Disposition.

"Notes" mean, collectively, the Revolving Loan A Notes and the Revolving Loan B Notes. "Note" means, individually, any one of the Notes, unless specifically identified.

"Obligations" mean, collectively, all of the Indebtedness of any Borrower to Agent or any Lender, whether now existing or hereafter arising, whether or not currently contemplated, including, without limitation, those arising under the Loan Documents.

"Omega's Fixed Coverage Ratio" means, as at the last day of any fiscal quarter, with respect to the immediately preceding four (4) fiscal quarters of Omega ending on such date, the ratio of (x) EBITDA, to (y) the sum of Interest Expense, and Cash dividends.

"Operator" means the lessee of any Real Property Collateral, to the extent that such entity controls the operation of such Real Property Collateral.

"Operator Aggregate Rent Ratio" means, for all of the Facilities included in the Real Property Collateral operated by a particular Operator, the ratio, as of each Computation Date of (i) the Aggregate EBITDAR for such Facilities for the four fiscal quarters ending on the date ninety (90) days before such Computation Date, to (ii) the aggregate rental payments accrued in accordance with GAAP to the Borrowers under the lease, master lease, management agreement or similar agreement between the Borrowers and the Operator of such Facilities for the same four fiscal quarters (or such shorter period included within such four quarter period as each such Facility was included in the Real Property Collateral).

"Patents" mean all of the following in which a Person now holds or hereafter acquires any interest: (i) all letters patent of the United States or any country, all registrations and recordings thereof, and all applications for letters patent of the United States or any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or territory thereof or any other country, and (ii) all reissues, continuations, continuations-in-part or extensions thereof.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permitted Liens" mean, as to any Person: (a) pledges or deposits by such Person under workers' compensation laws, unemployment insurance laws, social security laws, or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness of such Person), or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of Cash or United States Government Bonds to secure surety, appeal, performance or other similar bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent; (b) liens imposed by law, including without limitation, carriers', warehousemen's, materialmen's and mechanics' liens, or liens arising out of judgments or awards or judicial attachment liens against such Person with respect to which such Person at the time shall currently be prosecuting an appeal or proceedings for review; (c) liens for taxes not yet subject to penalties for non-payment and liens for taxes the payment of which is being contested as permitted by Section 7.6 hereof; (d) non-consensual liens that have been bonded within thirty (30) days after notice of such lien(s) by a Person (not an Affiliate of Omega) reasonably satisfactory to Agent in an aggregate amount secured by all such liens not in excess of $5,000,000; (e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of, others for rights of way, highways and railroad crossings, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, or Liens incidental to the conduct of the business of such Person or to the ownership of such Person's property that were not incurred in connection with Indebtedness of such Person, all of which Liens referred to in this clause (e) do not in the aggregate materially impair the value of the properties to

which they relate or materially impair their use in the operation of the business taken as a whole of such Person, and as to all the foregoing only to the extent arising and continuing in the ordinary course of business; and (f) existing leases on the Real Property Collateral disclosed to Agent.

"Person" means an individual, a corporation, a partnership, a limited liability company, a joint venture, a trust or unincorporated organization, a joint stock company or other similar organization, a government or any political subdivision thereof, a court, or any other legal entity, whether acting in an individual, fiduciary or other capacity.

"Plan" means at any time an employee pension benefit plan that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either: (a) maintained by a Borrower for its employees, or (b) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which any Borrower is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Post-Default Rate" means a rate per annum equal to four percent (4.00%) in excess of the Interest Rate.

"Prime-Based Rate" means an annual rate of interest equal to the sum of (i) the Prime Rate as in effect from day to day plus (ii) the Prime Margin.

"Prime Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio	Prime Margin
Greater than or equal to 5.0:1	2.25%
Greater than or equal to 4.5:1, but less than 5.0:1	2.00%
Greater than or equal to 4.0:1, but less than 4.5:1	1.75%
Less than 4.0:1	1.50%

"Prime Rate" means the rate of interest established from time to time by Agent as its prime rate at its Head Office, whether or not Agent shall at times lend to other borrowers at lower rates of interest.

"Proceeds" mean "proceeds," as such term is defined in the UCC and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable from time to time with respect to any of the Collateral, and (ii) any and all payments (in any form whatsoever) made or due and payable from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any Person acting under color of governmental authority).

"Projections" mean the (a) annual cash flow projections relating to Omega and its Subsidiaries for the years ending December 31, 2001 and 2002, and

(b) quarterly cash flow projections relating to Omega and its Subsidiaries for the period commencing April 1, 2000 through and including March 31, 2001, in each case including balance sheets and statements of operations (together with related assumptions) as furnished by Omega to Agent.

"Property" means any estate or interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"Pro Rata Share" means, in relation to any particular item, the share of any Lender in such item, which shall be in the same proportion which the aggregate amount of all of the obligations owing to such Lender with respect to such item at such time shall bear to the aggregate amount of all of the obligations owing to all Lenders with respect to such item at such time net of any and all charges or fees due and payable to Agent under the Loan Documents.

"Provident" means The Provident Bank, an Ohio banking corporation.

"Real Property Collateral" means that real property owned by a Borrower subject to the Mortgages and serving as collateral for the Loans, as set forth in Schedule 1.3 hereto, including the Facilities listed, and any real property hereafter substituted for the same or otherwise serving as collateral for the full and timely payment and performance of the Obligations and subject to a Mortgage and the terms and conditions of this Agreement.

"Reference Period" means, with respect to a particular Computation Date, the period of four consecutive quarters ending on such Computation Date.

"REIT Status" means, with respect to any Person, (a) the qualification of such Person as a real estate investment trust under Sections 856 through 860 of the Code, and (b) the applicability to such Person and its shareholders of the method of taxation provided for in Sections 857 et seq. of the Code.

"Rent Ratio" means, for each Facility included in the Real Property Collateral, the ratio, as of each Computation Date of (i) the EBITDAR for such Facility for the four fiscal quarters ending on the date ninety (90) days before such Computation Date, to (ii) the aggregate rental payments made to a Borrower under the lease, master lease, management agreement or similar agreement between the Borrower and the Operator of such Facility for the same four fiscal quarters (or such shorter period included with such four quarter period as such Facility was included in the Real Property Collateral).

"Requisite Lenders" mean at any time those Lenders whose aggregate outstanding Loans equals or exceeds fifty-one percent (51%) of the sum of all of the outstanding Loans.

"Revolving Loan A" means all loans made pursuant to Section 2.1 and any amounts added to the principal balance of Revolving Loan A pursuant to this Agreement.

"Revolving Loan A Commitment" means, in relation to any particular Lender, the maximum amount of Revolving Loan A to be loaned by such Lender to Borrowers as set forth in Schedule 1.1.

"Revolving Loan A Notes" shall mean, collectively, the promissory notes payable jointly and severally by Borrowers to the order of a Lender, in form and substance satisfactory to Agent and Lenders, executed and delivered by Borrowers as of the Closing Date with respect to Revolving Loan A.

"Revolving Loan B" means all loans made pursuant to Section 2.2 and any amounts added to the principal balance of Revolving Loan B pursuant to this Agreement.

"Revolving Loan B Commitment" means, in relation to any particular Lender, the maximum amount of Revolving Loan B to be loaned by such Lender to Borrowers as set forth in Schedule 1.1.

"Revolving Loan B Notes" shall mean, collectively, the promissory notes payable jointly and severally by Borrowers to the order of a Lender, in form and substance satisfactory to Agent and Lenders, executed and delivered by Borrowers as of the Closing Date with respect to Revolving Loan B.

"Security Agreement" means a security agreement executed by a Borrower granting Agent, for the benefit of Lenders, a security interest in the Collateral other than the Real Property Collateral, in form and substance satisfactory to Agent.

"Security Documents" mean all documents providing collateral security for the full and timely payment and performance of the Obligations and the terms and conditions of this Agreement, including Mortgages, Security Agreements, Guaranties and UCC financing statements.

"Subsidiary" means, with respect to any person, any corporation, partnership, limited liability company, joint venture or other entity, whether now existing or hereafter organized or acquired: (a) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by such Person and/or one or more Subsidiaries of such Person, (b) in the case of a partnership, limited liability company, or other entity, in which such Person is a general partner or manager or managing member or of which a majority of the partnership or other equity interests are at the time owned by such Person and/or one or more of its Subsidiaries, or (c) in the case of a joint venture, in which such Person is a joint venturer and of which a majority of the ownership interests are at the time owned by such Person and/or one or more of its Subsidiaries. Unless the context otherwise requires, references in this Agreement to "Subsidiary" or "Subsidiaries" shall be deemed to be references to a Subsidiary or Subsidiaries of Omega.

"Tangible Net Worth" means the sum of capital surplus, earned surplus (after the reduction for common and preferred dividends) and capital stock, minus deferred charges, intangibles and treasury stock, all as determined in accordance with GAAP consistently applied.

"Termination Date" means the earliest of (i) June 30, 2005 with respect to Revolving Loan A, (ii) March 31, 2002 with respect to Revolving Loan B, (iii) the date upon which the entire principal of the Notes shall become due pursuant to the provisions hereof (whether as a result of acceleration by Agent or Requisite Lenders or otherwise), or (iv) the date upon which the Loan Commitments terminate pursuant to Section 9.1.

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Ohio, provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Agent's security interest in any of the Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Ohio, the term "UCC" shall mean the Uniform Commercial Code as

in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

"Unused Facility Fee" means a fee payable to Agent, for the benefit of Lenders, equal to one of the following percentages per annum (computed on the basis of a 360-day year for the actual number of days elapsed) on the daily unused balance of the Maximum Commitment, as determined quarterly by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio Unused Facility Fee Greater than or equal to 5.0:1 0.50% Greater than or equal to 4.5:1, but less than 5.0:1 0.45% Greater than or equal to 4.0:1, but less than 4.5:1 0.35% Less than 4.0:1 0.30%

Section 1.3 GAAP. Any accounting terms used in this Agreement that are not specifically defined herein shall have the meanings customarily given to them in accordance with GAAP as in effect on the date of this Agreement, except that references in Article 5 to such principles shall be deemed to refer to such principles as in effect on the date of the financial statements delivered pursuant thereto.

ARTICLE 2. THE LOANS.

Section 2.1 Revolving Loan A.

Each Lender having a Revolving Loan A Commitment, severally and not jointly, will, subject to the terms and conditions of this Agreement, make its Pro Rata Share of Revolving Loan A to Borrowers, in an aggregate amount not to exceed at any time such Lender's Revolving Loan A Commitment, at such times and in such amounts as shall be requested by Borrowers in compliance with Section 2.3. Borrowers may borrow, repay and reborrow Revolving Loan A on and after the Closing Date until the Termination Date of Revolving Loan A, subject to the terms and conditions of this Agreement.

Section 2.2 Revolving Loan B.

Each Lender having a Revolving Loan B Commitment, severally and not jointly, will, subject to the terms and conditions of this Agreement, make its Pro Rata Share of Revolving Loan B to Borrowers, in an aggregate amount not to exceed at any time such Lender's Revolving Loan B Commitment, at such times and in such amounts as shall be requested by Borrowers in compliance with Section 2.3. Borrowers may borrow, repay and reborrow Revolving Loan B on and after the Closing Date until the Termination Date of Revolving Loan B, subject to the terms and conditions of this Agreement.

Section 2.3 Loan Advances

(a) All advances of the Loans shall be effectuated at Omega's request either through wire transfer as directed by Omega or by receipt by Agent of a check drawn on an account of Omega maintained with Agent. Any request for advance by wire transfer may be transmitted to Agent at its Head Office via facsimile, provided Omega immediately notifies Agent by telephone of such transmission. All such requests for wire transfer advances shall be made to and received by Agent not later than 11:00 a.m. Cincinnati, Ohio time on the date on which such advance is requested to be made, and each such check or wire transfer request shall be deemed to be a request for an advance of the Loans on the date when received and processed by Agent. Each request for an advance of the Loans shall be made only by a duly authorized officer of Omega identified to Agent as such. Each request for an advance of the Loans must be in an amount not less than $1,000,000.

(b) On and after the Closing Date and prior to the Termination Date of Revolving Loan B, the amount of each advance made under this Agreement shall be allocated 86.67% to Revolving Loan A and 13.33% to Revolving Loan B. Thereafter, the amount of each advance under this Agreement shall be allocated 100% to Revolving Loan A. Agent shall promptly notify each Lender of its Pro Rata Share of each requested Loans advance and the date of such advance. On the borrowing date specified in such notice, each Lender shall make its share of the advance available at the Head Office of Agent for deposit to such account as Agent shall designate, no later than 1:00 p.m. Cincinnati time in Federal or other immediately available funds.

(c) On the Closing Date, as provided in Section 3.5 hereof, and not later than forty-five (45) days after each Computation Date (ninety (90) days in the case of a fiscal year-end Computation Date), Borrowers shall submit to Agent a Borrowing Base Certificate, setting forth the calculation of the Borrowing Base as of such Computation Date. Lenders shall have no obligation to fund any request for an advance of the Loans unless Agent shall have timely received and shall have approved such Borrowing Base Certificate.

Section 2.4 The Notes.

The absolute and unconditional, joint and several, obligation of Borrowers to repay to each Lender such Lender's Pro Rata Share of the principal of Revolving Loan A and the interest thereon shall be evidenced by a separate Revolving Loan

A Note and the amount of such Lender's Revolving Loan A Commitment, dated as of the Closing Date. The absolute and unconditional, joint and several, obligation of Borrowers to repay to each Lender such Lender's Pro Rata Share of the principal of Revolving Loan B and the interest thereon shall be evidenced by a separate Revolving Loan B Note in the amount of such Lender's Revolving Loan B Commitment, dated as of the Closing Date. All payments under the Notes shall be made to Agent at its Head Office, for the account of Lenders, and Agent shall allocate all payments received from Borrower among all Lenders in accordance with Section 2.8(b).

Section 2.5 Interest Payable on the Loans.

(a) Determination of Interest Rate For the Loans. The Interest Rate for the Loans shall be determined as follows:

(i) During the applicable LIBOR Period specified in a LIBOR Election, the principal balance of such portions of the Loans which are the subject of such LIBOR Election shall bear interest at the applicable LIBOR-Based Rate. The principal balance of such portions of the Loans other than the LIBOR Loans shall bear interest at the Prime Based Rate. The foregoing provisions of this clause (i) are subject to imposition of the Post-Default Rate as provided in Section 2.5(d).

(ii) On the Closing Date and from time to time as provided below, Borrowers may make a LIBOR Election in accordance with the following provisions of this clause (ii). Any LIBOR Election, in order to be effective, must be made by written notice, signed by a duly authorized officer of Omega identified to Agent as such, given to Agent and actually received by Agent, and must specify the portions of the Loans which are the subject thereof and the LIBOR Period applicable thereto. Any LIBOR Election shall become effective as of the first day of the calendar month first occurring not less than three Business Days after Agent's receipt of the LIBOR Election, and shall remain effective, as to each LIBOR Loan specified therein, until the end of the LIBOR Period applicable thereto (excluding the last day thereof). Other than with the consent of Agent, Borrowers may not have more than three LIBOR Loans outstanding at any time, and any LIBOR Election that would result in more than three LIBOR Loans being outstanding shall not be effective.

(iii) The Prime-Based Rate and the LIBOR-Base Rate shall be adjusted on each Interest Rate Adjustment Date, to be effective upon such change.

(iv) Notwithstanding any other provisions of this Section 2.5(a) to the contrary, (A) Borrowers may not make a LIBOR Election if, at any time, deposits in Dollars for the requested LIBOR Period are not available to Agent in the London interbank market, or (B) Borrowers may not make a LIBOR Election, and if a LIBOR Election is in effect with respect to LIBOR Loan, it shall

be terminated if, at any time, by reason of national or international financial, political or economic conditions or by reason of any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect, or the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive of such authority (whether or not having the force of law), including, without limitation, exchange controls, Agent reasonably determines that it is impracticable, unlawful or impossible for any Lender to maintain LIBOR Loans at the LIBOR-Based Rate.

(b) Interest Rate on Other Obligations. The outstanding amount of any Obligations other than the Loans shall bear interest at the applicable Interest Rate, subject to the imposition of Post-Default Rate as provided in Section 2.5(d).

(c) Interest Payments. Borrower shall pay to Agent, for the account of Lenders, (i) interest accrued through the date of payment on the outstanding principal amount of each LIBOR Loan in arrears on the last day of each LIBOR Period applicable thereto, and (ii) interest accrued through the date of payment on each Loan other than a LIBOR Loan monthly in arrears commencing on August 31, 2000 and continuing on the last day of each calendar quarter thereafter; provided, however, that if Borrowers elect, pursuant to this Section 2.5, to convert a portion of the Loan other than a LIBOR Loan to a LIBOR Loan, Borrowers shall pay all interest accrued but unpaid on the portion of the Loan being converted for the period commencing on the date of the last interest payment for such portion of the Loan to (but not including) the first day of the LIBOR Period for the LIBOR Loan into which such portion of the Loan was converted. Except as otherwise provided in this Section 2.5, Borrowers shall pay

to Agent, for the benefit of Lenders, interest accrued through the date of payment on all other Obligations immediately upon demand.

(d) Post-Default Rate. Upon the occurrence and during the continuance of any Event of Default, the outstanding principal and all accrued and unpaid interest, as well as any other Obligations due Lenders or Agent hereunder or under any Loan Document, shall bear interest at the Post-Default Rate from the date on which such Event of Default shall have occurred to the date on which such Event of Default shall have been waived or cured.

Section 2.6 Principal Repayments on the Loans.

(a) Repayments on the Loans. Borrowers shall have the right to repay the principal of the Loans in full or in part at any time and from time to time, without any penalty or premium except as provided in Section 2.7(a) hereof.

(b) Loan Overadvance. Subject to the provisions of Section 3.5 hereof, if at any time the amount of the Loans outstanding to Borrowers exceeds the Loan Limit, Borrowers shall be obligated to immediately repay the amount that exceeds the Loan Limit.

(c) Net Proceeds. If any Borrower shall at any time agree to a Disposition, Borrowers shall promptly notify Agent of such Disposition and shall repay the Loans in an amount equal to the aggregate Net Proceeds of such Disposition unless, pursuant to Section 3.5 and 8.4, additional Real Property Collateral is substituted for the Real Property Collateral that is the subject of the Disposition.

(d) Net Issuance Proceeds. If any Borrower shall make any public or private issuance of Indebtedness or equity (other than in connection with any dividend reinvestment program(s), the Investment Agreement, the Fleet Obligations or any other issuance of Indebtedness or equity of up to Fifty Million ($50,000,000) Dollars received prior to February 1, 2001 (provided that such Indebtedness by its terms matures later than December 31, 2002)), Borrowers shall promptly notify Agent of such issuance and, immediately upon receipt of such Net Issuance Proceeds, repay the Loans as follows: (i) if and to the extent that pursuant to the Fleet Obligations any Borrower is required to apply Net Issuance Proceeds to repay the Fleet Obligations and the Net Issuance Proceeds exceed the amount necessary to reduce the then outstanding Fleet Obligations to zero or (ii) the Fleet Obligations have been terminated not in connection with or as a result of replacement financing. If the Fleet Obligations are terminated in connection with or as a result of replacement financing (whether secured or unsecured), then any subsequent Net Issuance Proceeds shall be applied, on a pro rata basis (in accordance with the relative aggregate commitments of the lenders under the replacement financing and the aggregate commitments of Lenders under this Agreement), to repay the then outstanding obligations under the replacement financing and the Loans.

Section 2.7 Certain Fees.

(a) LIBOR Prepayment Fee. If (i) Borrowers fail to borrow a LIBOR Loan that is the subject of a LIBOR Election or (ii) Agent or Lenders receive or recover, whether by voluntary or mandatory prepayment, acceleration or otherwise, all or any part of a LIBOR Loan prior to the last day of the applicable LIBOR Period, then Borrowers shall pay to Agent, for the ratable benefit of Lenders, in addition to any other Obligations, a LIBOR prepayment fee in an amount equal to the "interest differential amount" as described below; provided that if the "interest differential amount" is a negative number, then there shall be no LIBOR prepayment fee. The "interest differential amount" shall be determined by (I) multiplying (A) the difference between the LIBOR Rate used in determining the then effective LIBOR-Based Rate for the applicable LIBOR Loan and the then current "bid side" reinvestment LIBOR Rate as of the date of determination by (B) the amount of the LIBOR Loan which Borrowers have prepaid or failed to borrow, and (II) multiplying the product determined in (I) above by a fraction, the numerator of which is the number of days remaining through the last day of the applicable LIBOR Period, and the denominator of which is 360.

(b) Unused Facility Fee. Borrowers shall pay to Agent, for the benefit of Lenders, the Unused Facility Fee, which shall commence to accrue on the Closing Date, in quarterly installments in arrears with the first installment being due on September 30, 2000 and subsequent installments due on the last day of each succeeding calendar quarter thereafter until the Termination Date for all of the Loans, at which time all accrued amounts of the Unused Facility Fee shall be immediately due and payable.

(c) Agency Fees. On or before the Closing Date and each anniversary of the Closing Date, Borrowers shall pay the Agency Fees to Agent, for the benefit of Agent and for the benefit of Lenders, in accordance with the definition of "Agency Fees".

Section 2.8 Payments and Computations.

(a) Time and Place of Payments. Notwithstanding anything in this Agreement or any of the other Loan Documents to the contrary, each payment

to be made by Borrowers to Agent or any Lender under this Agreement or any of the other Loan Documents, shall be made directly to Agent, at Agent's Head Office, not later than 12:00 noon Eastern Standard or Eastern Daylight Time, as applicable, in Cincinnati, Ohio, on the due date of each such payment in immediately available and freely transferable funds. Agent will promptly cause to be distributed to each Lender in immediately available and freely transferable funds such Lender's Pro Rata Share of each such payment received by Agent. In order to cause timely payment to be made to Agent of all Obligations as and when due, Borrowers hereby authorize and direct Agent, at Agent's option, to debit any account of any Borrower with Agent or to initiate an advance under the Loans (thereby increasing the principal balance of the Loans) when such Obligations become due.

(b) Application of Funds. Notwithstanding anything herein to the contrary, the funds received by Agent with respect to the Obligations shall be applied as follows:

(i) No Default. If the Notes have not been accelerated pursuant to Section 9.1 and if no Event of Default shall have occurred and be continuing at the time Agent receives such funds, in the following manner: (a) first, to the payment of all reasonable fees, charges and other sums (with the exception of principal and interest) due and payable to Agent or Lenders under the Notes, this Agreement or the other Loan Documents at such time; (b) second, if the payment is made on the Termination Date of Revolving Loan B, and such date is not also the Termination Date of Revolving Loan A, to the payment of all interest accrued on the principal of the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (c) third, if such payment is made on the Termination Date of Revolving Loan B, and such date is not also the Termination Date of Revolving Loan A, to the payment of all principal outstanding under the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (d) fourth, (A) 86.67% to the payment of all interest due and payable on the principal of the Revolving Loan A Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan A, and (B) 13.33% to the payment of all interest due and payable on the principal of the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (e) fifth, (I) 86.67% to the payment of the outstanding principal amount of the Revolving Loan A notes, in accordance with each Lender's Pro Rata Share of Revolving Loan A, and (II) 13.33% to the payment of the outstanding principal amount of the Revolving Loan B Notes, in accordance with each Lender's Pro Rata Share of Revolving Loan B; (f) sixth, to the other Obligations in such amounts and in such order and priority as Agent, in its sole discretion may determine; and (g) seventh, to Borrowers.

(ii) Default. If the Notes have been accelerated pursuant to Section 9.1, or if an Event of Default shall have occurred and be continuing at the time Agent receives such funds, in the following manner: (a) first, to the payment or reimbursement of Lenders and Agent for all costs, expenses, disbursements and losses which shall have been incurred or sustained by Lenders or Agent in or incidental to the collection of the Obligations or the exercise, protection or enforcement by Lenders and Agent of all or any of the rights, remedies, powers and privileges of Lenders and Agent under this Agreement, the Notes, or any of the other Loan Documents and in and towards the provision of adequate indemnity to Agent and any of Lenders against all taxes or Liens which by law shall have, or may have, priority over the rights of Agent or Lenders in and to such funds and (b) second, to the payment of all of the Obligations in accordance with Section 2.8(b)(i).

(c) Payments on Business Days. If any sum would (but for the provisions of this Section 2.8(c)) become due and payable to Agent or any Lender by Borrowers under any of the Loan Documents on any day which is not a Business Day, then such sum shall become due and payable on the Business Day next succeeding the day on which such sum would otherwise have become due and payable hereunder or thereunder, and interest payable to Agent or any Lender under this Agreement or any of the other Loan Documents shall continue to accrue and shall be adjusted by Agent accordingly.

(d) Computation of Interest. All computations of interest payable under this Agreement, the Notes or any of the other Loan Documents shall be computed by Agent on the basis of the actual principal amount outstanding on each day during the payment period and shall be calculated on the basis of the actual number of days elapsed during such period for which interest is being charged, predicated on a year consisting of three hundred sixty (360) days. The daily interest charge shall be one-three hundred sixtieth (1/360) of the annual interest amount. Each determination of any interest rate by Agent pursuant to this Agreement, any Note or any of the other Loan Documents shall be conclusive and binding on Borrowers in the absence of manifest error. Absent manifest error, a certificate or statement signed by an authorized officer of Agent shall

be conclusive evidence of the amount of the Obligations due and unpaid as of the date of such certificate or statement.

Section 2.9 Payments to be Free of Deductions.

Each payment to be made by Borrowers to Agent or any Lender under this Agreement, any Note or any of the other Loan Documents shall be made in accordance with Section 2.8, without set-off or counterclaim and free and clear of and without any deduction of any kind for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any political subdivision or any taxing or other authority therein, unless a Borrower is compelled by law to make any such deduction or withholding. In the event that any such obligation to deduct or withhold is imposed upon a Borrower with respect to any such payment payable by Borrowers to Agent or any Lender, (a) Borrowers shall be permitted to make the deduction or withholding required by

law in respect of the said payment, and (b) there shall become and be absolutely due and payable by Borrowers to Agent or such Lender on the date on which the said payment shall become due and payable, and Borrowers hereby promise to pay to Agent or such Lender on such date, such additional amount as shall be necessary to enable Agent or such Lender to receive the same net amount which Agent or such Lender would have received on such due date had no such obligation been imposed by law. Anything in this Section 2.9 to the contrary notwithstanding, the foregoing provisions of this Section 2.9 shall not apply in the case of any deductions or withholdings made in respect of taxes charged upon or by reference to the overall net income, profits or gains of Agent or any Lender.

Section 2.10 Permitted Uses of Loan Proceeds.

Borrowers represent, warrant and covenant to Agent and each Lender that all proceeds of the Loans shall be used by the Borrower solely for the purpose of repayment of existing Indebtedness for Borrowed Money of Borrowers (including the payments required under Section 5.1(i) of this Agreement), and for general corporate and working capital purposes (including without limitation those contemplated by Sections 8.2, 8.10 and 8.15 of this Agreement).

Section 2.11 Additional Costs, Etc.

If any Lender shall reasonably determine that any future applicable law, rule or regulation, or any change in any present law or in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of its obligations hereunder, to a level below that which such Lender could have achieved but for such adoption, change or compliance by any amount deemed by such Lender to be material and is not otherwise reflected in the interest and other charges payable by Borrowers hereunder, then Borrowers shall pay to such Lender upon written demand, setting forth a brief explanation of the amounts demanded, such amount or amounts, in addition to the amounts payable under the other provisions of this Agreement or the Notes, as will compensate such Lender for such reduction. Determinations by any Lender of the additional amount or amounts required to compensate such Lender in respect of the foregoing shall be conclusive in the absence of manifest error. In determining such amount or amounts, such Lender may use any reasonable averaging and attribution methods.

Section 2.12 Agent and Lender Statements.

A statement signed by an officer of any Lender setting forth any additional amount required to be paid by Borrowers to Agent or such Lender under Sections 2.9 or 2.11, and the computations made by Agent or such Lender to determine such additional amount or amounts, shall be submitted by Agent or such Lender to Borrowers in connection with each demand made at any time by Agent (and copies thereof delivered to each other Lender) or such Lender under either of such Sections. A claim by Agent or any Lender for all or any part of any additional amounts required to be paid by Borrowers under Sections 2.9 or 2.11 may be made

before or after any payment to which such claim relates. Each such statement shall, in the absence of manifest error, constitute conclusive evidence of the additional amount required to be paid to Agent or such Lender, provided it sets out in reasonable detail the reasons for such notice and the averaging and attribution methods used by Agent or such Lender to determine the amounts set forth in such notice.

ARTICLE 3. SECURITY.

Section 3.1 Security Interest.

To secure the due and punctual payment, performance and observance of the

Obligations, each Borrower hereby grants to, creates in favor of, and pledges and collaterally assigns to Agent, for the benefit of Lenders, a lien and security interest in and to all of said Borrower's Collateral. To further secure the due and punctual payment, performance and observance of the Obligations, each Borrower has executed and delivered Security Documents applicable to such Borrower's Collateral; and shall deliver to Agent, to the extent required herein or upon Agent's request in accordance with the terms of this Agreement, all Instruments, Documents and Chattel Paper in which said Borrower from time to time has an interest and included within the Collateral and such other documents as Agent may request to perfect a security interest in the Collateral.

Section 3.2 [RESERVED].

Section 3.3 Financing Statements; Additional Documents.

Each Borrower shall take all action necessary or as reasonably requested by Agent to continue as perfected the first lien and security interest in the Collateral, except for such Collateral in which a first lien can be perfected only by possession and such possession is not required by Agent. Such filings shall be in form and substance required by Agent, and Borrowers shall pay all costs of recording and filing financing statements (and any continuation or termination statements with respect thereto) and any other documents, titles, statements, assignments or the like reasonably required to create, maintain, preserve or perfect the liens or security interests granted under the Loan Documents, together with costs and expenses of any lien or UCC searches reasonably required by Agent in connection with the making of the Loan. At Agent's request, each Borrower shall execute and deliver to Agent, at any time and from time to time hereafter, all supplemental documentation that Agent may reasonably request to perfect, maintain, preserve or continue the security interest and liens granted Agent, for the benefit of Lenders, hereby and under any of the other Loan Documents, in form and substance acceptable to Agent, and pay the costs of preparing and recording or filing of the same. Each Borrower agrees that a carbon, photographic, or other reproduction of this Agreement, any Security Agreement or of a financing statement is sufficient as a financing statement. Except as otherwise provided in this Agreement, each Borrower, immediately on acquiring Collateral for which separate perfection is necessary or reasonably considered desirable by Agent, shall deliver to Agent any and all evidence of ownership of any such property and shall take all such action as may be reasonably necessary to perfect Agent's security interest in such property. Each Borrower shall perform all reasonable acts and execute or cause to be executed all documents as Agent reasonably deems necessary or desirable, to establish, perfect, record and maintain the security interest in the Intellectual Property included in the Collateral and the goodwill symbolized thereby (whether now existing or hereafter acquired).

Section 3.4 Accounts; Chattel Paper; Lease Agreements.

After the occurrence of an Event of Default and during the continuance thereof, Agent shall have the right at any time to notify any Person obligated to make payments to each Borrower with respect to Accounts, Chattel Paper and lease agreements included in the Collateral to make such payments directly to or at the direction of Agent, for the benefit of Lenders.

Section 3.5 Removal and Substitution of Real Property Collateral.

(a) Each Borrower may, upon written notice to Agent, request that any Property serving as Real Property Collateral hereunder be removed from serving as such and the Mortgage thereon released and terminated. So long as the removal of such Property from the Real Property Collateral will not cause a Default or Event of Default hereunder, cause the Aggregate Rent Ratio to be less than 1.25:1 or cause the outstanding principal balance of the Loans to exceed the Loan Limit, and so long as Agent shall consent to such removal (such consent not to be unreasonably withheld), Agent shall, upon receipt of such request, notify such Borrower of the acceptance of the same and deliver to said Borrower documentation sufficient to release and terminate the Mortgage on such Property.

(b) In the event that a Borrower requests that any Property serving as Real Property Collateral hereunder be removed from serving as such and the Mortgage thereon released and terminated, but such removal and release would cause a Default or Event of Default hereunder, cause the Aggregate Rent Ratio to be less than 1.25:1 or cause the outstanding principal balance of the Loans to exceed the Loan Limit, the requesting Borrower may substitute new Property, in accordance with Section 3.5(c), so that as a result of the removal and substitution transaction, no Default or Event of Default would exist nor would the Aggregate Rent Ratio be less than 1.25:1 nor would the outstanding principal balance of the Loans exceed the Loan Limit.

(c) Adding new Property to the Real Property Collateral, or substituting new Property for Property being removed from the Real Property Collateral, shall be subject to the Person owning the Property in question being a Subsidiary of Omega, such Person executing and delivering to Agent, if such Person is not already a Borrower, such documents and agreements as Agent may require to cause such Person to become a Borrower under the Loan Documents, and Omega and/or such Person (i) delivering to Agent a Compliance Certificate and a Borrowing Base Certificate showing, among other things, that as a result of such

transaction, no Default or Event of Default will exist nor will the outstanding principal balance of the Loans exceed the Loan Limit, (ii) delivering to Agent prior to the date of such addition or substitution all those items listed in and otherwise satisfying the conditions set forth in Section 5.1(e) and 5.2 hereof (regardless of the date set forth in said Section 5.1(e) and 5.2), and such other information and documents as have been requested by Agent with respect to the Property proposed to be included in the Real Property Collateral, in form and substance satisfactory to Agent, and (iii) paying all costs, fees and expenses as provided in Section 3.8. In no event shall any new Property be added to the Real Property Collateral or substituted for Property which is included in the Real Property Collateral if such addition or substitution (i) would cause the Aggregate Rent Ratio to be less than 1.25:1, or (ii) such Property would be excludable from Real Property Collateral pursuant to Section 3.5(d).

(d) With respect to any Property serving as Real Property Collateral, upon the occurrence of any one of the following events, such Property shall be deemed removed from the Real Property Collateral, and the EBITDA and EBITDAR thereof shall not be included in any calculation or determination under this Agreement:

(i) upon the occurrence and continuance for a period in excess of three (3) months of a default which relates to the failure to pay (other than through application of a security deposit) any monetary obligation under, or any termination of, any lease, master lease, management agreement, or other similar form of agreement or contract between such Borrower and the Operator for such Property;

(ii) upon the attachment to such Property of any Lien other than a Permitted Lien;

(iii) upon the occurrence of any damage or other casualty to, or the taking of, through eminent domain or otherwise, such Property;

(iv) upon Agent's inability, following reasonable efforts to do so, to perfect its security interest in such Property;

(v) any Borrower shall fail to provide any item with respect to such Property as required by Section 5.2 hereof, or any such item shall not be satisfactory in form and substance to Agent;

(vi) if the Rent Ratio for such Property shall be less than 1.25:1 as of any Computation Date, unless (A) if the Operator of the Facility at such Property is Advocat, Advocat's Operator Aggregate Rent Ratio is equal to or greater than .80:1 as of such Computation Date, or (B) if the Operator of the Facility at such Property is a Person other than Advocat, such Operator's Operator Aggregate Rent Ratio is equal to or greater than 1.25:1 as of such Computation Date; or

(vii) if, as of any Computation Date, the ratio between (A) the aggregate rental payments made to the Borrowers properly allocable to the Facilities under the lease, master lease, management agreement or similar agreement between any of the Borrowers and the Operators of the Facilities which comprise the Real Property Collateral for the four fiscal quarters ending on the date ninety days before such Computation Date, and (B) the sum of all interest paid or payable on the Obligations (excluding unamortized debt issuance costs) for the same four fiscal quarters (computed on an annualized basis if the Loans have not been in place for such four quarters) is less than 1.10 to 1.00; or

(viii) any Security Document shall cease to be in full force and effect or shall cease to give Agent the Liens purported to be created thereby in favor of Agent, for the benefit of Lenders (unless due to acts or omissions of Agent, such as failure to file continuation statements).

Such removal shall proceed in the same manner as a removal under Sections 3.5(a) and (b) above.

(e) If the outstanding principal balance of the Loans shall at any time exceed the Loan Limit, Agent shall so notify the Borrowers, and they shall, within twenty-four (24) hours thereafter, notify Agent that either (i) Borrowers shall immediately make a payment on the Loans, or (ii) the Borrowers shall within fifteen (15) days after Agent's notice add new Property to the Real Property Collateral in accordance with Section 3.5(c), such that the outstanding principal balance of the Loans will no longer exceed the Loan Limit, and pay the fees and expenses associated therewith as provided in Section 3.8; provided, however, that in connection with any addition of new Property, Borrowers shall have a reasonable time (not to exceed sixty (60) days after Agent's notice) to provide such items of information with respect to the new Property which cannot reasonably be provided within the fifteen day period.

(f) If the Aggregate Rent Ratio shall be less than 1.25:1 as of any Computation Date, the Borrowers shall within fifteen (15) days add new Property to the Real Property Collateral in accordance with Section 3.5(c) such that the Aggregate Rent Ratio is no longer less than 1.25:1; provided, however, that in connection with any addition of new Property, Borrowers shall have a reasonable time (not to exceed sixty (60) days after Agent's notice) to provide such items of information with respect to the new Property which cannot reasonably be provided within the fifteen day period.

Section 3.6 Between Agent and Lenders

As between Lenders and Agent, (a) Agent will hold all items of the Collateral at any time received under this Agreement in accordance with the terms hereof, and (b) by accepting the benefits of this Agreement, each Lender acknowledges and agrees that (1) the obligations of Agent as a holder of the Collateral and any interest therein and with respect to any disposition of any of the Collateral or any interest therein shall be only those obligations expressly set forth in this Agreement, and (2) subject to the provisions of Section 10.9 hereof, this Agreement may be enforced against any Borrower only by the action of Agent, and that no Lender shall have any right individually to seek to enforce this Agreement against any Borrower, it being understood and agreed that such rights and remedies may be exercised by Agent, for the benefit of Lenders, upon the terms and conditions of this Agreement. As between Borrowers and Agent, Agent shall be conclusively presumed to be acting as agent for Lenders with full and valid authority to so act or refrain from acting.

Section 3.7 Release of Collateral.

Upon Borrowers' full performance of their Obligations, including, without limitation, payment in full of the Notes, and termination of Borrowers' right to borrow under this Agreement, Agent shall, upon payment of fees and expenses as provided in Section 3.8, release its security interest in all Collateral. Upon any sale of Collateral permitted pursuant to this Agreement or the Security Documents, Agent shall, upon payment of fees and expenses as provided in Section 3.8, release its interest in the portion of the Collateral being sold, without prejudice to the continuation of its lien on any other Collateral.

Section 3.8 Payment of Expenses.

In connection with any transaction pursuant to this Article 3, Borrowers shall pay all of Agent's fees, costs and expenses in connection therewith, including, without limitation, fees and costs of Agent's counsel and recording fees and costs.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES.

Borrowers, and, as applicable, each Borrower, represents and warrants to Agent and each Lender as follows (with the making of each advance on the Loans after the date of this Agreement being deemed to constitute a representation and warranty that the matters specified in this Article 4 are true and correct on and as of the date of such advance unless such representation and warranty indicates that it is being made as of a specific date):

Section 4.1 Organization.

(a) Each Borrower is duly organized and validly existing under the laws of the state of its organization, is qualified and licensed in each jurisdiction wherein the character of the property owned or held under lease by it, or the nature of its business, makes such qualification necessary or advisable, and has the power to own its assets and to transact the business in which it is presently engaged and in which it proposes to be engaged. Schedule 4.1 hereto accurately and completely lists, as to each Borrower: (i) its state of incorporation and those states in which it is qualified to do business, (ii) the classes and number of authorized and outstanding shares of each Borrower's capital stock, and (iii) the business in which each Borrower is engaged. All of the foregoing shares or other equity interests that are issued and outstanding have been duly and validly issued and are fully paid and nonassessable.

(b) Each Borrower is in good standing in its state of organization and in each state in which it is qualified to do business. There are no jurisdictions other than as set forth on Schedule 4.1 hereto in which the character of the properties owned or proposed to be owned by each Borrower in which the transaction of the business of said Borrower as now conducted or as proposed to be conducted requires or will require that Borrower to qualify to do business and as to which failure so to qualify could have a Material Adverse Effect on said Borrower.

(c) Each Borrower other than Omega is wholly owned by Omega, either directly or indirectly though one or more wholly owned entities.

Section 4.2 Power, Authority, Consents.

Each Borrower has the power to execute, deliver and perform the Loan Documents

to be executed by it, and has the power to borrow hereunder and has taken all necessary corporate action to authorize the borrowing hereunder on the terms and conditions of this Agreement. Each Borrower has taken all necessary action, corporate or otherwise, to authorize the execution, delivery and performance of the Loan Documents to be executed by it. Except as set forth in Schedule 4.2 no

consent or approval of any Person (including, without limitation, any stockholder of a Borrower), no consent or approval of any lender, landlord or mortgagee, no waiver of any Lien or right of distraint or other similar right and no consent, license, certificate of need, approval, authorization or declaration of any governmental authority, bureau or agency, is or will be required in connection with the execution, delivery or performance by the Borrowers of their respective obligations under the Loan Documents, or the validity or enforcement thereof.

Section 4.3 No Violation of Law or Agreements.

The execution and delivery by each Borrower of each Loan Document to which it is a party and performance by it hereunder and thereunder, will not violate any provision of law and will not conflict with or result in a breach of any order, writ, injunction, ordinance, resolution, decree, or other similar document or instrument of any court or governmental authority, bureau or agency, domestic or foreign, or any certificate of incorporation or by-laws of said Borrower, or create (with or without the giving of notice or lapse of time, or both) a default under or breach of any agreement, bond, note or indenture to which the Borrower is a party, or by which said Borrower is bound or any of their respective properties or assets is affected, except for such defaults and breaches which in the aggregate could not have a Material Adverse Effect on the Borrower, or result in the imposition of any Lien of any nature whatsoever upon any of the properties or assets owned by or used in connection with the business of said Borrower.

Section 4.4 Due Execution, Validity, Enforceability.

This Agreement and each other Loan Document to which a Borrower is a party has been duly executed and delivered by the Borrower in question and constitutes the valid and legally binding obligation thereof, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally and except that the remedy of specific performance and other equitable remedies are subject to judicial discretion.

Section 4.5 Title to Properties; Certificate of Need.

Each Borrower has good and marketable title in fee simple to all its Real Property Collateral, except for such defects in title as could not, individually or in the aggregate, have a Material Adverse Effect. To the best of the Borrowers' knowledge, each Operator has a valid Certificate of Need for each of such Operator's Facilities which are included in the Real Property Collateral except where a Certificate of Need is not required under the laws of the state or other jurisdiction in which the Facility is located.

Section 4.6 Judgments, Actions, Proceedings.

Except as set forth on Schedule 4.6 hereto, there are no outstanding judgments, actions or proceedings, including, without limitation, any Environmental Proceeding, pending before any court or governmental authority, bureau or agency, with respect to or, to the best of Borrowers' knowledge, threatened against or affecting any Borrower involving, which would have a Material Adverse Effect on such Borrower, nor, to the best of Borrowers' knowledge, is there any reasonable basis for the institution of any such action or proceeding that is probable of assertion, nor are there any such actions or proceedings in which any Borrower is a plaintiff or complainant.

Section 4.7 No Defaults, Compliance With Laws.

Except as set forth on Schedule 4.7 hereto, no Borrower is in default under any agreement, ordinance, resolution, decree, bond, note, indenture, order or judgment to which it is a party or by which it is bound, or any other agreement or other instrument by which any of the properties or assets owned by it or used in the conduct of its business is affected, which default could have a Material Adverse Effect on said Borrower. Each Borrower has complied and is in compliance in all respects with all applicable laws, ordinances and regulations, resolutions, ordinances, decrees and other similar documents and instruments of all courts and governmental authorities, bureaus and agencies, domestic and foreign, including, without limitation, all applicable provisions of the Americans with Disabilities Act (42 U.S.C. ss.12101-12213) and the regulations issued thereunder and all applicable Environmental Laws and Regulations, non-compliance with which could have a Material Adverse Effect on said Borrower. No event has occurred and is continuing, and no condition exists, which constitutes a default or an event of default.

Section 4.8 Burdensome Documents.

Except as set forth on Schedule 4.8 hereto, no Borrower is a party to or bound by, nor are any of the properties or assets owned by any Borrower used in the conduct of its respective businesses affected by, any agreement, ordinance, resolution, decree, bond, note, indenture, order or judgment, including, without limitation, any of the foregoing relating to any Environmental Liability, that materially and adversely affects its businesses, assets or conditions, financial or otherwise.

Section 4.9 Financial Statements and Information.

(a) The financial statements delivered by Omega to Agent in connection with this transaction and in preparation for the closing thereof (the "Current Financial Statements") are complete and present fairly the consolidated financial position of Omega as of the date thereof, and have been prepared in accordance with GAAP. To the best knowledge of Borrowers and except as set forth on Schedule 4.9(a), Borrowers do not have any material obligation, liability or commitment, direct or contingent (including, without limitation, any Environmental Liability), that is not reflected in the Current Financial Statements which would be required to be so reflected in accordance with GAAP. There has been no material adverse change in the financial position or operations of any of Borrowers since the date of the latest balance sheet included in the Current Financial Statements (the "Latest Balance Sheet"), and, since the date thereof, there has been no adverse development in the business or operations or prospects of any Borrower which, individually or in the aggregate might reasonably expect it to have a Material Adverse Effect thereon. Borrowers' fiscal years are the twelve-month period ending on December 31 in each year.

(b) The Projections have been prepared on the basis of the assumptions accompanying them and reflect as of the date thereof Omega's good faith projections, after reasonable analysis, of the matters set forth therein, based on such assumptions.

(c) To the best of Borrowers' knowledge (based solely upon the financial statements provided by the relevant Operators to Borrowers and without independent investigation), the information concerning the EBITDAR of each Property included in the Real Property Collateral which has been provided by Borrowers to Agent is accurate and complete.

Section 4.10 Tax Returns.

Each Borrower has filed all federal, state and local tax returns required to be filed by it and has not failed to pay any taxes, or interest and penalties relating thereto, on or before the due dates thereof. Except to the extent that reserves therefor are reflected in the Financial Statements: (i) there are no material federal, state or local tax liabilities of any Borrower, due or to become due for any tax year ended on or prior to the date of the Latest Balance Sheet relating thereto, whether incurred in respect of or measured by the income of such entity, that are not properly reflected in the Latest Balance Sheet, and (ii) there are no material claims pending or, to the knowledge of each Borrower, proposed or threatened against said Borrower for past federal, state or local taxes, except those, if any, as to which proper reserves are reflected in the Financial Statements.

Section 4.11 Intangible Assets.

Each Borrower possesses all patents, trademarks, service marks, trade names, and copyrights, and rights with respect to the foregoing, necessary to conduct its business as now conducted and as proposed to be conducted, without any conflict with the patents, trademarks, service marks, trade names, and copyrights and rights with respect to the foregoing, of any other Person.

Section 4.12 Regulation U.

No part of the proceeds received by the Borrowers from the Loans will be used directly or indirectly for: (a) any purpose other than as set forth in Section 2.10 hereof, or (b) the purpose of purchasing or carrying, or for payment in full or in part of Indebtedness that was incurred for the purposes of purchasing or carrying, any "margin stock", as such term is defined in ss.221.3 of Regulation U of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II, Part 221.

Section 4.13 Full Disclosure.

None of the Financial Statements nor any certificate, opinion, or any other statement made or furnished in writing to Agent or any Lender by or on behalf of the Borrowers in connection with this Agreement or the transactions contemplated herein, contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading, as of the date such statement was made. There is no fact known to the Borrower that has, or would in the now foreseeable future have, a Material Adverse Effect on the Borrowers, which fact has not been set forth herein, in the Financial Statements or any certificate, opinion or other written statement so made or furnished to Agent.

Section 4.14 Licenses and Approvals.

(a) Each Borrower has all necessary licenses, permits and governmental authorizations, including, without limitation, licenses, permits and authorizations arising under or relating to Environmental Laws and Regulations, to own and operate its properties and to carry on its business as now conducted, the absence of which would have a Material Adverse Effect on the Borrowers taken as a whole.

(b) To the best knowledge of each Borrower, other than as set forth on Schedule 4.14 hereto, no violation exists of any applicable law pertaining to the ownership or operation of any Facility constituting the Real Property Collateral that would have a reasonable likelihood of leading to revocation of any license necessary for the operation thereof.

Section 4.15 ERISA.

(a) Except as set forth on Schedule 4.15 hereto, no Employee Benefit Plan is maintained or has ever been maintained by any Borrower or any ERISA Affiliate, nor has any Borrower or any ERISA Affiliate ever contributed to a Multiemployer Plan.

(b) There are no agreements which will provide payments to any officer, employee, shareholder or highly compensated individual which will be "parachute payments" under 280G of the Code that are nondeductible to any Borrower and which will be subject to tax under Section 4999 of the Code which could have a Material Adverse Effect on the Borrowers taken as a whole.

Section 4.16 REIT Status.

Omega currently has REIT Status and has maintained such status on a continuous basis since its formation. None of Omega's Subsidiaries currently has REIT Status but each is designated as a qualified REIT Subsidiary.

Section 4.17 General Collateral Representation.

(a) Each Borrower is the sole owner of and has good and marketable title to its Collateral, free from all Liens in favor of any Person other than Agent, for the benefit of Lenders, and except Permitted Liens, and has full right and power to grant Agent a security interest therein. All information furnished to Agent concerning the Collateral is and will be complete, accurate and correct in all material respects when furnished.

(b) No security agreement, financing statement, equivalent security or Lien instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office, except such as may have been filed (i) by any Borrower in favor of Agent, for the benefit of Lenders, pursuant to this Agreement, or (ii) in respect of the items of Collateral subject to the Permitted Liens.

(c) The provisions of this Agreement and, when executed, the Security Agreements, will create in favor of Agent, for the benefit of Lenders, a valid and continuing lien on, and, subject to the Permitted Liens, first security interest in, the Collateral under Article 9 of the UCC. Financing statements have been or will be, within thirty (30) days following the execution hereof, duly executed on behalf of each Borrower, and, when such financing statements are duly filed in the filing offices listed on Schedule 4.17, and the requisite filing fees are paid, such filings will be sufficient to perfect security interests in such of the Collateral described in such financing statements as can be perfected by filing, which perfected security interests will, subject to the Permitted Liens, be prior to all other Liens in favor of others and rights of others, enforceable as such as against creditors of and purchasers from each Borrower.

(d) No Person now having possession or control of any of the Collateral consisting of Inventory or Equipment included within the Collateral has issued, in receipt therefor, a negotiable bill of lading, warehouse receipt or other document of title.

(e) The information concerning the master leases, facility leases, subleases and all other interests held in the Real Property Collateral by any Operator, as set forth in Schedule 4.17(e), truly and accurately sets forth the status of said master leases, facility leases, subleases and all other interests held in the Real Property Collateral by the Operators thereof, and the relationship between the Borrower owning such Real Property Collateral and the Operator thereof with respect thereto.

ARTICLE 5. CONDITIONS TO THE LOANS.

Section 5.1 General Conditions Precedent.

The obligation of Lenders to make the Loans or any portion thereof shall be subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions precedent:

(a) Certified Copies of Charter Documents and Bylaws. Agent shall have received (i) a copy, certified by the Secretary or an Assistant Secretary of each Borrower to be true and complete on and as of the Closing Date, of the charter or other organization documents and by-laws of each Borrower as in effect on the Closing Date (together with any amendments thereto); and (ii) the charter or other organization documents of each Borrower certified by the applicable Secretary of State.

(b) Proof of Corporate Authority. Agent shall have received copies, certified by the Secretary or an Assistant Secretary of Borrower to be true and complete on and as of the Closing Date, of records of all action taken by each Borrower to authorize (i) the execution and delivery of this Agreement and the other Loan Documents to which it is or is to become a party as contemplated or required by this Agreement: (ii) each Borrower's performance of all of its obligations under the Loan Documents; and (iii) the making by Borrowers of the borrowings contemplated hereby. Provided that such a document or its equivalent is available in the applicable jurisdiction of organization, Agent shall have received from the applicable Secretary of State a Certificate of Good Standing of recent date certifying the existence and good standing of each Borrower under the laws of the applicable state of incorporation and its good standing in each state where each Borrower, as applicable, is required to qualify to conduct business.

(c) Closing Certificate. Agent shall have received a certificate, dated as of the Closing Date, signed by a duly authorized officer of each Borrower and (a) giving the name and bearing a specimen signature of each individual who shall be authorized (i) to sign, in the name and on behalf of each Borrower, each of the Loan Documents to which said Borrower is or is to become a party, and (ii) to give notices and to take other action on behalf of said Borrower under the Loan Documents, and (b) certifying that each of the representations and warranties made by or on behalf of any Borrower are true and correct on and as of the Closing Date, and that no Default or Event of Default exists on and as of the Closing Date.

(d) Loan Documents Etc. Each of the Loan Documents to be executed and delivered as of the Closing Date, including, without limitation, the Notes and the Security Agreements, shall have been duly and properly authorized and executed and delivered by the parties thereto and shall be in full force and effect on and as of the Closing Date.

(e) Real Property Collateral.

(i) Agent shall have received a Mortgage for each Property included in the Real Property Collateral, duly executed and delivered by the appropriate Borrower in recordable form together with such financing statements as may be needed in order to perfect the security interests granted by such Mortgage and any fixtures and other property therein described which may be subject to the UCC, in each case appropriately completed and duly executed and in proper form for filing in all offices in which required.

(ii) With respect to each Property covered by a Mortgage, Agent shall have received an ALTA Loan Policy Form B-1970 (or such other form that may be acceptable to Agent) issued by a title insurance company satisfactory to Agent, insuring the validity and priority of the Liens created under such Mortgage for and in amounts satisfactory to Agent, with all standard and general exceptions deleted and endorsed over so as to afford full "extended form coverage" subject only to such exceptions as are satisfactory to Agent and including such endorsements as Agent may require, including, without limitation, a "Revolving Credit Endorsement" and a "Tie-in Endorsement".

(iii) Borrowers shall have paid the applicable title insurance company all expenses and premiums of issuing the title insurance policies and endorsements described above. In addition, Borrowers shall have paid to the applicable title insurance company or Agent an amount equal to all mortgage and mortgage recording taxes, intangible taxes, stamp taxes and other taxes payable in connection with the execution and delivery of the Mortgages and the recording of the Mortgages in the appropriate offices.

(f) Insurance. Agent shall have received copies of certificates of insurance executed by each insurer or its authorized agent evidencing the insurance required to be maintained by Borrowers pursuant to Section 7.8.

(g) Legality of Transactions. No change in applicable law shall have occurred as a consequence of which it shall have become and continue

to be unlawful (i) for Agent or any Lender to perform any of its agreements or obligations under any of the Loan Documents to which it is a party on the Closing Date; or (ii) for any Borrower to perform any of its agreements or obligations under any of the Loan Documents to which it is a party on the Closing Date.

(h) Closing Fee. Borrowers shall have paid the Closing Fee to Agent, for the benefit of Lenders.

(i) Payment of Indebtedness. Simultaneous with the closing of the Loans, Borrowers shall pay in full all of any Borrower's obligations under (1) the Loan Agreement dated March 31, 1999, as amended, between Omega and Provident, and (2) the Loan and Security Agreement, as amended, dated December 30, 1994 between Provident and Sterling Acquisition Corp.

(j) Interest Rate Protection. Borrowers shall provide evidence satisfactory to Agent that they have obtained the Interest Rate Protection.

(k) Consents. Agent shall have received evidence satisfactory to it that all waivers, consents, approvals and authorizations identified in Schedule 4.2 hereto have been obtained, in form and substance satisfactory to Agent.

(l) Performance, Etc. Each Borrower shall have duly and properly performed, complied with and observed each of its covenants, agreements and obligations contained in each of the Loan Documents executed by it as of the Closing Date, and no condition shall exist as of the Closing Date which constitutes a Default or an Event of Default.

(m) Proceedings and Documents. All corporate, governmental and other proceedings in connection with the transactions contemplated by this Agreement, each of the other Loan Documents, and all instruments and documents incidental thereto shall be in form and substance satisfactory to Agent and Lenders, and Agent shall have received all such counterpart originals or certified or other copies of all such instruments and documents as Agent and each Lender shall have requested.

(n) Compliance with Laws. The borrowings made under this Agreement are and shall be in compliance with the requirements of all applicable laws, regulations, rules and orders, including without limitation, the requirements imposed by the Board of Governors of the Federal Reserve System under Regulations U, G and X, and by the SEC.

(o) Borrowing Base Certificate. Agent shall have received the initial Borrowing Base Certificate, in form and content satisfactory to Agent.

(p) Actions to Perfect Liens. Agent shall have received evidence in form and substance satisfactory to it that all filings, recordings, registrations and other actions, including, without limitation, the filing of duly executed financing statements, necessary or, in the opinion of Agent, desirable to perfect the Liens created by the Security Documents shall have been completed.

(q) Legal Opinion. Agent and Lenders shall have received a written legal opinion, addressed to Agent and each Lender and dated as of the Closing Date, from legal counsel for Borrowers, in form and substance satisfactory to Agent.

(r) Legal Fees. Borrowers shall have reimbursed Agent for all reasonable fees and disbursements of legal counsel to Provident which shall have been incurred by Provident through the Closing Date in connection with the preparation, negotiation, review, execution and delivery of the Loan Documents and the handling of any other matters incidental thereto.

(s) Results of Investigations. The results of Agent's and each Lender's and their respective counsel's investigations concerning the Borrowers and the Collateral, including without limitation, insurance review, environmental review, lien search review, third party consent and approval review, and review of leases shall be reasonably satisfactory to Agent, the Lenders and their respective counsel.

(t) Non-Permitted Liens. Agent shall have received evidence satisfactory to it that all Liens on the Collateral which are not Permitted Liens have been released.

(u) Changes: None Adverse. From the date of the Current Financial Statements referred to in Section 4.9 to the Closing Date, no changes shall have occurred in the assets, liabilities, financial condition, business, operations or prospects of the Borrowers which, individually or in the aggregate, are materially adverse thereto.

(v) Financial Statements. Agent shall have received the Current Financial Statements referred to in Section 4.9, certified by an officer of Omega, and shall have been satisfied that such Current Financial Statements accurately reflect the consolidated financial status and condition of Omega.

(w) Fleet Waiver. Agent shall have received from Fleet Bank, N.A. (in its capacity as agent under the loan agreement evidencing the Fleet Obligations) a waiver or other writing in form and substance satisfactory to Agent with respect to Section 2.6(e) (Net Issuance Proceeds) and Section 7.12 (Use of Cash) of the Fleet Loan Agreement.

Section 5.2 Certain Post-Closing Real Property Collateral Matters.

After the Closing Date, Borrowers shall, at Borrowers' expense (except that, in the case of the Appraisals referred to below, Lenders shall pay 50% of the cost of any such Appraisals requested by Lenders other than Appraisals for Elliott Nursing and Rehabilitation Center, Laurel Nursing and Rehabilitation Center and Lynwood Nursing Home the cost of which shall be completely at Borrower's expense), provide the following with respect to any or all of the Properties included in the Real Property Collateral, within 90 days after the request of Agent, unless otherwise specified:

(a) a recent Appraisal;

(b) a survey of recent date in such form and depicting such matters as may be required by Agent and, to the extent not addressed in the foregoing survey, a flood plain certification in form and substance satisfactory to Agent, and also evidence that the appropriate Borrower has, if applicable, obtained flood insurance in form and substance satisfactory to Agent;

(c) an environmental survey and assessment in form and substance satisfactory to Agent, and the conditions disclosed in such survey and assessment shall be satisfactory to Agent; and

(d) Agent shall have received, not later than August 31, 2000 (i) estoppel certificates from all tenants of all Properties included in the Real Property Collateral, in form and substance satisfactory to Agent.

Section 5.3 Further Conditions Precedent to Loans.

The obligation of Lenders to make any advance on the Loans shall be subject to the satisfaction, prior thereto or concurrently therewith, of the conditions precedent set forth in Section 5.1 and, as applicable, Section 5.2, and each of the following conditions precedent:

(a) Legality of Transactions. It shall not be unlawful (a) for any Lender or Agent to perform any of its agreements or obligations under any of the Loan Documents to which such Person is a party on the date on which such Loan is to be made or (b) for any Borrower to perform any of its material agreements or obligations under any of the Loan Documents.

(b) Representations and Warranties. Each of the representations and warranties made by or on behalf of any Borrower to Lenders or Agent in this Agreement or any other Loan Document (a) shall be true and correct in all material respects when made and (b) shall, for all purposes of this Agreement, be deemed to be repeated on and as of the date of Borrowers' request for such Loan and shall be true and correct in all material respects as of such date.

(c) No Default. No event shall have occurred on or prior to such date and be continuing on such date, and no condition shall exist on such date, which constitutes a Default or Event of Default.

(d) Maximum Credit. The making of the advance shall not result in the outstanding balance of the Loans exceeding the Loan Limit.

ARTICLE 6. DELIVERY OF FINANCIAL REPORTS, DOCUMENTS AND OTHER INFORMATION

Until termination of the Loan Commitments, payment in full of the Notes and full and complete performance of all other Obligations arising hereunder, Borrowers shall deliver to Agent:

Section 6.1 Annual Financial Statements.

Annually, as soon as available, but in any event within ninety (90) days after the last day of each of its fiscal years, a consolidated and consolidating balance sheet of Omega and its Subsidiaries as at such last day of the fiscal year, and consolidated and consolidating statements of income and retained earnings and statements of Cash Flow, for such fiscal year, each prepared in accordance with GAAP consistently applied, in reasonable detail, and, as to the consolidated statements, certified without qualification by Ernst & Young or another nationally recognized independent public accounting firm or by any other certified public accounting firm satisfactory to Agent, and certified, as to the consolidating statements, by the chief financial officer of Omega, as fairly presenting the financial position and results of operations of Omega and its Subsidiaries as at and for the year ending on its date and as having been prepared in accordance with GAAP; provided, however, Omega may satisfy its obligations to deliver the consolidated financial statements described in this Section 6.1 by furnishing to Agent a copy of its annual report on Form 10-K in respect of such fiscal year together with the financial statements required to

be attached thereto, provided Omega is required to file such annual report on Form 10-K with the Securities and Exchange Commission and such filing is actually made.

Section 6.2 Quarterly Financial Statements.

As soon as available, but in any event within forty-five (45) days after the end of each of Omega's fiscal quarters, a consolidated and consolidating balance sheet of Omega and its Subsidiaries as of the last day of such quarter and consolidated and consolidating statements of income and retained earnings and statements of Cash Flow, for such quarter, and on a comparative basis figures for the corresponding period of the immediately preceding fiscal year, all in reasonable detail, each such statement to be certified in a certificate of the chief financial officer of Omega as accurately presenting the financial position and the results of operations of Omega and its Subsidiaries as at its date and for such quarter and as having been prepared in accordance with GAAP (subject to year-end audit adjustments); provided, however, Omega may satisfy its obligations to deliver the consolidated financial statements described in this Section 6.2 by furnishing to Agent a copy of its quarterly report on Form 10-Q in respect of such fiscal quarter together with the financial statements required to be attached thereto, provided Omega is required to file such quarterly report on Form 10-Q with the Securities and Exchange Commission and such filing is actually made.

Section 6.3 Compliance Information.

Prior to taking any action pursuant to Section 3.5 hereof, promptly after receipt of written request therefore, and in any event not later than forty-five (45) days after the end of each of Omega's fiscal quarters (other than the fourth quarter) or ninety days after the end of each of Omega's fiscal year, Borrowers shall submit a Compliance Certificate to Agent. Promptly after a written request therefor, such other financial data or information evidencing compliance with the requirements of this Agreement, the Notes and the other Loan Documents, as Agent may reasonably request from time to time. Borrowers shall submit to Agent a Compliance Certificate upon the acquisition of a Facility pursuant to Section 8.2, which acquisition exceeds ten percent (10%) of the then value of the Health Care Assets.

Section 6.4 Certificate of Accountants.

At the same time as it delivers the financial statements required under the provisions of Section 6.1 hereof, a copy of any certificate prepared by the Accountants and required by Section 5.5 of the loan agreement evidencing the Fleet Obligations.

Section 6.5 Business Plan and Budget.

Not later than January 31st in each fiscal year, copies of Omega's business plan and budget for such fiscal year (together with a copy in writing of the assumptions on which such business plan and budget were based), each prepared by Omega's chief financial officer and illustrating the projected income statements, balance sheets and statements of changes in cash flow on a consolidated basis.

Section 6.6 Operator Reports.

Such information regarding the Operators as Agent may from time to time reasonably request.

Section 6.7 Accountants' Reports.

Promptly upon receipt thereof, copies of all other reports submitted to Omega by its Accountants in connection with any annual or interim audit or review of the books of Omega or its Subsidiaries made by such Accountants.

Section 6.8 Copies of Documents.

Promptly upon their becoming available, copies of any: (i) financial statements, non-routine reports, notices (other than routine correspondence), requests for waivers and proxy statements, in each case, delivered by Omega or any of its Subsidiaries to any of their respective existing lending institutions or creditors; (ii) correspondence or notices received by Omega from any federal, state or local governmental authority that regulates the operations of Omega or any of its Subsidiaries, relating to an actual or threatened change or development that would be materially adverse to Omega or any Subsidiary; (iii) registration statements and any amendments and supplements thereto, and any regular and periodic reports, if any, filed by Omega or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any or all of the functions of the said Commission; (iv) letters of comment or correspondence sent to Omega or any of its Subsidiaries by any such securities exchange or such Commission in relation to Omega or any of its Subsidiaries and its affairs; (v) written reports submitted by Omega or any of its Subsidiaries to its Accountants in connection with any annual or interim audit of the books of Omega or its Subsidiaries made by such accountants; and (vi) any appraisals and environmental surveys received

by any Borrower with respect to the Real Property Collateral during the term of this Agreement.

Section 6.9 Notices of Defaults.

Promptly, notice of the occurrence of any Default or Event of Default, or any event that would constitute or cause a Material Adverse Effect in the condition, financial or otherwise, or the operations of Omega and its Subsidiaries on a consolidated basis.

Section 6.10 ERISA Notices and Requests.

(a) Concurrently with such filing, a copy of each Form 5500 that is filed with respect to each Plan with the IRS; and

(b) Promptly, upon their becoming available, copies of: (i) all correspondence with the PBGC, the Secretary of Labor or any representative of the IRS with respect to any Plan, relating to an actual or threatened change or development that would be materially adverse to Omega or its Subsidiaries; (ii) all actuarial valuations received by any Borrower with respect to any Plan; and (iii) any notices of Plan termination filed by any Plan Administrator (as those terms are used in ERISA) with the PBGC and of any notices from the PBGC to any Borrower with respect to the intent of the PBGC to institute involuntary termination proceedings.

Section 6.11 Notice of Operator Insolvency.

Promptly, notice that any Operator has made an assignment for the benefit of creditors, filed or had filed against it a petition in bankruptcy, been adjudicated insolvent, petitioned or applied to any tribunal for the appointment of a receiver, custodian or trustee for such Operator or a substantial part of its assets, or commenced any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction.

Section 6.12 Additional Information.

Such other material additional information regarding the business, affairs and condition of Borrowers as Agent may from time to time reasonably request, including, without limitation, quarterly schedules, in form and substance satisfactory to Agent, with respect to Omega on a consolidated basis, of recorded liabilities, unfunded commitments, contingent liabilities and other similar material items.

ARTICLE 7. AFFIRMATIVE COVENANTS.

Until the termination of the Loan Commitments, payment in full of the Notes and full and complete performance of all other Obligations arising hereunder, each Borrower, and, as applicable, each other Borrower shall:

Section 7.1 Books and Records.

Keep proper books of record and account in a manner reasonably satisfactory to the Agent in which full and true entries shall be made of all dealings or transactions in relation to its business and activities.

Section 7.2 Inspections and Audits.

Permit Agent to make or cause to be made (prior to an Event of Default, at Lender's expense and after the occurrence of and during the continuance of an Event of Default, at Borrowers' expense), inspections and audits of any books, records and papers of any Borrower and to make extracts therefrom and copies thereof, or to make appraisals, inspections and examinations of any properties and facilities of any Borrower on reasonable notice, at all such reasonable times and as often as Agent may reasonably require, in order to assure that each Borrower is and will be in compliance with their obligations under the Loan Documents.

Section 7.3 Maintenance and Repairs.

Cause to be maintained in good repair, working order and condition, subject to normal wear and tear, all material properties (including, but not limited to, the Real Property Collateral) and assets from time to time owned by any Borrower and used in or necessary for the operation of its businesses, and make or cause to be made all reasonable repairs, replacements, additions and improvements thereto.

Section 7.4 Continuance of Business.

Do, or cause to be done, all things reasonably necessary to preserve and keep in full force and effect the corporate existence of each Borrower and all permits, rights and privileges necessary for the proper conduct of its business, and continue to engage in the same line of business and comply in all material respects with all applicable laws, regulations and orders.

Section 7.5 Copies of Corporate Documents.

Subject to the prohibitions set forth in Article 8 hereof, promptly deliver to the Agent copies of any amendments or modifications to the certificate of incorporation and by-laws of each Borrower, certified with respect to the certificate of incorporation by the Secretary of State of its state of incorporation and, with respect to the by-laws, by the secretary or assistant secretary of such corporation.

Section 7.6 Perform Obligations.

Pay and discharge all of the obligations and liabilities of each Borrower, including, without limitation, all taxes, assessments and governmental charges upon its income and properties when due, unless and to the extent only that such obligations, liabilities, taxes, assessments and governmental charges shall be contested in good faith and by appropriate proceedings and that, to the extent required by generally accepted accounting principles then in effect, proper and adequate book reserves relating thereto are established by such Borrower, and then only to the extent that a bond is filed in cases where the filing of a bond is necessary to avoid the creation of a Lien against any of its properties.

Section 7.7 Notice of Litigation.

Promptly notify Agent in writing of any litigation, legal proceeding or dispute, other than disputes in the ordinary course of business or, whether or not in the ordinary course of business, involving amounts in excess of Five Million ($5,000,000) Dollars, affecting any Borrower, whether or not fully covered by insurance, and regardless of the subject matter thereof (excluding, however, any actions relating to workers' compensation claims or negligence claims relating to use of motor vehicles, if fully covered by insurance, subject to deductibles).

Section 7.8 Insurance.

(a) Maintain with responsible insurance companies acceptable to the Agent such insurance on such of the properties of Omega and each other Borrower, in such amounts and against such risks as is customarily maintained by similar businesses and cause each Operator to do so; (ii) file with the Agent upon its request a detailed list of the insurance then in effect, stating the names of the insurance companies, the amounts and rates of the insurance, the dates of the expiration thereof and the properties and risks covered thereby, and (iii) within ten (10) days after notice in writing from the Agent, obtain such additional insurance as the Agent may reasonably request; and

(b) Carry all insurance available through the PBGC or any private insurance companies covering its obligations to the PBGC.

Section 7.9 Financial Covenants.

(a) Omega shall have and maintain, on a consolidated basis, as at the last day of each fiscal quarter of Omega:

(i) A ratio of Indebtedness to Tangible Net Worth of not more than 1.50 to 1.00 ; and

(ii) Tangible Net Worth (after the Initial Equity Contribution of $100,000,000) of not less than $445,000,000, plus 50% of (i) the Net Issuance Proceeds received by Omega (or any of its Subsidiaries) in connection with the issuance of any equity interest in Omega (or any of its Subsidiaries) other than any such equity interests issued in connection with the Initial Equity Contribution and any dividend reinvestment program(s), and (ii) the value (determined in accordance with GAAP) of any capital stock issued by Omega upon the conversion of convertible Indebtedness; and

(iii) Omega's Fixed Coverage Ratio of not less than 1.00 to 1.00;

(iv) Interest Coverage of not less than 200%; and

(v) A Leverage Ratio of not greater than 5.00:1.00.

(b) Omega, on a consolidated basis, shall not incur a Net Loss in any fiscal year commencing with the fiscal year ending December 31, 2001.

(c) For each period of four consecutive (4) quarters ending on a Computation Date, there shall be maintained for the aggregate of the Facilities included in the Real Property Collateral during such period:

(i) Aggregate EBITDAR of not less than $16,300,000; and

(ii) An Aggregate Rent Ratio of not less than 1.25:1.

(d) For each period of four (4) fiscal quarters ending on the

date ninety days before any Computation Date, there shall be maintained a ratio between (A) the aggregate rental payments made to the Borrowers properly allocable to the Facilities under the lease, master lease, management agreement or similar agreement between any of the Borrowers and the Operators of the

Facilities which comprise the Real Property Collateral, and (B) the sum of all interest paid or payable on the Obligations (excluding unamortized debt issuance costs) for the same four fiscal quarters (computed on an annualized basis if the Loans have not been in place for such four quarters) of not less than 1.10 to 1.00

Section 7.10 Notice of Certain Events.

(a) Promptly notify Agent in writing of the occurrence of any Reportable Event, as defined in Section 4043 of ERISA, if a notice of such Reportable Event is required under ERISA to be delivered to the PBGC within 30 days after the occurrence thereof, together with a description of such Reportable Event and a statement of the action any Borrower or the ERISA Affiliate intends to take with respect thereto, together with a copy of the notice thereof given to the PBGC.

(b) Promptly notify Agent in writing if any Borrower or an ERISA Affiliate receives an assessment of withdrawal liability in connection with a complete or partial withdrawal with respect to any Multiemployer Plan, together with a statement of the action that such Borrower or such ERISA Affiliate intends to take with respect thereto.

(c) Promptly notify Agent in writing if any Borrower receives: (i) any notice of any violation or administrative or judicial complaint or order having been filed or about to be filed against any Borrower or Operator alleging violations of any Environmental Law and Regulation, or (ii) any notice from any governmental body or any other Person alleging that such Borrower or Operator is or may be subject to any Environmental Liability; and promptly upon receipt thereof, provide Agent with a copy of such notice together with a statement of the action such Borrower or Operator intends to take with respect thereto.

(d) Promptly notify Agent in writing of the occurrence of any of the events specified in Section 3.5(d) hereof.

Section 7.11 Comply with ERISA.

Materially comply with all applicable provisions of ERISA and the Code now or hereafter in effect.

Section 7.12 Environmental Compliance.

Operate all property owned, operated or leased by it (including, but not limited to, any Real Property Collateral) in compliance with all Environmental Laws and Regulations, such that no Environmental Liability arises under any Environmental Laws and Regulations, which would result in a Lien on any property of any Borrower (including, but not limited to, any Real Property Collateral).

Section 7.13 Compliance with Laws.

(a) Comply in all material respects with all applicable federal, state and local laws, rules, regulations and orders pertaining to the operation of its business, paying before the same become delinquent all taxes, assessments and governmental charges or levies imposed upon it or upon its

income or profits or any Collateral, and paying all lawful claims which if unpaid might become a Lien upon any of its Collateral, except to the extent contested in good faith by proper proceedings which stay the imposition of any penalty, fine or Lien resulting from the non-payment thereof and with respect to which adequate reserves have been set aside for the payment thereof.

(b) Promptly notify Agent in the event that any Borrower receives any notice, claim or demand from any governmental agency which alleges that any Borrower or any Operator is in material violation of any of the terms of, or has materially failed to comply with any applicable order issued pursuant to, any federal, state or local statute regulating its operation and business, including, but not limited to, the Occupational Safety and Health Act or any Environmental Law.

Section 7.14 Maintenance of REIT Status.

Omega shall maintain its REIT Status.

Section 7.15 Maintenance of Interest Rate Protection.

Borrowers shall maintain the Interest Rate Protection.

Section 7.16 Payment of Indebtedness.

Each Borrower will jointly and severally, duly and punctually pay or cause to be paid principal and interest on the Loans and all fees and other amounts payable hereunder or under the Loan Documents in accordance with the terms hereunder. Each Borrower shall pay all other Indebtedness (whether existing on the date hereof or arising at any time thereafter) punctually within any applicable period of grace except to the extent that any such obligation is contested in good faith by proper proceedings or Borrowers have provided Agent evidence that any Lien resulting from the non-payment thereof has been bonded or with respect to which adequate reserves have been set aside for the payment thereof.

Section 7.17 Payment of Fees.

(a) Borrowers shall pay to Agent all fees required to be paid pursuant to the Loan Documents when due.

(b) Agent may provide for the payment of any fees or other charges under this Section or otherwise under this Agreement by advancing the amount thereof for the benefit of Borrowers under the Loans.

Section 7.18 Further Assurances.

Each Borrower and each of the Subsidiaries will execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all such further assurances and other agreements or instruments, and take or cause to be taken all such other action, as shall be reasonably requested by Agent from time to time in order to give full effect to any of the Loan Documents

Section 7.19 Omega's Depository Accounts.

Within ninety (90) days after the Closing Date, Omega and its Subsidiaries shall concentrate all of their bank and depository accounts with Provident, including, without limitation, all demand deposit, time deposit, concentration and zero

balance accounts, except that Omega and its Subsidiaries may maintain one or more operating accounts with local financial institutions as may reasonably be required (as determined by Omega in the exercise of its business judgment) in connection with the business of Omega or the Subsidiaries.

Section 7.20 Unencumbered Facilities.

Borrowers shall maintain sufficient unencumbered Facilities to enable Borrowers to comply with Borrowers' potential obligations to substitute or add new Property to the Real Property Collateral pursuant to Section 3.5 of this Agreement.

ARTICLE 8. NEGATIVE COVENANTS.

Until termination of the Loan Commitments, payment in full of the Notes and full and complete performance of all other Obligations arising hereunder, each Borrower, and, as applicable, each other Borrower shall not do, agree to do, or permit to be done, any of the following:

Section 8.1 Liens.

Create, or assume or permit to exist, any Lien on any Collateral, except:

(a) Permitted Liens;

(b) Purchase money Liens on Collateral acquired or held by any Borrower in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such Collateral provided, that (i) any such Lien attaches to such Collateral concurrently with or within twenty (20) days after the acquisition thereof, (ii) such Lien attaches solely to such Collateral so acquired in such transaction, and (iii) the principal amount of the debt secured thereby does not exceed 100% of the cost of such Collateral; and

(c) As set forth on Schedule 8.1 hereto.

Section 8.2 Mergers, Acquisitions.

Except as expressly permitted by this Agreement, merge or consolidate with any Person, or, acquire all or substantially all of the assets or any of the capital stock of any Person unless (a) the Borrower is the surviving entity, (b) no Default or Event of Default exists or will occur after giving effect thereto, and (c) the consideration paid in connection with any such merger or acquisition does not exceed an amount equal to twenty-five percent (25%) of Healthcare Assets as of the date of the consummation of such transaction, prior to giving effect to such transaction.

Section 8.3 Changes in Structure.

Except for supplemental issuance of Omega's authorized common and preferred stock and as otherwise expressly permitted under Sections 8.10 and 8.15, make

any changes in the equity capital structure of any Borrower, or amend its certificate of incorporation or by-laws in a manner which would be reasonably likely to cause a Material Adverse Effect.

Section 8.4 Disposition of Real Property Collateral.

Make any Disposition of any Real Property Collateral, or enter into any agreement to do so, which would result in the outstanding principal balance of the Loans being in excess of the Loan Limit following such Disposition, unless (a) the Disposition is at fair market value, (b) at the time of the Disposition no Default or Event of Default exists, and (c) (i) any mandatory prepayment required in connection therewith under Section 2.6(c) is made as provided therein, or (ii) an additional Facility or other real estate owned by the Borrower in question is substituted pursuant to Section 3.5 hereof as Real Property Collateral for the Property which is the subject of the Disposition.

Section 8.5 Fiscal Year.

Change its fiscal year.

Section 8.6 ERISA Obligations.

Permit the establishment of any Employee Benefit Plan or amend any Employee Benefit Plan which establishment or amendment could result in liability to any Borrower or increase the obligation for post-retirement welfare benefits of any Borrower which liability or increase, individually or together with all similar liabilities and increases, has a Material Adverse Effect on the Borrowers taken as a whole.

Section 8.7 Capital Expenditures.

Except as otherwise permitted under this Agreement, make or be or become obligated to make Capital Expenditures in the aggregate for Borrowers on a consolidated basis, during each fiscal year of Borrowers, in excess of Two Hundred Fifty Thousand ($250,000) Dollars.

Section 8.8 Hazardous Material.

Cause or permit: (i) any Hazardous Material to be placed, held, located or disposed of, on, under or at any Facility or any part thereof (including, but not limited to, any Facility serving as Real Property Collateral), except for such Hazardous Materials that are necessary for any Borrower's or any Subsidiary's or any Operator's operation of its business thereon and which shall be used, stored, treated and disposed of in compliance with all applicable Environmental Laws and Regulations or (ii) such Facility or any part thereof to be used as a collection, storage, treatment or disposal site for any Hazardous Material. Each Borrower acknowledges and agrees that Agent and Lenders shall have no liability or responsibility for either:

(a) damage, loss or injury to human health, the environment or natural resources caused by the presence, disposal, release or threatened release of Hazardous Materials on any part of any Facility; or

(b) abatement and/or clean-up required under any applicable Environmental Laws and Regulations for a release, threatened release or disposal of any Hazardous Materials located at any Facility or used by or in connection with any Borrower's or any Subsidiary's or any Operator's business.

Section 8.9 Limitation on Nature of Business.

Each Borrower will not at any time make any material change in the nature of their collective business as carried on at the date hereof or undertake, conduct or transact any business in a manner prohibited by applicable law.

Section 8.10 Limitation on Investments.

Make, or suffer to exist, any Investment (as defined below) in any Person, including, without limitation, any shareholder, director, officer or employee of Omega or any of its Subsidiaries, except:

(a) Investments in:

(i) obligations issued or guaranteed by the United States of America;

(ii) certificates of deposit, bankers acceptances and other "money market instruments" issued by any bank or trust company organized under the laws of the United States of America or any State thereof and having capital and surplus in an aggregate amount of not less than $100,000,000;

(iii) open market commercial paper bearing the highest credit rating issued by Standard & Poor's Corporation or by another nationally recognized credit rating agency;

(iv) repurchase agreements entered into with any bank or trust company organized under the laws of the United States of America or any State thereof and having capital and surplus in an aggregate amount of not less than $100,000,000 relating to United States of America government obligations; and

(v) shares of "money market funds", each having net assets of not less than $100,000,000;

in each case maturing or being due or payable in full not more than 180 days after the Borrower's acquisition thereof.

(b) The acquisition by Omega and its Subsidiaries, on a consolidated basis, of Healthcare Assets consisting of Facilities and mortgages (as "Mortgages" are defined in the Loan Agreement with respect to the Fleet Obligations) which do not exceed twenty-five (25%) percent of Healthcare Assets in any single transaction or series of related transactions as at any date of determination thereof, prior to giving effect to any such acquisition.

(c) Investments for working capital purposes in Subsidiaries that are operating one or more Facilities as a consequence of a foreclosure, deed-in-lieu of foreclosure, termination of a lease or similar event, such investments of working capital to be limited to the amounts reasonably necessary to maintain the Facilities in compliance with all applicable laws and to maintain the Facilities' eligibility for reimbursement as a provider of health care services under the Medicare and Medicaid programs or any equivalent government insurance program that is a successor thereto.

(d) (i) Investments in subsidiaries in an amount equal to that amount, if any, by which One Hundred Million ($100,000,000) Dollars exceeds the portion of the "Liquidity Commitment" (as defined in the Investment Agreement) actually funded and applied to pay the Debentures, provided such Investments may only be made from and after the payment in full of the Debentures or, if prior

to the payment in full of the Debentures, upon satisfaction to Lenders that sources of funds are and will remain available to repay in full the Debentures, and (ii) Investments in Subsidiaries in an amount not to exceed Two Hundred Fifty Million ($250,000,000) in the aggregate, in each case, such subsidiaries or Subsidiaries established for the purpose of acquiring Facilities leased to one or more operators or making loans to operators secured by mortgages in favor of such subsidiaries or Subsidiaries, as the case may be; provided, however, that in no event shall the aggregate amount of Investments made under this subsection 8.10(d) exceed $250,000,0000.

(e) In addition to other Investments permitted by this Section 8.10, other Investments by Omega on a consolidated basis, which do not exceed Twenty-Five Million ($25,000,000) Dollars in the aggregate at any time.

(f) As set forth on Schedule 8.10 hereto.

For purposes of this Section 8.10, "Investments" shall mean, by any Person:

(i) the amount paid or committed to be paid, or the value of property or services contributed or committed to be contributed, by such Person for or in connection with the acquisition by such Person of any stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person; and

(ii) the amount of any advance, loan or extension of credit by such Person, to any other Person, or guaranty or other similar obligation of such Person with respect to any Indebtedness of such other Person, and (without duplication) any amount committed to be advanced, loaned, or extended by such Person to any other Person, or any amount the payment of which is committed to be assured by a guaranty or similar obligation by such Person for the benefit of, such other Person.

Section 8.11 Limitation on Indebtedness.

Create, incur, permit to exist or have outstanding any Indebtedness, except:

(a) Indebtedness of the Borrowers to the Lenders and the Agent under this Agreement and the Notes;

(b) The Fleet Obligations;

(c) Taxes, assessments and governmental charges, non-interest bearing accounts payable and accrued liabilities, in any case not more than 90 days past due from the original due date thereof, and non-interest bearing deferred liabilities other than for borrowed money (e.g., deferred compensation and deferred taxes), in each case incurred and continuing in the ordinary course of business;

(d) Indebtedness secured by the security interests referred to in subsection 8.1(b) hereof;

(e) Indebtedness consisting of contingent obligations permitted by Section 7.3 of the loan agreement evidencing the Fleet Obligations;

(f) As set forth on Schedule 8.11 hereto; and

(g) Indebtedness, the terms of which shall not require any principal payments thereon prior to the currently scheduled termination date of the Fleet Obligations.

Section 8.12 Transactions with Affiliates.

Except as expressly permitted by this Agreement, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any assets to an Affiliate; (c) merge into or consolidate with or purchase or acquire assets from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of any Affiliate (including, without limitation, guarantees and assumptions of obligations of an Affiliate); provided, however, that: (i) payments on Investments expressly permitted by Section 8.10 hereof may be made, (ii) any Affiliate who is a natural person may serve as an employee or director of Omega or any Subsidiary and receive reasonable compensation for his services in such capacity, and (iii) any Borrower may enter into any transaction with an Affiliate providing for the leasing of property, the rendering or receipt of services or the purchase or sale of product, inventory and other assets in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to such Borrower as the monetary or business consideration that would obtain in a comparable arm's length transaction with a Person not an Affiliate.

Section 8.13 No Additional Bank Accounts.

Except as provided in Section 7.19, no Borrower shall open, maintain or otherwise have any bank accounts and Omega shall not permit its Subsidiaries to do so.

Section 8.14 Limitation on Negative Pledge Agreements.

No Borrower shall enter into any agreement, document or instrument with any lender or other party or entity which would prohibit the Borrowers from complying with the Obligations under Section 3.5 hereof as the same may arise from time to time.

Section 8.15 Redemptions; Distributions.

No Borrower shall:

(a) Purchase, redeem, retire or otherwise acquire, directly or indirectly, or make any sinking fund payments with respect to, any shares of any class of stock of Omega or any Subsidiary now or hereafter outstanding or set apart any sum for such purpose unless (i) the Debentures have been paid in full or the Requisite Lenders are satisfied that sources of funds are and will remain available to repay the Debentures in full, and (ii) after giving effect thereto (A) no Event of Default shall exist, (B) there shall be at least $15,000,000 available under the Revolving Loan A Commitment or the Credit Commitment under the Fleet Obligations or any other line of credit or similar facility; and (C) the aggregate amount of all such purchases, redemptions and payments shall be less than $15,000,000; or

(b) Declare or pay any dividends or make any distribution of any kind on Omega's outstanding stock, or set aside any sum for any such purpose, except that:

(i) Omega may declare and make dividend payments or other distributions payable solely in its common stock;

(ii) Omega may declare and make "payment in kind" dividends or other distributions to the holders of its preferred stock.

(iii) if no Default or Event of Default exists or will occur after giving effect thereto, Omega may declare and pay cash dividends in any fiscal quarter in an amount, when added to the cash dividends paid with respect to the three (3) immediately preceding fiscal quarters, that does not exceed ninety-five (95%) percent of EBITDA (which shall be calculated without adding back interest expense for the purpose hereof) for those four (4) fiscal quarters calculated on a rolling four-quarter basis; and

(iv) If a Default or Event of Default exists or would occur after giving effect thereto, Omega may declare and pay dividends in any fiscal quarter in the minimum amount necessary to maintain its REIT status.

Section 8.16 Variable Rate Limitation.

Omega shall not permit more than 20% of its Indebtedness (other than the Obligations), on a consolidated basis, to bear interest at other than fixed rates; provided, however, that if and to the extent that such Indebtedness is subject to one or more agreements providing protection with respect to the interest payable thereunder, such Indebtedness shall be deemed to bear interest at a fixed rate.

Section 8.17 Use of Cash.

Use, or permit to be used, in any manner or to any extent, each Borrower's Cash from operations for the benefit of any Person, except : (a) in connection with the payment or prepayment of expenses (other than Capital Expenditures) directly incurred for the benefit of each Borrower in the maintenance and operation of its business, in each case only in the ordinary course of its business, (b) for the payment of scheduled, required payments of principal and interest on Indebtedness of each Borrower permitted to exist hereunder, (c) payments or prepayments of (i) Indebtedness for borrowed money permitted to exist hereunder provided the final maturity of such Indebtedness is not later than the Termination Date of Revolving Loan A or (ii) the Obligations arising under the Loan Documents, or (iii) the Fleet Obligations and (d) for uses that are otherwise specifically permitted by this Agreement.

ARTICLE 9. EVENTS OF DEFAULT.

Section 9.1 Events of Default.

If any one or more of the following events ("Events of Default") shall occur and be continuing, the Loan Commitments shall terminate and the entire unpaid balance of the principal of and interest on the Notes outstanding and all other Obligations and Indebtedness of Borrowers to Agent and Lenders arising hereunder and under the other Loan Documents shall immediately become due and payable upon

written notice to that effect given to Borrowers by Agent (except that in the case of the occurrence of any Event of Default described in Subsection 9.1(f) no such notice shall be required), without presentment or demand for payment, notice of non-payment, protest or further notice or demand of any kind, all of which are expressly waived by Borrowers:

(a) Payments. Failure by any Borrower to make any payment or mandatory repayment of principal or interest upon the Notes or to make any payment of any other Obligations when due; or

(b) Certain Covenants. Failure by any Borrower to perform or observe any applicable provision of Sections 7.8 or 7.9 or Article 8 hereof; or

(c) Other Covenants. Failure by any Borrower to perform or observe any other applicable term, condition or covenant of this Agreement or of any of the other Loan Documents to which it is a party, which shall remain unremedied for a period of thirty (30) days after notice thereof shall have been given to such Borrower by Agent; or

(d) Other Defaults.

(i) Failure by any Borrower to make, within any applicable grace period, any payment in excess of $5,000,000.00 due under any Indebtedness, whether such payment is due at maturity or in the ordinary course of such Indebtedness; or

(ii) Any default under any material Indebtedness of Omega or any of its Subsidiaries which gives the holder of such Indebtedness the right to accelerate the due date of any portion of such Indebtedness.

(e) Representations and Warranties. Any representation or warranty made in writing to Agent or any Lender in any of the Loan Documents or in connection with the making of the Loans, or any certificate, statement or report made or delivered in compliance with this Agreement, shall have been false or misleading in any material respect when made or delivered, which in any event results in a Material Adverse Effect; or

(f) Bankruptcy.

(i) Any Borrower shall make an assignment for the benefit of creditors, file a petition in bankruptcy, be adjudicated insolvent, petition or apply to any tribunal for the appointment of a receiver, custodian, or any trustee for it or him or a substantial part of its or his assets, or shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or any Borrower shall take any corporate action to authorize any of the foregoing actions; or there shall have been filed any such

petition or application, or any such proceeding shall have been commenced against it or him, that remains undismissed for a period of thirty (30) days or more; or any order for relief shall be entered in any such proceeding; or any Borrower by any act or omission shall indicate its or his consent to, approval of or acquiescence in any such petition, application or proceeding or the appointment of a custodian, receiver or any trustee for it or him or any substantial part of any of its or his properties, or shall suffer any custodianship, receivership or trusteeship to continue undischarged for a period of thirty (30) days or more; or

(ii) Any Borrower shall generally not pay its debts as such debts become due; or

(iii) Any Borrower shall have concealed, removed, or permitted to be concealed or removed, any part of its Property, with intent to hinder, delay or defraud its creditors or any of them or made or suffered a transfer of any of its property that may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or shall have made any transfer of its Property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or shall have suffered or permitted, while insolvent, any creditor to obtain a Lien upon any of its Property through legal proceedings or distraint that is not vacated within thirty (30) days from the date thereof; or

(g) Judgments. Any judgment against any Borrower or any attachment, levy or execution against any of its Properties (including, but not limited to, the Collateral) for any amount in excess of $2,500,000 shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of thirty (30) days or more; or

(h) ERISA.

(i) The termination of any Plan or the institution by the PBGC of proceedings for the involuntary termination of any Plan, in either case, by reason of, or that results or could result in, a "material accumulated funding deficiency" under Section 412 of the Code; or

(ii) Failure by any Borrower to make required contributions, in accordance with the applicable provisions of ERISA, to each of the Plans hereafter established or assumed by it; or

(i) Material Adverse Effect. There shall occur a Material Adverse Effect; or

(j) REIT Status Etc. Omega shall at any time fail to maintain its REIT Status, or any Borrower shall lose, through suspension, termination, impoundment, revocation, failure to renew or otherwise, any material license or permit; or

(k) Change of Control. Any Change of Control shall occur; or

(l) Default by Facility Operator. Ninety (90) days after the occurrence of any default by any Operator in the payment of amounts due and owing under any lease, master lease, note, mortgage or deed of trust (or related security documents) between such Operator and any Borrower, or any other event of default by an Operator under the applicable lease, master lease, note, mortgage or deed of trust (or related security documents) as a result of which any Borrower accelerates the obligations of such Operator, with respect in each case to an Operator whose aggregate rental payments account for 15% or more of the aggregate rental payments of all of the Operators; or

(m) Environmental. Any Borrower or any of the Real Property Collateral shall become subject to one or more liens for costs or damages in excess of $,5,000,000 individually or in the aggregate under any Environmental Laws and Regulations and such liens shall remain in place for 30 days after the creation thereof.

Section 9.2 Remedies.

From and after the occurrence of an Event of Default which is continuing and which has not been waived by Agent at the direction of Requisite Lenders, Agent may, and upon request of Requisite Lenders, shall:

(a) subject always to the provisions of Section 10.9, proceed to protect and enforce all or any of its or Lenders' rights, remedies, powers and privileges under this Agreement, the Notes or any of the other Loan Documents by action at law, suit in equity or other appropriate proceedings, whether for specific performance of any covenant contained in this Agreement, any Note or any of the other Loan Documents, or in aid of the exercise of any

power granted to Agent herein or therein. In the event that Agent shall fail or refuse to so proceed, Requisite Lenders shall, subject to the provisions of Section 10.9, be entitled to take such action as they shall deem appropriate to enforce their rights hereunder and under the other Loan Documents;

(b) remove from any premises where same may be located any and all Collateral or any and all documents, instruments, files and records (including the copying of any computer records), and any receptacles or cabinets containing same, relating to the Collateral, and Agent may use (at the expense of any Borrower) such of the supplies or space of any Borrower, at such Borrower's place of business or otherwise, as may be necessary to properly administer and control the Collateral or the handling of collections and realizations thereon;

(c) bring suit, in the name of Borrowers or Lenders, on any of the Collateral and generally have all other rights respecting such Collateral, including without limitation the right to accelerate or extend the time of payment, settle, compromise, release in whole or in part any amounts owing on such Collateral and issue credits in the name of any Borrower or Lenders;

(d) sell, assign and deliver such Collateral and any returned, reclaimed or repossessed merchandise, with or without advertisement, at public or private sale, for cash, on credit or otherwise, at Agent's discretion exercised with the consent of Requisite Lenders, and any Lender may bid or become a purchaser at any such sale, free from any right of redemption, which right is hereby expressly waived by each Borrower;

(e) (i) notify the account debtor on any of the Collateral of Lenders' security interest therein; (ii) demand that monies due or to become due be paid directly to Agent for the account of Lenders; (iii) open any Borrower's mail and collect any and all amounts due such Borrower from account debtors; (iv) enforce payment of the Collateral by legal proceedings or otherwise; (v) exercise all of any Borrower's rights and remedies with respect to the collection of the Collateral; (vi) settle, adjust, compromise, modify, extend or renew any of the Collateral; (vii) settle, adjust or compromise any legal proceedings brought to collect any of the Collateral; (viii) to the extent permitted by applicable law, sell or assign any of the Collateral upon such terms, for such amounts and at such time or times as Agent deems advisable; (ix) with the consent of Requisite Lenders, grant waivers or indulgences with respect to, accept partial payments from, discharge, release, surrender, substitute any customer security for, make compromise with or release, any other party liable on, any of the Collateral; (x) take control, in any manner, of any item of payment or proceeds from any account debtor; (xi) prepare, file, and sign any Borrower's name on any proof of claim in bankruptcy or similar document against any account debtor; (xii) endorse the name of any Borrower upon any document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to any of the Collateral; and (xiii) use the information recorded on or contained in any data processing equipment or computer hardware or software relating to any of the Collateral or proceeds thereof to which any Borrower has access; and

(f) foreclose the security interests created pursuant to the Loan Documents by any available judicial procedure, or take possession of any or all of the Collateral without judicial process and enter any premises where any such Collateral may be located for the purpose of taking possession of or removing the same.

Agent shall have the right, without notice of advertisement, to sell, lease, or otherwise dispose of all or any part of the Collateral, whether in its then condition or after further preparation or processing, in the name of any Borrower, or Lenders, or in the name of such other party as Agent may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such other terms and conditions as Agent in its discretion exercised with the consent of Requisite Lenders may deem advisable, and Agent or any other Lender shall have the right to purchase at any such sale. If any such Collateral shall require rebuilding, repairing, maintenance or preparation, Agent shall have the right, at its option, to do such of the aforesaid as is necessary, for the purpose of putting such Collateral in such saleable form as Agent shall deem appropriate. Each Borrower agrees, at the request of Agent, to assemble such Collateral and to make it available to Agent at places which Agent shall reasonably select, whether at the premises of any Borrower or elsewhere, and to make available to Agent the premises and facilities of the Borrowers for the purpose of Agent's taking possession of, removing or putting such Collateral in saleable form. However, if notice of intended disposition of any Collateral is required by law, it is agreed that five (5) Business Days notice shall constitute reasonable notification and full compliance with the law. Agent shall be entitled to use all intangibles and

computer software programs and data bases used by any Borrower in connection with its business or in connection with the Collateral. The net Cash proceeds resulting from Agent's exercise of any of the foregoing rights (after deducting all charges, costs and expenses including reasonable attorneys' fees) shall be applied by Agent to the payment of the Obligations, whether due or to become

due, in such order as Agent may elect but in accordance with each Lender's Pro Rata Share. Borrowers shall remain liable to Lenders for any deficiencies, and Lenders in turn agree to remit to Borrowers any surplus resulting therefrom. The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other rights, all of which shall be cumulative.

Section 9.3 No Implied Waiver; Rights Cumulative

No delay on the part of Agent or any Lender in exercising any right, remedy, power or privilege under any of the Loan Documents or provided by statute or at law or in equity or otherwise shall impair, prejudice or constitute a waiver of any such right, remedy, power or privilege or be construed as a waiver of any Default or Event of Default or as an acquiescence therein. No right, remedy, power or privilege conferred on or reserved to Agent or any Lender under any of the Loan Documents or otherwise is intended to be exclusive of any other right, remedy, power or privilege. Each and every right, remedy, power and privilege conferred on or reserved to Agent or any Lender under any of the Loan Documents or otherwise shall be cumulative and in addition to each and every other right, remedy, power or privilege so conferred on or reserved to Agent or any such Lender and may be exercised at such time or times and in such order and manner as Agent or any such Lender shall (in its sole and complete discretion) deem expedient.

Section 9.4 Set-Off; Pro Rata Sharing.

If any Event of Default shall at any time occur, and for so long as it shall be continuing, any deposits, balances or other sums credited by or due from Agent or such Lender or any of the offices or branches of Agent or any Lender to any Borrower, may, without any prior notice of any kind to such Borrower, or compliance with any other conditions precedent now or hereafter imposed by statute, rule or law or otherwise (all of which are hereby expressly and irrevocably waived by each Borrower), be immediately set off, appropriated and applied by Agent or such Lender toward the payment and satisfaction of the Obligations (but not to any other obligations of Borrowers to Agent or such Lender until all of the Obligations have been paid in full) in such order and manner as Agent or such Lender (in its sole and complete discretion) may determine, subject, however, to the provisions of Section 10.13.

ARTICLE 10 -CONCERNING AGENT AND LENDERS

Agent and Lenders agree as follows:

Section 10.1 Appointment of Agent

Each Lender hereby appoints Provident to serve as Agent under this Agreement and the other Loan Documents, and in such capacity to administer this Agreement and the other Loan Documents.

Section 10.2 Authority.

Each Lender hereby irrevocably authorizes Agent (i) to take such action on such Lender's behalf under this Agreement and the other Loan Documents and to exercise such powers and to perform such duties hereunder and thereunder as are delegated to or required of Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto; and (ii) to take such action on such Lender's behalf as Agent shall consider necessary or advisable for the protection, collection or enforcement of any of the Obligations. Agent will promptly notify each Lender as soon as it becomes aware of any Default or Event of Default; provided, however, that Agent shall not be deemed to have knowledge of any item until such time as Agent's officers responsible for administration of the Loans shall receive written notice thereof or have actual knowledge of such event. If any Lender becomes aware of any Default or Event of Default, it shall promptly notify Agent thereof; provided, however, that a Lender shall not be deemed to have knowledge of any item until such time as such Lender's officers responsible for administration of the Loans shall receive written notice thereof or have actual knowledge of such event.

Section 10.3 Acceptance of Appointment.

Agent hereby accepts its appointment as Agent for each Lender under this Agreement and the other Loan Documents, but only on the terms set forth in this Agreement, including the following:

(a) Agent makes no representation as to the value, validity or enforceability of this Agreement or of any of the other Loan Documents or as to the correctness of any statement contained in this Agreement or in any of the other Loan Documents;

(b) Agent may exercise its powers and perform its duties under this Agreement and the other Loan Documents either directly or through its agents or attorneys;

(c) Agent shall be entitled to obtain from counsel selected by it with reasonable care advice with respect to legal matters pertaining to this

Agreement or any of the other Loan Documents and shall not be liable for any action taken, omitted to be taken or suffered in good faith in accordance with the advice of such counsel;

(d) Agent shall not be required to use its own funds in the performance of any of its duties or in the exercise of any of its rights or powers, and Agent shall not be obligated to take any action which, in its reasonable judgment, would involve it in any expense or liability unless it shall have been furnished security or indemnity in an amount and in form and substance satisfactory to it; and

(e) Agent, in performing its duties and functions under this Agreement and the other Loan Documents for the benefit of Lenders, will exercise the same care which it normally exercises in making and handling loans in which it alone is interested, but does not assume further responsibility.

Section 10.4 Collateral Matters.

(a) Release of Collateral. Lenders hereby irrevocably authorize Agent, at its option and in its discretion, to release any Lien granted to or held by Agent upon any Property covered by the Security Documents (i) upon termination of the Loan Commitments and payment and satisfaction of all Obligations; or (ii) constituting Property being sold or disposed of if Borrowers certifies to Agent that the sale or disposition is made in compliance with the provisions of this Agreement (and Agent may rely in good faith conclusively on any such certificate, without further inquiry); or (iii) constituting Property leased to a Borrower under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by such Borrower to be, renewed or extended. Upon request by Agent at any time, any Lender will confirm in writing Agent's authority to release particular types or items of Property covered by the Security Documents pursuant to this Section 10.4(a).

(b) Confirmation of Authority: Execution of Releases. Without in any manner limiting Agent's authority to act without any specific or further authorization or consent by Requisite Lenders (as set forth in Section 10.4(a)), each Lender agrees to confirm in writing, upon request by Borrowers, the authority to release any Property covered by the Security Documents conferred upon Agent under clauses (i) through (iii) of Section 10.4(a). So long as no Event of Default is then continuing, upon receipt by Agent of confirmation from Requisite Lenders of its authority to release any particular item or types of Property covered by the Security Documents, and upon at least five (5) Business Days prior written request by Borrowers, Agent shall (and is hereby irrevocably authorized by Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent for the benefit of Lenders or pursuant hereto upon such Collateral; provided, however, that (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens upon (or obligations of any Borrower in respect of) all interests retained by such Borrower, including (without limitation) the proceeds of any sale, all of which shall continue to constitute part of the Property covered by the Security Documents.

(c) Absence of Duty. Agent shall have no obligation whatsoever to any Lender or any other Person to assure that the Property covered by the Security Documents exists or is owned by any Borrower or is cared for, protected or insured or has been encumbered or that the Liens granted to Agent herein or pursuant hereto have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Section 10.4 or in any of the Loan Documents, it being understood and agreed that in respect of the Property covered by the Security Documents or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in Property covered by the Security Documents as one of Lenders and that Agent shall have no duty or liability whatsoever to any of the other Lenders, except that Agent shall be required to exercise the same care which it would in dealing with loans for its own account.

Section 10.5 Agency for Perfection.

Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Lenders' security interest in Collateral which, in accordance with Article 9 of the UCC in any applicable jurisdiction, can be perfected only by possession. Should any Lender (other than Agent) obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor, shall deliver such Collateral to Agent or in accordance with Agent's instructions. Each Lender agrees that it will not have any right individually to enforce or seek to enforce any Security Document or to realize upon any security for the Obligations, it being understood and agreed that such rights and remedies may be exercised only by Agent.

Section 10.6 Application of Moneys.

All moneys realized by Agent under the Loan Documents shall be held by Agent to apply in accordance with Section 2.8(b).

Section 10.7 Reliance by Agent.

Agent shall be entitled to rely on any notice, consent, certificate, affidavit, letter, telegram, telecopy, facsimile or teletype message, statement, order, instrument or other document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Agent shall deem and treat the payee of any Note as the absolute owner thereof for all purposes hereof until such time as it receives actual notice of an assignment permitted hereunder of such payee's interest, together with the written agreement of the assignee in form and substance satisfactory to Agent that such assignee is bound by this Agreement as a "Lender" hereunder.

Section 10.8 Exculpatory Provisions.

Neither Agent nor any of its shareholders, directors, officers, employees or agents shall be liable in any manner to any Lender for any action taken, omitted to be taken or suffered in good faith by it or them under any of the Loan Documents or in connection therewith, or be responsible for the consequences of any oversight or error of judgment, except for losses due to gross negligence or willful misconduct of Agent or such shareholder, director, officer, employee or agent. Without limiting the generality of the foregoing sentence of this Section 10.8, under no circumstances shall Agent be subject to any liability to any Lender on account of any action taken or omitted to be taken by such Agent in compliance with the direction of Requisite Lenders or all Lenders, as the case may be, as provided for hereunder.

Agent shall not be responsible in any manner to any Lender for the due execution, effectiveness, genuineness, validity or enforceability, perfection or recording of this Agreement, any of the Notes, any of the other Loan Documents or for any certificate, report or other document used under or in connection with this Agreement or any of the other Loan Documents, or for the truth or accuracy of any recitals, statements, warranties or representations contained herein or in any certificate, report or other document at any time hereafter furnished or purporting to have been furnished to it by or on behalf of any Borrower or any other Person, or be under any obligation to any Lender to ascertain or inquire as to the performance or observance by any Borrower or any other Person of any of the covenants, agreements or conditions set forth in this Agreement, the Notes or any of the other Loan Documents or as to the use of any moneys lent hereunder or thereunder.

Agent shall not be obligated to take any action or refrain from taking any action under any Loan Document that might, in its judgment, involve it in any expense or liability until it shall have been indemnified to its satisfaction by or received an agreement to indemnify from each Person which such Agent reasonably believes may be an intended recipient of such distribution. If a court of competent jurisdiction shall adjudge that any amount received and distributed by Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

Section 10.9 Action by Agent.

Except as otherwise expressly provided under this Agreement or in any other of the Loan Documents, Agent will take such action, assert such rights and pursue such remedies under this Agreement and the other Loan Documents as Requisite Lenders or all Lenders, as the case may be as provided for hereunder, shall direct. Except as otherwise expressly provided in any of the Loan Documents, Agent will not (and will not be obligated to) take any action, assert any rights or pursue any remedies under this Agreement or any of the other Loan Documents in violation or contravention of any express direction or instruction of Requisite Lenders or all Lenders, as the case may be as provided for hereunder. Agent may refuse (and will not be obligated) to take any action, assert any rights or pursue any remedies under this Agreement or any of the other Loan Documents without the express written direction and instruction of Requisite Lenders or all Lenders, as the case may be as provided for hereunder. In the event Agent fails, within a commercially reasonable time, to take such action, assert such rights, or pursue such remedies as Requisite Lenders or all Lenders, as the case may be as provided for hereunder, direct, Requisite Lenders or all Lenders, as the case may be as provided for hereunder, shall have the right to take such action, to assert such rights, or pursue such remedies for the benefit of all Lenders unless the terms hereof otherwise require the consent of all Lenders to the taking of such actions. All notices and other information delivered by a Borrower to Agent hereunder, if material to Lenders, shall be delivered within a reasonable time (and in any event not more than five (5) days) after Agent's receipt of same by Agent to each Lender. No Lender (other than Provident, acting in its capacity as Agent) shall be entitled to take any enforcement action of any kind under any of the Loan Documents, except as expressly provided in this Agreement. Action that may be taken by Requisite Lenders or all Lenders, as the case may be as provided for hereunder may be

taken pursuant to a vote at a meeting (which may be held by telephone conference call) of all Lenders, or pursuant to the written consent of such Lenders.

Section 10.10 Amendments, Waivers and Consents.

Any provision of this Agreement, the Notes or the other Loan Documents may be amended or waived upon the consent of Requisite Lenders, and after such consent, Agent, for the benefit of Lenders, may execute and deliver to Borrower a written instrument waiving or amending such provision; provided, however, that neither this Agreement, the Notes, nor any of the other Loan Documents may be amended, waived or a variation therefrom or forbearance with respect to such variation consented to without the written consent of Agent and all of Lenders which effect (i) a change in the Maximum Commitment (other than a change provided for in this Agreement); (ii) a change in any Lender's Loan Commitment; (iii) a

reduction in the interest rates or reduction of the principal set forth in the Notes; (iv) an extension of the maturity date on the Notes; (v) a change in the payment schedule or scheduled date for the payment of or amount of any interest or principal; (vi) any change in, or any waiver of, any provision in Section 7.9 (which consent will not be unreasonably withheld); (vii) a change in this paragraph, the definition of Requisite Lenders or any provision of this Agreement which requires consent or action of all Lenders for action thereunder; (viii) a change in the obligations and liabilities of Agent; (ix) a change which increases the obligations of any Lender; or (x) a change in any fees or charges hereunder or in Sections 2.11 or 11.5.

Section 10.11 Indemnification.

Each Lender agrees to indemnify Agent (to the extent Agent is not promptly reimbursed by Borrower), in accordance with such Lender's Pro Rata Share of the Loans, from and against any and all liabilities, obligations, losses, damages, penalties, interests, actions, judgments and suits of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent relating to or arising out of this Agreement or any of the other Loan Documents or relating to any action taken or omitted by such Agent under this Agreement or any of the other Loan Documents, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, interest, actions, judgments or suits resulting from Agent's own gross negligence or willful misconduct.

Section 10.12 Reimbursement of Agent.

Each Lender further agrees to reimburse Agent, in accordance with such Lender's Pro Rata Share of the Loans, for any reasonable out-of-pocket costs or expenses incurred by Agent in connection with its duties under this Agreement (including, but not limited to, reasonable fees and disbursements of counsel, travel and living expenses away from home of employees or agents of Agent and compensation of agents or of experts employed by Agent to render services for Lenders hereunder), but only to the extent such fees, disbursements, expenses and compensation have not been promptly reimbursed to Agent by Borrowers. If any such sums are reimbursed to Agent by Borrowers after one or more of Lenders have reimbursed Agent for such sums, Agent will refund such sums ratably to Lenders who contributed such sums.

Section 10.13 Sharing of Funds Received.

Each Lender and Agent agrees with Agent and each of the other Lenders that if such Lender shall receive from Borrowers or any other Person or Persons, whether by payment received otherwise than in accordance with the terms of the Loan Documents, exercise of the right of set-off, counterclaim, cross-claim, enforcement of any claim, or proceedings against any Borrower or any other Person or Persons, proof of claim in bankruptcy, reorganization, liquidation, receivership or other similar proceedings, or otherwise, and shall retain and apply to the payment of any of the Obligations owing to such Lender any amount in excess of its share of the payments received by all Lenders and Agent in respect of all of the Obligations, such Lender will promptly make such dispositions and arrangements with the other Lenders and Agent with respect to such excess, either by way of distribution, pro tanto assignment of claim, subrogation or otherwise, as shall result in each Lender receiving in respect of the Obligations owing to it, its share of such payments; provided, however, that the payment of the principal balance and all accrued interest and other fees and charges due under the Revolving B Notes on the Termination Date thereof, as set forth in the Revolving B Notes and herein, shall not be deemed a payment subject to the provisions of this Section.

Section 10.14 Dealing with Lenders.

Agent may at all times deal solely with the several Lenders for all purposes of this Agreement and the protection, enforcement and collection of the Obligations, including without limitation the acceptance and reliance upon any certificate, consent or other document executed on behalf of one or more of Lenders and the division of payments pursuant hereto. Agent shall not have a fiduciary relationship in respect of any Lender by reason of this Agreement. Agent shall have no implied duties to Lenders, or any obligation to Lenders to

take any action hereunder except any action specifically provided by this Agreement to be taken by Agent.

Section 10.15 Agent as Lender.

Provident shall have, in its capacity as a Lender, the same obligations and the same rights, remedies, powers and privileges under this Agreement and the other Loan Documents as it would have were it not also an Agent.

Section 10.16 Duties Not to be Increased.

The duties and liabilities of Agent under this Agreement and the other Loan Documents shall not be increased or otherwise changed without its express prior written consent. Agent shall have no duty to provide information to Lenders except as expressly set forth herein.

Section 10.17 Lender Credit Decisions.

Each Lender acknowledges that it has, independently of and without reliance upon Agent or any of the other Lenders, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents to which it is a party. Each Lender also acknowledges that it will, independently of and without reliance upon Agent or any of the other Lenders, continue to make its own credit decisions in taking or not taking action under this Agreement or any of the other Loan Documents and in determining the compliance or lack thereof by Borrowers and any other Person with any provision of any Loan Document or other document or agreement.

Section 10.18 Resignation of Agent.

Provident and any successor Agent may resign as such at any time by giving thirty (30) days' prior written notice of resignation to each Lender and Borrowers, such resignation to be effective on the date which is specified in such notice; provided, however, that, if Provident, in its capacity as a Lender, still owns, directly or indirectly, more than fifty percent (50%) of the then outstanding balance of the Loans, it shall not be permitted to resign as Agent without the written consent of all of the Lenders, which consent shall not be unreasonably withheld. Upon any such resignation by Provident as Agent, or in the event the office of Agent shall thereafter become vacant for any other reason, Requisite Lenders shall appoint a successor Agent, by an instrument in writing signed by such Lenders and delivered to such successor Agent and Borrowers, whereupon such successor Agent shall succeed to all of the rights and obligations of the retiring Agent as if originally named. The retiring Agent shall duly assign, transfer and deliver to such successor Agent all moneys at the time held by the retiring Agent hereunder after deducting therefrom its expenses for which it is entitled to be reimbursed. Upon such succession of any

such successor Agent, the retiring Agent shall be discharged from its duties and obligations hereunder, except for its gross negligence or willful misconduct arising prior to its retirement or removal hereunder. After any Agent's resignation, the provisions of Article 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

Section 10.19 Assignment of Notes: Participation.

(a) Each Lender may, with thirty (30) days prior notice to Agent and to each other Lender, assign to one or more banks or other financial institutions all or a portion of its rights and obligations under this Agreement and the Notes; provided that (i) for each such assignment, the parties thereto shall execute and deliver an assignment and assumption agreement, in form and substance acceptable to Agent, together with any Notes subject to such assignment, (ii) each such assignment shall be for not less than $1,000,000 of the assigning Lender's Loan Commitment, and shall be in increments of not less than $100,000 of the assigning Lender's Loan Commitment, and (iii) each other Lender shall have the right, exercisable by notice to the Agent within such thirty (30) day notice period, to participate in such assignment on a pro rata basis according to the amount of each such assigning Lender's Credit Commitment. Upon such execution and delivery of such assignment and assumption agreement to Agent, from and after the date specified as the effective date in such agreement, (x) the assignee thereunder shall be a party hereto, and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such agreement, such assignee shall have the rights and obligations of a Lender hereunder, and (y) the assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such agreement, relinquish its rights (other than any rights it may have pursuant to Section 11.5 which will survive) and be released from its obligations under this Agreement (and, in the case of an assignment covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) Each Lender may, with thirty (30) days prior notice to Agent and to each other Lender, sell participations of its rights and obligations under the Loan Documents to one or more banks or other entities

(including, without limitation, up to such portion of its Loan Commitment, the Loans owing to it, and the Notes held by it); provided, however, that (i) such Lenders' obligations under the Loan Documents (including, without limitation, its Loan Commitment) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of the Loan Documents, (iv) the participating banks or other entities shall be entitled to the cost protection provisions of Sections 2.11 and 11.5, but a participant shall not be entitled to receive pursuant to such provisions an amount larger than its share of the amount to which Lender granting such participation would have been entitled, (v) Borrowers, Agent and the other Lenders shall continue to deal solely and directly with such selling Lender in connection with such Lender's rights and obligations under the Loan Documents, (vi) no such transfer shall include the transfer of any of such Lender's rights to grant consents or approve amendments or modifications to the Loan Documents except with respect to those items requiring the action of or consent by all Lenders or affecting the rights and obligations of Agent, and (vii) each other

Lender shall have the right, exercisable by notice to the Agent within such thirty (30) day notice period, to participate in such sale on a pro rata basis according to the amount of each such assigning Lender's Credit Commitment. It is understood and agreed that each Lender may share any and all information received by it from or on behalf of any Borrower pursuant to this Agreement or any of the other Loan Documents with any participant or prospective participant of such Lender.

ARTICLE 11 - PROVISIONS OF GENERAL APPLICATION

Section 11.1 Term of Agreement.

This Agreement shall continue in full force and effect and the duties, covenants and liabilities of the Borrowers hereunder and all the terms, conditions and provisions hereof relating thereto shall continue to be fully operative until all Obligations to Agent and each Lender have been satisfied in full.

Section 11.2 Notices.

(a) All notices and other communications pursuant to this Agreement shall be in writing, and shall be delivered by certified mail, return receipt requested, regularly scheduled overnight delivery service, telecopy or hand-delivery, addressed as follows:

(i) If to any Borrower, at:
c/o Omega Healthcare Investors, Inc.
900 Victors Way/Suite 350
Ann Arbor, Michigan 48103
Attention: Carol Albaugh
Telecopier No: (734) 887-0201

with a copy to:

c/o Omega Healthcare Investors, Inc.
900 Victors Way/Suite 350
Ann Arbor, Michigan 48103
Attention: Susan A. Kovach, Esq.,
General Counsel
Telecopier No: (734) 887-0201

(ii) If to Agent, at:

The Provident Bank
One East Fourth Street
Cincinnati, Ohio 45202
Attn: Steven Bloemer
Fax Number: (513) 579-2201

With a copy to:
Kohnen & Patton LLP
1400 Carew Tower
441 Vine Street
Cincinnati, OH 45202
Attn: Joseph Beech III, Esq.
Fax Number: (513) 381-5823

(iii) If to a Lender, at such address set forth on Schedule 1.1;

or to such other addresses or by way of such other fax numbers as any party hereto shall have designated in a written notice to the other parties hereto.

(b) Except as otherwise expressly provided herein, any notice or other communication pursuant to this Agreement or any other Loan Document shall be deemed to have been duly given or made and to have become effective (i)

when delivered in hand to the party to which it is directed, or (ii) if sent by regularly scheduled overnight delivery service or by telecopy, when received by the addressee; or (iii) if sent by certified mail, return receipt requested, on the fifth (5th) Business Day following the date of mailing, whichever of (i), (ii) or (iii) shall be the earliest.

Section 11.3 Survival of Representations.

All representations and warranties made by or on behalf of the Borrowers in this Agreement or any of the other Loan Documents shall be deemed to have been relied upon by Agent and each Lender notwithstanding any investigation made by Agent or any Lender and shall survive the execution and delivery of the Loan Documents and the making of the Loan.

Section 11.4 Amendments.

Each of the Loan Documents may be modified, amended or supplemented in any respect whatever only with the prior written consent or approval of Agent and Requisite Lenders or all Lenders (as the case may be) and each other Person which is a party to such Loan Document, all in accordance with the terms of Section 10.10.

Section 11.5 Costs, Expenses, Taxes and Indemnification.

(a) Each Borrower, jointly and severally, absolutely and unconditionally agrees to pay to Agent, for the respective pro rata account of Agent and each Lender, upon demand by Agent or any Lender at any time and as often as the occasion therefor may require, whether or not all or any of the transactions contemplated by any of the Loan Documents are ultimately consummated (i) all reasonable out-of-pocket costs and expenses which shall at any time be incurred or sustained by Agent or any of its directors, officers, employees or agents as a consequence of, on account of, in relation to or any way in connection with the preparation, negotiation, execution and delivery of the Loan Documents and the perfection and continuation of the rights of Lenders and Agent in connection with the Loans, as well as the preparation, negotiation, execution, or delivery or in connection with the amendment or modification of

any of the Loan Documents or as a consequence of, on account of, in relation to or any way in connection with the granting by Agent or any Lender of any consents, approvals or waivers under any of the Loan Documents including, but not limited to, reasonable attorneys' fees and disbursements; and (ii) all reasonable out-of-pocket costs and expenses which shall be incurred or sustained by Agent or any Lender or any of their directors, officers, employees or agents as a consequence of, on account of, in relation to or any way in connection with the exercise, protection or enforcement (whether or not suit is instituted) any of its rights, remedies, powers or privileges under any of the Loan Documents or in connection with any litigation, proceeding or dispute in any respect related to any of the relationships under, or any of the Loan Documents (including, but not limited to, all of the reasonable fees and disbursements of consultants, legal advisers, accountants, experts and agents for Agent or any Lender, the reasonable travel and living expenses away from home of employees, consultants, experts or agents of Agent or any Lender, and the reasonable fees of agents, consultants and experts not in the full-time employ of Agent or any Lender for services rendered on behalf of Agent or any Lender).

(b) Each Borrower shall, jointly and severally, absolutely and unconditionally indemnify and hold harmless Agent and each Lender against any and all claims, demands, suits, actions, causes of action, damages, losses, settlement payments, obligations, costs, expenses and all other liabilities whatsoever which shall at any time or times be incurred or sustained by Agent or any Lender or by any of their shareholders, directors, officers, employees, Subsidiaries, Affiliates or agents on account or in relation to, or in any way in connection with, any of the arrangements or transactions contemplated by, associated with or ancillary to this Agreement or any of the other Loan Documents other than by reason of the gross negligence or willful misconduct of the indemnified party, whether or not all or any of the transactions contemplated by, associated with or ancillary to this Agreement or any of such Loan Documents are ultimately consummated.

(c) Each Borrower hereby covenants and agrees that any sums expended by Agent or any Lender for which Agent or any Lender is entitled to be reimbursed pursuant to this Section 11.5 shall be immediately due and payable upon demand by Agent or any Lender, and shall bear interest at the Post-Default Rate from the date Agent or any such Lender demand payment until the date such payment is made in full to Agent or such Lender.

(d) The party prevailing in any action, suit or proceeding arising out of or in any way in connection with this Agreement or any of the transactions contemplated hereby shall be entitled to reimbursement of all reasonable fees of its attorneys incurred in connection with such action, suit or proceedings.

Section 11.6 Release.

Each Borrower hereby releases the Lenders and the Agent, their respective predecessors in interest and any subsidiaries thereof, and all of their respective officers, directors, agents, representatives or counsel, from any and all claims, causes of action, suits, debts or obligations, liabilities, demands,

losses, costs and expenses, (including attorney's fees), of any kind, character or nature whatsoever, known or unknown, fixed or contingent, which such Borrower may have or claim to have now or which may hereafter arise out of or in connection with any act or omission existing or occurring prior to the date hereof, including, without limitation, any claims, causes of action, liabilities or demands arising in connection with the any prior relationship between said Borrower and the Lenders and the Agent, their respective predecessors in interest and any subsidiaries thereof, and all of their respective officers, directors, agents, representatives or counsel, whether arising under any documents, instruments or agreements evidencing said prior relationship or in connection with such relationship in general. The provisions of this section shall be binding on each Borrower, its successors and assigns, and shall inure to the benefit of the Lenders and the Agent, and their respective successors and assigns.

Section 11.7 Language.

All notices, applications, certificates, reports, financial statements and other financial information, correspondence and all other communications from any Borrower to Agent or any Lender pursuant to this Agreement or any of the other Loan Documents shall be in the English language or shall be accompanied by an English translation thereof completely satisfactory to Agent or such Lender.

Section 11.8 Binding Effect: Assignment.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors in title and assigns; provided, however, that (i) a Borrower may not assign or delegate any of its rights or obligations hereunder to any Person or Persons without the express prior written consent of Agent and all Lenders; and (ii) no Lender may assign or delegate its rights or obligations hereunder to any Person or Persons except in accordance with Section 10.19.

Section 11.9 Governing Law: Jurisdiction and Venue.

The undersigned agree that inasmuch as this Agreement, the Notes and the Loan Documents are to be executed by the Borrowers and accepted by Agent and Lenders in Cincinnati, Ohio and the funds to be disbursed under the Loan are to be disbursed in Ohio, this instrument and the rights and obligations of all parties hereunder shall be governed by and construed under the substantive laws of the State of Ohio, without reference to the conflict of laws principles of such state.

Agent, each Lender and each Borrower hereby designate all courts of record sitting in Cincinnati, Ohio, both state and federal, as forums where any action, suit or proceeding in respect of or arising out of this Agreement, the Notes, Loan Documents, or the transactions contemplated by this Agreement may be prosecuted as to all parties, their successors and assigns, and by the foregoing designations Agent, each Lender, and each Borrower consent to the jurisdiction and venue of such courts. EACH BORROWER WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY OTHER STATE TO OBJECT TO JURISDICTION WITHIN THE STATE OF OHIO FOR THE PURPOSES OF LITIGATION TO ENFORCE SUCH OBLIGATIONS OF SUCH BORROWER. In the event such litigation is commenced, each Borrower agrees that service of process may be made and personal jurisdiction over such Borrower obtained by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon such Borrower at the address set forth in Section 11.2. Each Borrower recognizes and agrees that the agency has been created for the benefit of the Borrowers, and Agent and each Lender and agree that this agency shall not be revoked, withdrawn or modified without the consent of Agent.

Section 11.10 WAIVER OF JURY TRIAL

AS A SPECIFICALLY BARGAINED INDUCEMENT FOR LENDERS TO EXTEND CREDIT TO BORROWERS, AND AFTER HAVING THE OPPORTUNITY TO CONSULT COUNSEL, EACH BORROWER HEREBY EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO THIS AGREEMENT OR ARISING IN ANY WAY FROM THE OBLIGATIONS.

Section 11.11 Waivers.

Except to the extent expressly provided elsewhere in this Agreement, each Borrower waives notice of nonpayment, demand, notice of demand, presentment, protest and notice of protest with respect to the Obligations, or notice of acceptance hereof, notice of the Loans made, credit extended, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

Section 11.12 Interpretation and Proof of Loan Documents.

Whenever possible, the provisions of each Loan Document will be construed in

such a manner as to be consistent with this Agreement and each other Loan Document. If any of the provisions of any Loan Document are inconsistent with this Agreement, such provisions of this Agreement will supersede such provisions of such Loan Document. This Agreement, the Loan Documents and all documents relating hereto, including, without limitation, (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by Agent or any Lender at the closing or otherwise, and (c) financial statements, certificates and other information previously or hereafter furnished to Agent or any Lender, may be reproduced by Agent or such Lender by an photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and Agent or such Lender may destroy any original document (other than any Note) so reproduced. Each Borrower agrees and stipulates that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by Agent or such Lender in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

Section 11.13 Integration of Schedules and Exhibits.

The Exhibits and Schedules annexed to this Agreement are an integral part of this Agreement and are incorporated herein by reference.

Section 11.14 Headings.

The headings of the Articles, Sections and paragraphs of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

Section 11.15 Counterparts.

This Agreement may be executed in any number of counterparts, but all of such counterparts shall together constitute but one agreement. In making proof of this Agreement, it shall not be necessary to produce or account for more than one counterpart hereof signed by each of the parties hereto. Any documents delivered by, or on behalf of, Borrowers by fax transmission (i) may be relied on by Agent and Lenders as if the document were a manually signed original and (ii) will be binding on Borrowers for all purposes of the Loan Documents.

Section 11.16 Severability.

Any provision of this Agreement which is prohibited and unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 11.17 One General Obligation.

The Loans and all advances by Lenders to Borrowers under this Agreement constitute one loan, and all Obligations of Borrowers to Agent and Lenders under this Agreement constitute one general obligation. It is expressly understood and agreed that all of the rights of Agent and each Lender contained in this Agreement shall likewise apply insofar as applicable to any modification of or supplement to this Agreement.

[Signatures on following page.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers.

THE PROVIDENT BANK

By: /s/ Steven J. Bloemer

Its: Vice President
Printed: Steven J. Bloemer

ONE VALLEY BANK

By: /s/ Timothy Paxton

Its: Vice President

GREAT AMERICAN INSURANCE COMPANY

By: /s/ Ronald C. Hayes

Its: Assistant Vice President

GREAT AMERICAN LIFE INSURANCE COMPANY

By: /s/ Mark Muething

Its: Executive Vice President

OMEGA HEALTHCARE INVESTORS, INC.

STERLING ACQUISITION CORP.

DELTA INVESTORS I, LLC

By: /s/ F. Scott Kellman

F. Scott Kellman, as Chief Operating Officer of all of the aforementioned corporations or limited liability companies, has executed this Loan Agreement and intending that all corporations or limited liability companies above named are bound and are to be bound by the one signature as if he had executed this Loan Agreement separately for each of the above named corporations.

FORM OF NOTE

REVOLVING LOAN A PROMISSORY NOTE

$50,000,000.00 Cincinnati, Ohio
August ____, 2000

THIS REVOLVING LOAN A PROMISSORY NOTE (this "Note") is executed and delivered as of the date hereof jointly and severally by OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation, STERLING ACQUISITION CORP., a Kentucky corporation, and DELTA INVESTORS I, LLC, a Maryland limited liability company (hereafter collectively referred to as "Borrowers", or individually as a "Borrower"), to THE PROVIDENT BANK, an Ohio banking corporation ("Lender").

This Note has been executed and delivered by Borrowers to Lender pursuant to a certain Loan Agreement dated as of August ____,2000, by and among Borrowers, The Provident Bank, an Ohio banking corporation, as Agent, and the Lenders listed on Schedule 1.1 thereto (the "Loan Agreement"), and is subject to the terms and conditions of the Loan Agreement, including without limitation, acceleration upon the terms provided therein. All capitalized terms used herein which are defined in the Loan Agreement and not otherwise defined herein shall have the meanings given in the Loan Agreement.

Borrowers, for value received, jointly and severally promise to pay to the order of Lender, at Agent's Head Office, for the account of Lender in accordance with the Loan Agreement, the principal sum of Fifty Million and 00/100 Dollars ($50,000,000.00), being the amount of Lender's Revolving Loan A Commitment, or so much thereof as is then currently outstanding and owed by Borrower to Lender as Revolving Loan A pursuant to the Loan Agreement, together with interest thereon at the Interest Rate. Interest on the principal balance of this Note shall be due and payable (i) with respect to each LIBOR Loan, in arrears on the last day of each LIBOR Period applicable thereto, (ii) with respect to each Loan other than a LIBOR Loan, monthly in arrears commencing on August 31, 2000 and the last day of each calendar month thereafter, and (iii) with respect to a Loan other than a LIBOR Loan which is converted to a LIBOR Loan in accordance with the provisions of the Loan Agreement, on the day immediately preceding the first day of the applicable LIBOR Period. Interest shall be computed on the basis of the actual number of days elapsed over an assumed year consisting of three hundred sixty (360) days. The entire principal balance of this Note and all accrued but unpaid interest shall, if not sooner paid or required to be paid pursuant to the Loan Agreement, be due and payable in full on June 30, 2005. This Note is subject to mandatory prepayment and/or acceleration as provided in the Loan Agreement.

This Note may be prepaid in full or in part at any time and from time to time; provided, however, that any prepayment in full may be subject to a prepayment fee as provided in Section 2.7(a) of the Loan Agreement.

Upon the occurrence and during the continuance of any Event of Default, the outstanding principal and all accrued and unpaid interest, as well as any other Obligations due Lender hereunder or under any Loan Document, shall bear interest at the Post-Default Rate from the date on which such Event of Default shall have occurred to the date on which such Event of Default shall have been

waived or cured.

Upon the occurrence and during the continuance of any Event of Default, the entire principal balance of this Note and all accrued but unpaid interest shall, upon notice by Agent to Borrowers, become immediately due and payable, except that if there shall be an Event of Default under Section 9.1(f) of the Loan Agreement, the entire principal balance of this Note and all accrued but unpaid interest shall become immediately due and payable without notice.

Subject to the terms and conditions of the Loan Agreement and until the Termination Date, Borrowers may borrow, repay and reborrow from Lender, and Lender will lend and relend to Borrowers, such amounts not to exceed Lender's Revolving Loan A Commitment as Borrowers may from time to time request.

Borrowers hereby: (i) waive presentment, notice of presentment, demand, notice of demand, protest, notice of protest and notice of nonpayment and any other notice required to be given by law, except as otherwise specifically provided in the Loan Agreement, in connection with the delivery, acceptance, performance, default or enforcement of this Note or any indorsement or guaranty of this Note; and (ii) consent to any and all delays, extensions, renewals or other modifications of this Note or waivers of any term hereof or the failure to act on the part of Agent or Lender or any indulgence shown by Agent or Lender, from time to time and in one or more instances (without notice to or further assent from Borrowers), and agree that no such action, failure to act or failure to exercise any right or remedy on the part of Agent or Lender shall in any way affect or impair the obligations of Borrowers or be construed as a waiver by Lender of, or otherwise affect, any of Lender's rights under this Note, or under any indorsement or guaranty of this Note. Borrowers further jointly and severally agree to reimburse Agent and Lender for all advances, charges, costs and expenses, including reasonable attorneys' fees, incurred or paid in exercising any right, power or remedy conferred by this Note, or in the enforcement of this Note.

Anything herein to the contrary notwithstanding, the obligations of Borrowers under this Note, the Loan Agreement and any other Loan Documents shall be subject to the limitation that payments of interest shall not be required to the extent that receipt of any such payment by Lender would be contrary to the provisions of law applicable to Lender limiting the maximum rate of interest that may be charged or collected by Lender. Without limiting the generality of the foregoing, all calculations of the rate of interest contracted for, charged or received under this Note which are made for the purposes of determining whether such rate of interest exceeds the maximum rate of interest permitted by applicable law shall be made, to the extent permitted by applicable law, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of this Note all interest at any time contracted for, charged or received in connection with the indebtedness evidenced by this Note, and then to the extent that any excess remains, all such excess shall be automatically credited against and in reduction of the principal balance, and any portion of said excess which exceeds the principal balance shall be paid by Lender to Borrowers, it being the intent of the parties hereto that under no circumstances shall Borrowers be required to pay any interest in excess of the highest rate permissible under applicable law.

The provisions of this Note shall be governed by and interpreted in accordance with the laws of the State of Ohio.

Borrowers hereby designate all courts of record sitting in Cincinnati, Ohio and having jurisdiction over the subject matter, state and federal, as forums where any action, suit or proceeding in respect of or arising from or out of this Note, its making, validity or performance, may be prosecuted as to all parties, their successors and assigns, and by the foregoing designation Borrowers consent to the jurisdiction and venue of such courts.

IN ACCORDANCE WITH SECTIONS 11.9 AND 11.10 OF THE LOAN AGREEMENT, AND AFTER HAVING AN OPPORTUNITY TO CONSULT COUNSEL, BORROWERS EXPRESSLY WAIVE (i) ANY AND ALL PERSONAL RIGHTS UNDER THE LAWS OF ANY OTHER STATE TO OBJECT TO JURISDICTION WITHIN THE STATE OF OHIO FOR PURPOSES OF LITIGATION TO ENFORCE THE OBLIGATIONS OF ANY BORROWER, AND (ii) THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO THIS NOTE OR THE LOAN AGREEMENT OR ARISING IN ANY WAY FROM THE OBLIGATIONS.

TIME IS OF THE ESSENCE IN THE PERFORMANCE OF THE OBLIGATIONS OF THIS NOTE.

(Signatures appear on next page)

IN WITNESS WHEREOF, Borrowers have executed this Note as of the date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: _____

Name: _____

Title: _____

STERLING ACQUISITION CORP.

By: _____

Name: _____

Title: _____

DELTA INVESTORS I, LLC

By: _____

Name: _____

Title: _____

FORM OF MORTGAGE

- ---

OPEN-END MORTGAGE, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT

[THIS INSTRUMENT SECURES FUTURE ADVANCES AND OBLIGATIONS]

THIS OPEN-END MORTGAGE, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (the "Instrument") is made this _____ day of August, 2000, between STERLING ACQUISITION CORP., a Kentucky corporation, whose address is 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 (the "Borrower"), and THE PROVIDENT BANK, AGENT, an Ohio banking corporation, whose address is One East Fourth Street, Cincinnati, Ohio 45202, ("Agent").

WHEREAS, pursuant to the terms of a certain Loan Agreement dated August _____, 2000 (as such agreement may be amended, modified or supplemented from time to time, the "Loan Agreement") between Agent, Borrower and Lenders (as defined in the Loan Agreement), Lenders have agreed to extend credit to Borrower up to the aggregate maximum principal amount of Seventy-Five Million Dollars ($75,000,000.00), with the balance of the indebtedness if not sooner paid, due and payable on _____, 2005 (the "Loan"); and

WHEREAS, such indebtedness is evidenced by: (i) the Loan Agreement; and (iii) Borrower's revolving promissory notes of even date therewith, in the maximum original principal amount of Seventy-Five Million Dollars ($75,000,000.00) ("Notes"), bearing interest at the rate of interest set forth therein and providing for the payment of principal and interest, with the balance of the indebtedness if not sooner paid, due and payable on _____, 2005; and

WHEREAS, the Loan is made pursuant to the terms of, and in accordance with or reliance upon, certain other agreements and documents, which include, without limitation, the Loan Agreement, and the Loan Documents (as defined in the Loan Agreement).

NOW THEREFORE, TO SECURE TO AGENT the repayment of the Obligations, as that term is defined in the Loan Agreement, BORROWER DOES HEREBY MORTGAGE, WARRANT, GRANT, BARGAIN, SELL, ASSIGN AND CONVEY TO AGENT, ITS SUCCESSORS AND ASSIGNS, all of

Borrower's estate, right, title and interest in, to and under that certain parcel of real property commonly known as Carter Nursing and Rehabilitation Center, 250 McDavid Blvd., Grayson, Kentucky, as more particularly described in Exhibit "A", attached hereto and made a part hereof, whether now owned or hereafter held or acquired (the "Land"), together with all right, title and interest which Borrower may have in and to all improvements, buildings and structures thereon of every nature whatsoever, whether now owned or hereafter held or acquired (the "Improvements", which together with the Land shall be referred to as the "Premises") and all appurtenances to said Premises, including and together with:

(a) all right, title and interest, if any, including any after-acquired right, title and interest, and including any right of use or occupancy, which Borrower may now have or hereafter acquire in and to (i) all easements, rights of way, gores of land or any lands occupied by streets, ways, alleys, passages, sewer rights, water courses, water rights and powers, and public places adjoining said Land, and any other interests in property constituting appurtenances to the Land, or which hereafter shall in any way belong, relate or be appurtenant thereto, and (ii) all hereditaments, gas, oil, minerals, and easements, of every nature whatsoever, located in or on the Premises and all other rights and privileges hereunto belonging or appertaining and all extensions, additions, improvements, betterments, renewals, substitutions and

replacements to, or of any of the rights and interests described in subparagraphs (i) and (ii) above (hereinafter the "Property Rights"); and

(b) all right, title and interest, if any, in and to all fixtures and appurtenances of every nature whatsoever now or hereafter located in, on or attached to, and used or intended to be used in connection with, or with the operation of, the Premises, including, but not limited to (i) all apparatus, machinery and equipment of Borrower; and (ii) all extensions, additions, improvements, betterments, renewals, substitutions, and replacements to or of any of the foregoing (the "Fixtures"); as well as all personal property and equipment of every nature whatsoever now or hereafter located in or on the Premises, including but not limited to all right, title and interest, if any, in and to (iii) all screens, window shades, blinds, wainscoting, storm doors and windows, floor coverings, and awnings of Borrower; (iv) all apparatus, machinery, equipment and appliances of Borrower not included as Fixtures; (v) all items of furniture, furnishings, and personal property of Borrower; (vi) all other personal property of Borrower and all rights and things of value of every kind and nature, tangible or intangible, absolute or contingent, equal or equitable, including without limitation: (a) all lists of lessees or other customer lists, books and records, ledger and account cards, computer tapes and programs, software, disks, printouts and records, whether now in existence or hereafter created, of Borrower relating to the Premises; (b) all right, title and interest, if any, in and to all management agreements, consulting agreements, employment agreements and other agreements pertaining to the Premises, now existing or hereafter arising, each as amended from time to time, including without limitation all rights and privileges thereunder; (c) all right, title and interest, if any, in and to all licenses, permits, approvals, authorizations, qualifications, registrations and recording thereof and all applications incorporated into such licenses, permits, approvals, authorizations and registrations now owned or hereafter acquired by Borrower and required from time to time for the business operations of Borrower or the Premises, including,

but not limited to, Certificates of Need, to the extent that assignment of the same is permissible under applicable law; (d) all liens, security interests, mortgages, security, warranties, guarantees, sureties, payment bonds, performance bonds, insurance policies, maintenance, repair or replacement agreements, and other contractual obligations of any contractor, subcontractor, surety, guarantor, manufacturer, dealer, laborer, supplier or materialman, with respect to the Premises; (e) all causes of action, goodwill, trade names, tax refund claims, and all rights to indemnification of Borrower; (f) all plans, specifications and drawings relating to the Premises in Borrower's possession or under its reasonable control; and (g) all claims, rights, powers or privileges and remedies relating to the foregoing or arising in connection therewith including, without limitation, all rights to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval; and (vii) all extensions, additions, improvements, betterments, renewals, substitutions, and replacements to or of any of the foregoing (iii) - (vi) (the "Personal Property"). It is mutually agreed, intended and declared, that the Premises and all of the Property Rights and Fixtures owned by Borrower (referred to collectively herein as the "Real Property") shall, so far as permitted by law, be deemed to form a part and parcel of the Land and for the purpose of this Instrument to be real estate and covered by this Instrument. It is also agreed that if any of the property herein mortgaged is of a nature so that a security interest therein can be perfected under the Uniform Commercial Code, this Instrument shall constitute a security agreement, fixture filing and financing statement, and Borrower agrees to execute, deliver and file or refile any financing statement, continuation statement, or other instruments Agent may reasonably require from time to time to perfect or renew such security interest under the Uniform Commercial Code. To the extent permitted by law, (i) all of the Fixtures are or are to become fixtures on the Land; and (ii) this instrument, upon recording or registration in the real estate records of the proper office, shall constitute a "fixture-filing" within the meaning of the Uniform Commercial Code. The remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be as prescribed herein, in Paragraph 14 hereof or by general law, or, as to that part of the security in which a security interest may be perfected under the Uniform Commercial Code, by the specific statutory consequences now or hereafter enacted and specified in the Uniform Commercial Code, all at the Agent's sole election; and

(c) (i) all the estate, right, title and interest of the Borrower, in and to all judgments, insurance proceeds, awards of damages and settlements resulting from condemnation proceedings or the taking of the Real Property, or any part thereof, under the power of eminent domain or for any damage (whether caused by such taking or otherwise) to the Real Property, the Personal Property or any part thereof, or to any rights appurtenant thereto, and all proceeds of any sales or other dispositions of the Real Property, the Personal Property or any part thereof; and (except as otherwise provided herein or in the Loan Agreement) the Agent is hereby authorized to collect and receive said awards and proceeds and to give proper receipts and acquittance therefor, and to apply the same as provided in the Loan Agreement; and (ii) all contract rights, general

intangibles, actions and rights in action, relating to the Real Property, or the

Personal Property, including, without limitation, all rights to insurance proceeds and unearned premiums arising from or relating to damage to the Real Property; and (iii) all proceeds, products, replacements, additions, substitutions, renewals and accessions of and to the Real Property or the Personal Property. (The rights and interests described in this Paragraph shall hereinafter be called the "Intangibles.")

AS ADDITIONAL SECURITY FOR THE OBLIGATIONS SECURED HEREBY, BORROWER DOES HEREBY CONVEY, TRANSFER AND ASSIGN TO AGENT from and after the date hereof (including any period of redemption), primarily and on a parity with said real estate, and not secondarily, all the rents, issues and profits of the Real Property; all rents, issues, profits, revenues, royalties, bonuses, rights and benefits due, payable or accruing (including all deposits of money as advance rent, for security or as earnest money or as down payment for the purchase of all or any part of the Real Property or the Personal Property); all monies due and to become due to Borrower under any lease for services, materials or installations supplied, whether or not the same were supplied under the terms of any lease; all the proceeds of all such rents, both cash and non-cash including, but not limited to, any minimum rents, additional rents, percentage rents, parking, maintenance, insurance and tax contributions, any damages following default by lessee under any lease; any penalties or premiums payable by lessee under any lease; and the proceeds of any policy of insurance covering loss of rents resulting from destruction of any portion of the Real Property (collectively, the "Rents") under any and all present and future leases, contracts or other agreements between Borrower and any other party or parties relative to the ownership of the Real Property or the Personal Property or to the occupancy of all or any portion of the Real Property (the "Leases", which term shall include, but not be limited to, that certain Master Lease between Borrower, as lessor, and Sterling Health Care Management, Inc., as lessee (the "Master Lease")). The term "Rents" shall include, but not be limited to, that portion of the "Minimum Rent" (as that term is defined in the Master Lease) indicated on Exhibit "B" attached hereto and made a part hereof. With respect to said conveyance, transfer and assignment of such Rents, Borrower further covenants and agrees:

(a) Borrower and Agent intend that this assignment shall be a present, absolute and unconditional assignment and shall, immediately upon execution, give Agent the right to collect the Rents and to apply them in payment of the principal and interest and all other sums payable on the Obligations. However, Agent hereby grants to Borrower the right to collect and use the Rents as they become due and payable under the Leases, subject to the provisions set forth below and in the Loan Agreement, but not more than one (1) month in advance thereof, until an Event of Default (as defined in the Loan Agreement) has occurred, provided that the existence of such right shall not operate to subordinate this assignment to any subsequent assignment, in whole or in part, by Borrower, and any such subsequent assignment shall be subject to the rights of Agent under this Instrument.

(b) Upon the occurrence of an Event of Default: (1) Borrower agrees, upon demand, that Agent may assume the management of the Real Property, and collect the Rents, applying the same upon the Obligations in the manner

provided in the Loan Agreement; and (2) Borrower hereby authorizes all lessees, guarantors, purchasers or other persons occupying or otherwise acquiring any interest in any part of the Real Property to pay the Rents due under the Leases with respect to the Real Property, but only with respect to the Real Property, to the Agent upon request of the Agent, and Borrower shall, at the request of Agent, notify such lessees, guarantors, purchasers or other persons that they are so authorized and directed. Borrower hereby appoints Agent as its true and lawful attorney in fact to manage said property and collect the Rents, with full power to bring suit for collection of the Rents and possession of the Real Property, giving and granting unto Agent and unto its agent or attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in the protection of the security hereby conveyed; provided, however, that (i) this power of attorney and assignment of rents shall not be construed as an obligation upon Agent to make or cause to be made any repairs that may be needful or necessary and (ii) Agent agrees that until such Event of Default, Agent shall permit Borrower to perform the aforementioned management responsibilities, including collecting the Rents.

(c) Upon Agent's receipt of the Rents, at Agent's option, it may pay: (1) reasonable charges for collection hereunder, costs of necessary repairs and other costs requisite and necessary during the continuance of this power of attorney and assignment of rents, (2) general and special taxes, insurance premiums, and (3) the balance of the Rents pursuant to the provisions of the Loan Agreement. This power of attorney and assignment of Rents shall be irrevocable until this Instrument shall have been satisfied and released of record and the releasing of this Instrument shall act as a revocation of this power of attorney and assignment of rents. Agent shall have and hereby expressly reserves the right and privilege (but assumes no obligation) to demand, collect, sue for, receive and recover the Rents, or any part thereof, now existing or hereafter made, and apply the same in

accordance with the provisions of the Loan Agreement.

All of the property described in the foregoing subparagraphs, and each item of property therein described, including but not limited to, the Land, the Premises, the Property Rights, the Fixtures, the Real Property, the Personal Property, the Intangibles and the Rents, is herein collectively referred to as the "Mortgaged Property".

Nothing herein contained shall be construed as constituting Agent a mortgagee in-possession in the absence of the taking of actual possession of the Mortgaged Property by Agent. Nothing contained in this Instrument shall be construed as imposing on Agent any of the obligations of the lessor under any Leases of the Real Property. In the exercise of the powers herein granted Agent, no liability shall be asserted or enforced against Agent, all such liability being expressly waived and released by Borrower.

This Instrument shall also secure the unpaid balances of future and additional loan advances made at any time while this Instrument remains unreleased of record, whether made pursuant to an obligation of Agent or otherwise. Such loan advances are or may be evidenced by the Notes, the Loan Agreement and one or more subsequent notes executed in substitution therefor. The maximum principal amount of unpaid loan indebtedness to be secured by this Instrument, exclusive of interest thereon, which may be outstanding at any time is Seventy-Five Million Dollars ($75,000,000.00). In addition to any other debt or obligation secured hereby, this Instrument shall secure: (i) unpaid balances of advances made for the payment of taxes, assessments, insurance premiums, and other costs incurred for the protection of the Mortgaged Property or the security of this Instrument; and, (ii) to the extent permitted by law, Agent's collection costs, including its attorneys fees.

Borrower, as an integral part of this Instrument, covenants, warrants, represents and agrees as follows:

1. PAYMENT OF OBLIGATIONS. Borrower shall promptly pay when due the principal and interest on the indebtedness evidenced by the Notes, any late charges, prepayment premiums or other sums required to be paid by the Notes, and all other Obligations secured by this Instrument.

2. REPRESENTATIONS AND WARRANTIES. Except as otherwise set forth in Article 4 of the Loan Agreement, Borrower hereby covenants, represents and warrants that:

(a) Borrower is lawfully seized of a fee simple estate in the real property hereby conveyed and has the right to mortgage, convey, grant and assign the Mortgaged Property; the Mortgaged Property is subject in all cases to no lien, charge or encumbrance other than liens permitted under Section 8.1 of the Loan Agreement; this Instrument is and will remain a valid and enforceable first lien on the Mortgaged Property; and Borrower shall cooperate to preserve such title, and will forever warrant and defend the title, validity and priority of the lien hereof against the claims of all persons and parties whomsoever, except for liens permitted under Section 8.1 of the Loan Agreement.

(b) Borrower is duly authorized to make and enter into this Instrument and to carry out the transactions contemplated herein.

(c) This Instrument has been duly executed and delivered pursuant to authority legally adequate therefor; Borrower has been and is authorized and empowered by all necessary persons having the power of direction over it to execute and deliver said instrument; said instrument is a legal, valid and binding obligation of Borrower, enforceable in accordance with its terms, subject, however, to bankruptcy and other law, decisional or statutory, of general application affecting the enforcement of creditors' rights, and to the fact that the availability of the remedy of specific performance or of injunctive relief in equity is subject to the discretion of the court before which any proceeding therefor may be brought.

(d) Borrower is not in default under any instruments or obligations relating to the Mortgaged Property and no party has asserted any claim of default against Borrower relating to the Mortgaged Property.

(e) The execution and performance of this Instrument and the consummation of the transactions hereby contemplated will not result in any breach of, or constitute a default under, any mortgage, lease, bank loan, or loan and security agreement, trust indenture, or other instrument to which Borrower is a party or by which it may be bound or affected; nor do any such instruments impose or contemplate any obligations which are or may be inconsistent with any other obligations imposed on Borrower under any other instrument(s) heretofore or hereafter delivered by Borrower.

(f) There are no actions, investigations, suits or proceedings (including, without limitation, any condemnation or bankruptcy proceedings) that are pending or threatened against or affecting Borrower or the Mortgaged Property and that, if determined adversely to Borrower would have

a material adverse effect on the Mortgaged Property or Borrower's ability to repay the Obligations, or which may materially and adversely affect the validity or enforceability of this Instrument, at law or in equity, or before or by any governmental authority; Borrower is not in default with respect to any writ, injunction, decree or demand of any court or any governmental authority affecting the Mortgaged Property.

(g) To the best of Borrower's knowledge, the Real Property presently complies in all materials respects with, and will continue to comply in all material respects with, all applicable restrictive covenants and applicable zoning ordinances and building codes.

(h)(i) To the best of Borrower's knowledge, the operations at the Real Property and the Real Property itself presently comply in all material respects with, and will continue to comply in all material respects with, all applicable environmental, health and safety statutes, regulations and other governmental requirements;

(ii) Borrower has obtained and will maintain, or has required its Operator (as defined in the Loan Agreement) at the Real Property to obtain and maintain, all environmental, health and safety permits necessary for the operations of the Real Property; to the Borrower's best knowledge, all such permits are in good standing and Borrower is and will remain in compliance in all material respects with all terms and conditions of such permits;

(iii) neither Borrower nor, to the best of Borrower's knowledge, any of the Real Property or its present operations is subject to any order from or agreement with any governmental authority or private party respecting the release or threatened release of a contaminant or pollutant into the environment;

(iv) with respect to the Real Property or the operations thereof, to the best of Borrower's knowledge, there are no judicial or administrative proceedings pending alleging a violation of any environmental health or safety statute, regulation or other governmental requirement;

(v) to the best of Borrower's knowledge, none of the present or past operations of the Real Property is the subject of any investigation by any governmental authority evaluating whether any remedial action is needed to respond to a release or threatened release of a contaminant or pollutant into the environment;

(vi) Borrower has not filed any notice under any statute, regulation, or other governmental requirement indicating past or present treatment, storage or disposal of a hazardous waste, as that term is defined under 40 CFR Part 261 or any State equivalent;

(vii) Borrower has not filed any notice under any applicable statute, regulation or other governmental requirement reporting a release of a contaminant or pollutant into the environment;

(viii) there is not now, nor to the best of Borrower's knowledge has there ever been, on or in the Real Property (A) any generation, treatment, recycling, storage or disposal of any material quantities of hazardous waste, as that term is defined under 40 CFR Part 261 or any state equivalent, except in compliance with applicable laws (B) any polychlorinated biphenyls used in hydraulic oils, or other equipment, or (C) any friable asbestos containing material;

(ix) to the best of its knowledge, Borrower has no material contingent liability in connection with any release or threatened release of any contaminants into the environment; and

(x) to the best of Borrower's knowledge, none of the Real Property is or will become subject to any lien in favor of any governmental entity for (A) liability under federal or state environmental laws or regulations, or (B) damages arising from or costs incurred by such governmental entity in response to a release or threatened release of a contaminant or pollutant into the environment.

(i) To the best of Borrower's knowledge, Borrower and/or its Operator owns, is licensed, or otherwise has the right to use or is in possession of all licenses, permits and government approvals or authorizations, patents, trademarks, service marks, trade names, copyrights, franchises, authorizations and other rights that are necessary for its operations on

the Real Property, without conflict with the rights of any other person with respect thereto.

(j) All Leases currently in effect relating to the Real Property have been disclosed to Agent.

(k) The Mortgaged Property is currently in service and is being utilized for the purposes intended.

3. APPLICATION OF PAYMENTS. Unless applicable law provides otherwise, all payments received by Agent from Borrower under the Notes or this Instrument shall be applied by Agent as set forth in the Loan Agreement.

4. TAXES AND IMPOSITIONS. (a) Borrower agrees to pay or cause to be paid, before any penalty or interest attaches, all general taxes and all special taxes, special assessments, water, drainage and sewer charges and all other charges, of any kind whatsoever, ordinary or extraordinary, which may be levied, assessed or imposed on or against the Mortgaged Property (all of which taxes, assessments and charges are hereinafter referred to as "Impositions") and, at the request of Agent, to exhibit to Agent official receipts evidencing such payments; provided, however, that in the case of any special assessment (or other imposition in the nature of a special assessment) payable in installments, each installment thereof shall be paid prior to the date on which each such installment becomes due and payable. Borrower agrees to exhibit to Agent, at least annually and at any time upon request, official receipts showing payment of all Impositions which Borrower is required or elects to pay or cause to be paid hereunder.

(b) If Borrower fails to pay or cause to be paid such Impositions when due and such failure continues beyond any applicable grace or cure period set forth herein or in the Loan Agreement, Agent shall have the option to pay and discharge the same without notice to Borrower and any sum so expended by Agent shall at once become indebtedness owing from Borrower to Agent, shall be immediately due and payable by Borrower with interest thereon to the extent legally enforceable at the Post-Default Rate (as defined in the Loan Agreement) and shall together be added to the Obligations secured hereunder.

(c) In the event that any court of last resort enters a decision that the undertaking by the Borrower provided for in this Paragraph 4 to pay Impositions in connection with the Mortgaged Property, or the manner of collection of any such taxes, is legally inoperative or cannot be enforced, so as to affect adversely the Agent, Agent shall have the right to exercise any remedies it would have upon the occurrence of an Event of Default (as hereinafter defined) under this Instrument with respect to the Mortgaged Property, and shall be entitled to apply any amounts realized from the exercise of such remedies to the Obligations, regardless of whether such Obligations are then due and payable, in such manner as Agent, in its sole discretion, shall determine; provided, however, that Borrower, upon the prior written consent of Agent, shall have the right to contest in good faith any such tax, assessment or charge.

5. CHANGES IN TAXATION. Borrower agrees that, if the United States or any State or any of their subdivisions having jurisdiction shall levy, assess, or charge any tax, assessment or imposition upon this Instrument or the credit or indebtedness secured hereby or the interest of Agent in the Mortgaged Property or upon Agent by reason of or as holder of any of the foregoing, or in the event that any law is enacted changing in any way the laws now in force with respect to the taxation of mortgages or debts secured thereby for any purpose, then Borrower shall pay (or reimburse Agent for) such taxes, assessments or impositions and, unless all such taxes, assessments and impositions are paid or reimbursed by Borrower when and as they become due and payable, all sums hereby secured shall become immediately due and payable, at the option of Agent, notwithstanding anything contained herein or in any law heretofore or hereafter enacted.

6. INSURANCE. (a) Borrower shall maintain, or shall cause its Operator to maintain, in full force and effect, during the term of this Instrument, at the expense of Borrower or the Operator, the property and liability insurance required under the Leases. If Borrower fails to provide or cause to be provided the aforesaid insurance, and such failure continues beyond any applicable grace or cure period set forth herein or in the Loan Agreement, Agent shall have the option to procure and maintain such insurance without notice to Borrower. Any sum so expended by Agent shall at once become indebtedness owing from Borrower to Agent and shall immediately become due and payable by Borrower with interest thereon to the extent legally enforceable at the Post-Default Rate and shall together be added to the Obligations secured hereby.

(b) Borrower shall notify Agent, in writing, of any loss to the Mortgaged Property ("Property Damage"), and Borrower shall, if necessary under Section 3.5 of the Loan Agreement, substitute new property to serve as of Real Property Collateral (as defined and set forth in the Loan

Agreement).

7. FUNDS FOR IMPOSITIONS. (a) Agent, upon the occurrence of an Event of Default, shall have the right to require that Borrower pay to Agent on the day monthly installments are payable under the Notes (or on another day designated in writing by Agent), until all Obligations are paid in full, a sum (herein "Funds") equal to one-twelfth (1/12) of the annual Impositions, as reasonably estimated initially and from time to time by Agent on the basis of assessments and bills and reasonable estimates thereof. At Agent's option, Agent from time to time may waive, and, after any such waiver, may reinstate the provisions of this Paragraph requiring the monthly payments prescribed herein.

(b) Agent shall apply the Funds to pay said Impositions so long as Borrower is not in breach of any covenant or agreement of Borrower in this Instrument. Agent shall make no charge for so holding and applying the Funds, analyzing said account or for verifying and compiling said assessments and bills. Agent shall not be required to pay Borrower any interest, earnings or profits on the Funds and shall have the right to commingle the Funds with the general funds of Agent.

(c) If the amount of the Funds held by Agent shall exceed the amount deemed necessary by Agent to provide for the payment of such Impositions as they fall due, such excess shall be credited to Borrower on the next monthly installment or installments of Funds due. If at any time the amount of the Funds held by Agent shall be less than the amount deemed necessary by Agent to pay Impositions as they fall due, Borrower shall pay to Agent an amount necessary to make up the deficiency within thirty (30) days after notice from Agent to Borrower requesting payment thereof. Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Agent may, at its option, apply any Funds held by Agent at the time of application (i) to pay Impositions, or (ii) as a credit against sums secured by this Instrument.

8. CONDEMNATION. Borrower shall immediately notify Agent of any action or proceeding relating to any condemnation or other taking, whether direct or indirect, of the Mortgaged Property, or any part thereof, and Borrower shall, if necessary under Section 3.5 of the Loan Agreement, substitute new property to serve as of Real Property Collateral (as defined and set forth in the Loan Agreement).

9. PRESERVATION AND MAINTENANCE OF MORTGAGED PROPERTY. Borrower: (a) shall not commit waste or permit impairment or deterioration of the Mortgaged Property and shall not abandon the Mortgaged Property; (b) shall reconstruct, restore or repair, or shall cause the Operator to reconstruct, restore or repair, promptly and in a good and workmanlike manner all or any part of the Mortgaged Property to the equivalent of its original condition, or such other condition as Agent may approve in writing (such approval not to be unreasonably withheld), in the event of any damage, injury or loss thereto, whether or not insurance proceeds or condemnation awards or damages are available or adequate to cover, in whole or in part, the costs of such reconstruction, restoration or repair; (c) shall keep, or shall cause the Operator to keep, the Mortgaged Property in good order, condition and repair and shall replace, or cause the Operator to replace, fixtures, equipment, machinery and appliances on the Mortgaged Property when necessary to keep such items in good repair, and will make or cause to be made, as and when the same shall become necessary, all structural and nonstructural, interior and exterior, ordinary and extraordinary, foreseen and unforeseen repairs, replacements and renewals necessary to that end; (d) shall comply, or shall cause the Operator to comply, in all material respects with all zoning, building, health and environmental laws, ordinances and regulations, and all other laws, regulations and requirements of any governmental body or agency (whether federal, state or local) having jurisdiction over the Borrower, the Mortgaged Property, or the use and occupancy thereof by Borrower or the Operator; (e) shall comply, or shall cause the Operator to comply, in all material respects with all covenants, restrictions and agreements affecting the Mortgaged Property; and (f) shall generally operate and maintain the Mortgaged Property in a manner to insure maximum income. Neither Borrower nor any other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Mortgaged Property without the prior written consent of Agent.

10. USE OF MORTGAGED PROPERTY. Unless required by applicable law, permitted pursuant to the Leases or unless Agent has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Mortgaged Property was intended at the time this Instrument was executed. Borrower shall not initiate, approve, participate in or acquiesce to any change in or modification to the zoning in effect for the Mortgaged Property or any portion thereof unless Agent shall consent to such action.

11. RESTRICTIONS ON LEASES. (a) Borrower shall not enter into any lease of the Mortgaged Property without the prior written consent of the Agent. All leases now or hereafter permitted to be entered into by Borrower will be in form and substance subject to the approval of Agent. Borrower has provided Agent with true and accurate copies of all Leases currently in effect regarding the Real Property, and Agent hereby consents to the same. (b) All permitted leases and subleases of the Mortgaged Property to which Borrower is a party shall specifically provide that (i) that the tenant thereof shall attorn to Agent,

such attornment to be effective upon Agent's acquisition of title to Guarantor's interest in the Mortgaged Property and (ii) that the attornment of the tenant shall not, in any event, be terminated by foreclosure. (c) If Borrower becomes aware that any tenant under a permitted Lease proposes to do, or is doing, any act or thing which may give rise to any right of set-off against Rent, Borrower shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against Rent, (ii) notify Agent thereof and of the amount of such set-off, and (iii) within ten (10) days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such set-off and as shall assure that Rent thereafter due shall continue to be payable without set-off or deduction. (d) If any Lease provides for a security deposit paid by the lessee to Borrower, this Instrument transfers to Agent all of Borrower's right, title and interest in and to the security deposit; provided that Borrower shall have the right to retain said security deposit so long as no Event of Default has occurred under this Instrument or under the Loan Agreement or the other Loan Documents; and provided further that Agent shall have no obligation to the lessee with respect to such security deposit unless and until Agent comes into actual possession and control of said deposit. (e) In the event that Borrower terminates any Lease, or modifies or amends any Lease or any of the terms thereof, Borrower shall, if necessary under Section 3.5 of the Loan Agreement, substitute new property to serve as of Real Property Collateral (as defined and set forth in the Loan Agreement). Borrower shall provide Agent with true and accurate copies of any documents terminating, modifying or amending any Leases permitted hereunder. (f) Borrower shall not collect any Rents more than thirty (30) days in advance of the date on which they become due. (g) Borrower shall not discount any future accruing Rents nor grant any concession in the form of a waiver, release, reduction, discount or other alteration of Rents due or to become due. (h) Without the prior written consent of Agent, Borrower shall not consent to any assignment of any lessee's interest in a Lease, or any subletting thereunder. (i) Borrower shall not execute any further assignment of any of the Leases or Rents or any interest therein or suffer or permit any such assignment to occur by operation of law. (j) Borrower shall faithfully perform and discharge all obligations of the lessor under any Lease, and shall give prompt written notice to Agent of any notice of Borrower's default received from any lessee or any other person and furnish Agent with a complete copy of said notice. Borrower shall appear in and defend, at no cost to Agent, any action or proceeding arising under or in any manner connected with any Lease. If reasonably requested by Agent, Borrower shall enforce each Lease and all remedies available to Borrower against the lessee in the case of an Event of Default under any Lease by the lessee. (k) Borrower shall use its best efforts to deliver to Agent, promptly within thirty (30) days after request, duly executed estoppel certificates from any one or more lessees as required by Agent attesting to such facts regarding the Leases as Agent may reasonably require, including but not limited to attestations that each Lease covered hereby is in full force and effect, that the lessee is in occupancy and paying rent on a current basis with no rental offsets or claims, that no rental has been paid more than thirty (30) days in advance other than as provided for in the Leases, and that there are no actions, whether voluntary or otherwise, pending against the lessee under the bankruptcy laws of the United States or any state thereof.

12. TRANSFERS OF INTEREST IN MORTGAGED PROPERTY. Except as otherwise provided in the Loan Agreement, Borrower shall not make, create or suffer to be made or created any sale, transfer, conveyance, assignment or further encumbrance of the Mortgaged Property, or any part thereof, or any interest therein without Agent's prior written consent, which consent shall not be unreasonably withheld. A sale, transfer, conveyance or assignment means the conveyance by the Borrower of any legal or equitable right, title or interest in the Mortgaged Property or any part thereof, whether such conveyance is voluntary or involuntary, by outright sale, deed, installment sale contract, land contract, lease, lease option contract, pledge or any other method of transferring any interest in real property. Any encumbrance means a lien, mortgage or any other encumbrance subordinate or superior to Agent's mortgage excepting, however, those Liens permitted pursuant to Section 8.1 of the Loan Agreement. Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Mortgaged Property. Borrower hereby covenants and agrees that Agent shall be subrogated to the lien of any mortgage or other lien discharged, in whole or in part, by the indebtedness secured hereby.

13. INSPECTION. Agent, or any person designated by Agent in writing, shall have the right, from time to time hereafter, to call at the Premises (or at any other place where information relating thereto is kept or located) during reasonable business hours and, with reasonable advance notice, to make such inspection and verification of the Premises, and the affairs, finances and business of Borrower in connection with the Premises, as Agent may consider reasonable under the circumstances, and to discuss the same with any officers or directors of Borrower.

14. SECURITY AGREEMENT. This Instrument shall constitute a Security Agreement within the meaning of the UCC (as defined in the Loan Agreement) with respect to so much of the equipment and/or furnishings attached to or used in connection with the premises as are considered or as shall be determined to be personal property or "fixtures" (as defined in the UCC), together with all replacements

thereof, substitutions therefor or additions thereto (all included within the term "Fixtures", as set forth hereinabove), and that a security interest shall attach thereto for the benefit of the Agent to secure the indebtedness evidenced by the Notes or other obligations secured by this Instrument and all other sums and charges which may become due hereunder or thereunder. The Borrower hereby appoints the Agent as its lawful agent and attorney-in-fact to prepare, execute and file financing and continuation statements with respect to the Fixtures without the signature of the Borrower. If there shall exist a default under this Instrument, the Agent, pursuant to the appropriate provisions of the UCC, shall have the option of proceeding as to both real and personal property in accordance with its rights and remedies in respect to the real property, in which event the default provisions of the UCC shall not apply. The parties agree that, in the event the Agent shall elect to proceed with respect to the Fixtures separately from the real property, unless a greater period shall then be mandated by the UCC, ten (10) days notice of the sale of the Fixtures shall be reasonable notice. The expenses of retaking, holding, preparing for sale, selling and the like incurred by the Agent shall be assessed against the Borrower and shall include, but not be limited to, any legal expenses reasonably incurred by the Agent. The Borrower agrees that it will not remove or permit to be removed from the Premises any of the Fixtures without the prior written consent of the Agent except as hereinabove provided. All replacements, renewals and additions to the Fixtures shall be and become immediately subject to the security interest of this Instrument and the provisions of this Security Agreement. The Borrower warrants and represents that, except for the Liens in Section 8.1 of the Loan Agreement, all Fixtures now are, and that all replacements thereof, substitutions therefor or additions thereto, unless the Agent otherwise consents, will be, free and clear of liens, encumbrances or security interests of others created after the date hereof.

15. BOOKS AND RECORDS. Borrower shall keep and maintain at all times at Borrower's address stated herein, or such other place as Agent may approve in writing, complete and accurate books of accounts and records adequate to reflect correctly the results of the operation of the Mortgaged Property and copies of all written contracts, leases and other instruments which affect the Mortgaged Property. Such books, records, contracts, leases and other instruments shall be subject to examination and inspection at any reasonable time by Agent. Borrower shall furnish, upon request by Agent, a rent schedule for the Mortgaged Property, certified by Borrower, in form and content acceptable to Agent. The provisions of this Paragraph 15 shall be in addition to any requirements contained in the Loan Agreement.

16. HAZARDOUS SUBSTANCES. (a) Borrower hereby covenants and agrees with Agent that the following terms shall have the following meanings:

(1) "Environmental Laws" mean all federal, state and local laws, statutes, ordinances and codes relating to the use, storage, treatment, generation, transportation, processing, handling, production or disposal of any Hazardous Substance and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives with respect thereto.

(2) "Hazardous Substance" means, without limitation, any flammable explosives, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum based products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials, as defined in the comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. Sections 2601, et seq.), or any other applicable Environmental Laws.

(3) "Indemnitee" means Agent, its participants in the loan evidenced by the Notes and all subsequent holders of this Instrument, their respective successors and assigns, their respective officers, directors, employees, agents, representatives, contractors and subcontractors and any subsequent owner of the Mortgaged Property who acquires title thereto from or through Agent.

(4) "Release" has the same meaning as given to that term in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.), and the regulations promulgated thereunder.

(b) Borrower represents and warrants to Agent that, to its knowledge after due investigation:

(1) that Mortgaged Property is not being and has not been used for the storage, treatment, generation, transportation, processing, handling, production or disposal of any Hazardous Substance in violation of any Environmental Laws;

(2) the Mortgaged Property does not contain any Hazardous Substance in violation of any Environmental Laws;

(3) there has been no Release of any Hazardous Substance on,

at or from the Mortgaged Property or any Mortgaged Property adjacent to or within the immediate vicinity of the Mortgaged Property and Borrower has not received any form of notice or inquiry with regard to such a Release or the threat of such a Release;

(4) no event has occurred with respect to the Mortgaged Property which, with the passage of time or the giving of notice, or both, would constitute a violation of any applicable Environmental Laws;

(5) there are no agreements or orders or directives of any federal, state or local governmental agency or authority relating to the Mortgaged Property which require any work, repair, construction, containment, clean up, investigations, studies, removal or other remedial action with respect to the Mortgaged Property; and

(6) there are no actions, suits, claims or proceedings, pending or threatened, which seek any remedy that arise out of the condition, ownership, use, operation, sale, transfer or conveyance of the Mortgaged Property and (i) a violation or alleged violation of any applicable Environmental Laws, (ii) the presence of any Hazardous Substance or Release of any Hazardous Substance or the threat of such a Release, or (iii) human exposure to any Hazardous Substance.

(c) Borrower covenants and agrees with Agent as follows:

(1) Borrower shall keep, and shall cause all operators, tenants, sub-tenants, licensees and occupants of the Mortgaged Property to keep, the Mortgaged Property free of all Hazardous Substances, except for Hazardous Substances stored, treated, generated, transported, processed, handled, produced or disposed of in the normal operation of the Mortgaged Property in accordance with all Environmental Laws.

(2) Borrower shall comply with, and shall cause all Operators, tenants, sub-tenants, licensees and occupants of the Mortgaged Property to comply with, all Environmental Laws.

(3) Borrower shall promptly provide Agent with a copy of all notifications which Borrower gives or receives with respect to any past or present Release of any Hazardous Substance or the threat of such a Release on, at or from the Mortgaged Property or any Mortgaged Property adjacent to or within the immediate vicinity of the Mortgaged Property.

(4) Borrower shall undertake and complete all investigations, studies, sampling and testing for Hazardous Substances required by Agent and, in accordance with all Environmental Laws, all removal and other remedial actions necessary to contain, remove and clean up all Hazardous Substances that are determined to be present at the Mortgaged Property in violation of any Environmental Laws.

(5) Agent shall have the right, but not the obligation, to cure any violation by Borrower of the Environmental Laws and Agent's cost and expense to so cure shall be secured by this Instrument.

(d) (1) Borrower covenants and agrees, at its sole cost and expense, to indemnify, defend and save harmless Indemnitee from and against any and all damages, losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, judgments, suits, actions, proceedings, costs, disbursements and/or expenses (including, without limitation, reasonable attorneys' and experts' fees and expenses) of any kind or nature whatsoever which may at any time be imposed upon, incurred by or asserted or awarded against Indemnitee arising out of the condition, ownership, use, operation, sale, transfer or conveyance of the Mortgaged Property and (i) the storage, treatment, generation, transportation, processing, handling, production or disposal of any Hazardous Substance, (ii) the presence of any Hazardous Substance or a Release of any Hazardous Substance or the threat of such a Release, (iii) human exposure to any Hazardous Substance, (iv) a violation of any Environmental Laws, or (v) a material misrepresentation or inaccuracy in any representation or warranty or material breach of or failure to perform any covenant made by Borrower herein (collectively, the "Indemnified Matters").

(2) The liability of Borrower to Indemnitee hereunder shall in no way be limited, abridged, impaired or otherwise affected by (i) the repayment of all sums and the satisfaction of all obligations of Borrower under the Notes, this Instrument or other Loan Documents, (ii) the foreclosure of this Instrument or the acceptance of a deed in lieu thereof, (iii) any amendment or modification of the Notes, this Instrument or other Loan Documents by or for the benefit of Borrower or any subsequent owner of the Mortgaged Property, (iv) any extensions of time for payment or performance required by the Notes, this Instrument or other Loan Documents, (v) the release or discharge of this Instrument or of Borrower, any guarantor of the loan evidenced by the Notes or any other person from the performance or observance of any of the agreements, covenants, terms or conditions contained in the Notes, this Instrument or other Loan Documents whether by Agent, by operation of law or otherwise, (vi) the invalidity or

unenforceability of any of the terms or provisions of the Notes, this Instrument or other Loan Documents, (vii) any exculpatory provision contained in the Notes, this Instrument or other Loan Documents limiting Agent recourse to Mortgaged Property encumbered by this Instrument or to any other security or limiting Agent rights to a deficiency judgment against Borrower, (viii) any applicable statute of limitations, (ix) the sale or assignment of the Notes or this Instrument, (x) the sale, transfer or conveyance of all or part of the Mortgaged Property, (xi) the dissolution or liquidation of Borrower, (xii) the death or legal incapacity of Borrower, (xiii) the release or discharge, in whole or in part, of Borrower in any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding, or (xiv) any other circumstances which might otherwise constitute a legal or equitable release or discharge, in whole or in part, of Borrower under the Notes or this Instrument.

(3) The foregoing indemnity shall be in addition to any and all other obligations and liabilities Borrower may have to Agent at common law and under the Loan Agreement. In the event of a conflict between the provisions of this Paragraph 16 and the Loan Agreement, the provisions of either the Loan Agreement or this Paragraph 16 shall control, at Agent's option.

(e) Agent shall have the right to perform or to require Borrower to perform an environmental audit and/or an environmental risk assessment of the Real Property waste management practices and/or waste disposal sites used by Borrower, provided that such environmental audits and/or environmental risk assessments are not required more frequently than once annually and Agent has reasonable cause to believe that the Real Property is contaminated. The environmental audit shall: (1) investigate any environmental hazards or conditions for which Borrower may be liable with regard to (i) the Real Property, (ii) waste management practices and/or (iii) waste site disposal sites used by Borrower; and, (2) determine whether the Borrower's operations on the Real Property comply in all respects deemed material by Agent with all applicable environmental, health and safety statutes and regulations. Said audit and/or risk assessment must be by an environmental consultant satisfactory to Agent and Borrower, and the audit and/or risk assessment must be satisfactory to Agent and Borrower. All costs and expenses incurred by Agent in the performance of any environmental audit and/or risk assessment shall be secured by this Instrument and shall be payable by Borrower upon demand or charged to Borrowers' loan balance at the discretion of Agent.

(f) To the extent that the provisions of this Section 16, other than the indemnification provisions of Subsection (d), would require Borrower to take any action with respect to the Mortgaged Property, in lieu of taking such action, Borrower may elect to substitute the Mortgaged Property pursuant to Section 3.5 of the Loan Agreement.

17. REMEDIES.

(a) If any Event of Default shall have occurred and be continuing, then to the extent permitted by applicable law, and in addition to any rights or remedies provided in the Loan Agreement, the following provisions shall apply:

(i) All Obligations shall, at the option of Agent, become immediately due and payable without presentment, demand or further notice.

(ii) It shall be lawful for Agent to: (i) immediately sell the Mortgaged Property either in whole or in separate parcels, as prescribed by State law, under power of sale, which power is hereby granted to Agent to the full extent permitted by State law, and thereupon, to make and execute to any purchaser(s) thereof deeds of conveyance pursuant to applicable law; or, (ii) immediately foreclose this Instrument by legal proceedings. The court in which any proceeding is pending for the purpose of foreclosure of this Instrument may, at once or at any time thereafter, either before or after sale, without notice and without requiring bond, and without regard to the solvency or insolvency of any person liable for payment of the Obligations secured hereby, and without regard to the then value of the Mortgaged Property or the occupancy thereof as a homestead, appoint a receiver (the provisions for the appointment of a receiver and assignment of rents being an express condition upon which the loan evidenced by the Loan Agreement and the other financial accommodations to the Loan Agreement and the other financial accommodations to Borrower have been made) for the benefit of Agent, with power to collect the Rents, due and to become due, during such foreclosure suit and the full statutory period of redemption. The receiver, out of such Rents, when

collected, may pay costs incurred in the management and operation of the Real Property, prior and coordinate liens, if any, and taxes, assessments, water and other utilities and insurance, then due or thereafter accruing, and may make and pay for any necessary repairs to the Real Property or the Personal Property, and may, to the extent permitted by law, pay all or any part of the Obligations then due and payable, or other sums secured hereby or any deficiency decree entered in such foreclosure proceedings.

(iii) It is agreed that the then owner of the Mortgaged Property, if said owner is the occupant of the Mortgaged Property or any part thereof, shall immediately surrender possession of the Mortgaged Property so occupied to the Agent, and if such occupant is permitted to remain in possession, the possession shall be as tenant of the Agent and such occupant shall, on demand, pay monthly in advance to the Agent a reasonable rental for the space so occupied and in default thereof, such occupant may be dispossessed by the usual summary proceedings. In case of foreclosure and the appointment of a receiver of Rents, the covenants herein contained may be enforced by such receiver.

(iv) Agent shall, at its option, have the right, acting through its agents or attorneys, either with or without process of law, forcibly or otherwise, to enter upon and take possession of the Mortgaged Property, expel and remove any persons, goods, or chattels occupying or upon the same, to collect or receive all the rents, issues and profits thereof and to manage and control the same, and to sublease the same or any part thereof, from time to time, and, after deducting all actual and reasonable attorneys' and paralegals' fees and expenses, and all expenses incurred in the protection, care, maintenance, management and operation of the Mortgaged Property, apply the remaining net income upon the Obligations or other sums secured hereby or upon any deficiency decree entered in any foreclosure proceedings as set forth in the Loan Agreement.

(b) In any foreclosure of this Instrument by action, or any sale of the Mortgaged Property under power of sale granted herein, there shall be allowed (and included in the decree for sale in the event of a foreclosure by action), to be paid out of the rents or the proceeds of such foreclosure proceeding or sale:

(i) all of the Obligations and other sums secured hereby which then remain unpaid;

(ii) all other items advanced or paid by Agent pursuant to this Instrument, with interest thereon to the extent legally enforceable at the Post-Default Rate (as defined in the Loan Agreement) from the date of advancement; and

(iii) all court costs, attorneys' and paralegals' fees and expenses, appraiser's fees, advertising costs, notice expenses, expenditures for documentary and expert evidence, stenographer's charges, publication costs, and costs (which may be estimated as to items to be expended after entry of the decree) of procuring all abstracts of title, title searches and examinations, title guarantees, title insurance policies, Torrens certificates and similar data with respect to title which Agent may deem necessary. All such expenses shall become additional Obligations secured hereby and immediately due and payable, with interest thereon to the extent legally enforceable at the Post-Default Rate, when paid or incurred by Agent in connection with any proceedings, including but not limited to probate and bankruptcy proceedings, to which Agent shall be a party, either as plaintiff, claimant or defendant, by reason of this Instrument or any indebtedness hereby secured or in connection with the preparations for the commencement of any suit for the foreclosure, whether or not actually commenced, or sale under power of sale. The proceeds of any sale (whether through a foreclosure proceeding or Agent's exercise of the power of sale) shall be distributed and applied to the items described in (i), (ii), and (iii) of this Paragraph 17(b), as provided in the Loan Agreement, and any surplus of the proceeds of such sale shall be paid to Borrower or such other parties as may be entitled to receive the same.

18. SALE OF PARCELS. To the extent permitted by law, if more than one property, lot or parcel is covered by this Instrument, and if this Instrument is foreclosed upon, or judgment is entered upon any Obligations, or if Agent exercises its power of sale, execution may be made upon or Agent may exercise its power of sale against any one or more of the properties, lots or parcels and not upon the others, or upon all of such properties or parcels, either together or separately, and at different times or at the same time, and execution sales or sales by advertisement may likewise be conducted separately or concurrently, in each case at Agent's election.

19. WAIVER OF REDEMPTION RIGHTS. Borrower represents that it has been authorized to, and Borrower does hereby, waive (to the full extent permitted under state law) any and all statutory or equitable rights of redemption from sale by advertisement or sale under any order or decree of foreclosure of this Instrument on behalf of Borrower and each and every person, except decree or judgment creditors of Borrower, acquiring any interest in or title to the Mortgaged Property subsequent to the date hereof. Borrower agrees, to the full extent permitted by law, that in case of an Event of Default, neither Borrower nor anyone claiming through or under it shall or will set up, claim or seek to take advantage of any appraisement, valuation, stay, or extension laws now or hereafter in force, in order to prevent or hinder the enforcement or foreclosure of this Instrument or the absolute sale of the Mortgaged Property or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser thereat, and Borrower, for itself and all who may at any time claim through or under it, hereby waives, to the full extent that it may lawfully so do, the benefit of all such laws, and any and all right to have the assets comprising the Mortgaged Property marshaled upon any foreclosure of the lien hereof and agrees that Agent or any court having jurisdiction to foreclose such lien may sell the Mortgaged Property in part or as an entirety.

20. PROTECTION OF AGENT'S SECURITY. (a) If Borrower fails to perform the covenants and agreements contained in this Instrument or if any action or proceeding is commenced which affects the Mortgaged Property or title thereto or the interest of Agent therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then, at Agent's option, Agent may make such appearances, disburse such sums and take such actions as Agent deems necessary, in its sole discretion, to protect Agent's interest herein, including, but not limited to, (1) disbursement of attorney fees, (2) entry upon the Mortgaged Property to make repairs, and (3) procurement of satisfactory insurance.

(b) Any amounts disbursed by Agent pursuant to this Paragraph 20, together with interest thereon, shall become additional indebtedness of Borrower secured by this Instrument. Unless Borrower and Agent agree to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement to the extent legally enforceable at a rate equal to the Post-Default Rate set forth in the Loan Agreement. Nothing contained in this Paragraph 20 shall require Agent to incur any expense or take any action hereunder.

21. MODIFICATION OR EXTENSION NOT A RELEASE. From time to time, Agent may, at Agent's option, without giving notice to or obtaining the consent of Borrower, Borrower's successor or assigns, or of any guarantors, without liability on Agent's part and notwithstanding Borrower's breach of any covenant or agreement of Borrower in this Instrument, extend the time for payment of the indebtedness evidenced by the Notes or any part thereof, reduce the payments thereon, release anyone liable on any of said indebtedness, accept a renewal note or notes therefor, agree with Borrower, in writing, to modify the terms and time of payment of said indebtedness, release from the lien of this Instrument any part of the Mortgaged Property, take or release other or additional security, reconvey any part of the Mortgaged Property, consent to any map or plan of the Mortgaged Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Notes. Any actions taken by Agent pursuant to the terms of this Paragraph 21 shall not affect the obligation of Borrower, or Borrower's successors or assigns, to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the indebtedness secured hereby, and shall not affect the lien or priority of the lien hereof on the Mortgaged Property.

22. FORBEARANCE BY AGENT NOT A WAIVER. Any forbearance by Agent in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy. The acceptance by Agent of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of Agent's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment.

23. REMEDIES CUMULATIVE. Agent shall have any additional remedies provided in the Loan Agreement. Each remedy or right of Agent shall not be exclusive of but shall be in addition to every other remedy or right now or hereafter existing at law or in equity. No delay in the exercise or omission to exercise any remedy or right accruing on any default shall impair any such remedy or right or be construed to be a waiver of any such default or acquiescence therein, nor shall it affect any subsequent default of the same or in different nature. To the extent permitted by law, every such remedy or right may be exercised concurrently or independently and when and as often as may be deemed expedient by Agent.

24. ESTOPPEL CERTIFICATE. Borrower shall, within ten (10) days of written request from Agent, furnish Agent with a written statement, duly acknowledged, setting forth the sums secured by this Instrument and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of Borrower under the Notes and this Instrument.

25. NOTICE. All notices and demands hereunder shall be made in writing and in the manner, and to the addresses, provided for in Section 11.2 of the Loan Agreement, and shall be deemed delivered in accordance with Section 11.2 of the Loan Agreement.

26. SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; AGENTS. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Agent and Borrower, subject to the provisions of Paragraph 12 hereof. This Instrument, and any instrument or documents made in connection herewith, may be assigned by the Agent without notice to or the consent of Borrower or any other party. All covenants and agreements of Borrower shall be joint and several. In exercising any rights hereunder or taking any actions provided for herein, Agent may act through its employees, agents or independent contractors as authorized by Agent.

27. CAPTIONS. The captions and headings of the paragraphs of this Instrument are for convenience only and are not to be used to interpret or define the provisions hereof.

28. GOVERNING LAW. This Instrument shall be construed under and governed by the laws of the state wherein the Mortgaged Property is situated.

29. SEVERABILITY. Wherever possible, each provision of this Instrument shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Instrument shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Instrument.

30. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Notes or any other obligation secured by this Instrument.

31. COMPLIANCE WITH SECTION 1445 OF INTERNAL REVENUE CODE. Section 1445 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform Agent that the withholding of tax will not be required in the event of any disposition of the Mortgaged Property pursuant to the terms of this Instrument, Borrower hereby certifies, under penalty of perjury, that:

(a) Borrower is not a foreign corporation, foreign partnership, foreign trust, or foreign estate, as those terms are defined in the Internal Revenue Code and the regulations promulgated thereunder; and

(b) Borrower's principal place of business is as set forth at the beginning of this Instrument.

32. CHANGE IN LAW. In the event of the enactment after the date hereof and prior to foreclosure of any law, rule or regulation of any governmental entity deducting from the value of the Mortgaged Property for the purpose of taxation any lien or security interest thereon, or changing in any way the laws for the taxation of mortgages, deeds of trust or other liens or debts secured thereby, or the manner of collection of such taxes, so as to affect this Instrument, the Obligations, Agent or the holders of the Obligations, then, and in such event, Borrower shall, on demand, pay to Agent or such holder or reimburse Agent or such holder for payment of, all taxes, assessments, charges or liens for which Agent or such holder is or may be liable as a result thereof, provided that if any such payment or reimbursement shall be unlawful or would constitute usury or render the Obligations wholly or partially usurious under applicable law, then Agent may, at its option, declare the Obligations immediately due and payable or require Borrower to pay or reimburse Agent for payment of the lawful and non-usurious portion thereof.

33. DOCUMENT STAMPS. Borrower agrees that, if the United States Government or any department, agency or bureau thereof or any state or any of its subdivisions shall at any time require documentary stamps to be affixed to the Instrument, Borrower will, upon request, pay for such stamps in the required amount and deliver them to Agent, and Borrower agrees to indemnify Agent against liability on account of such documentary stamps, whether such liability arises before or after payment of the Obligations and regardless of whether this Instrument shall have been released.

34. FURTHER ASSURANCES. Borrower agrees that, upon request of Agent from time to time, it will execute, acknowledge and deliver all such additional instruments and further assurances of title and will do or cause to be done all such further acts and things as may reasonably be necessary to fully effectuate the intent of this Instrument. In the event that Borrower shall fail to do any of the foregoing, Agent may, in its sole discretion, do so in the name of Borrower, and Borrower hereby appoints Agent as its attorney-in-fact to do any of the foregoing.

35. NO MERGER. In the event of a foreclosure of this Instrument, the Obligations

then due the Agent shall not be merged into any decree of foreclosure entered by the court, and Agent may concurrently or subsequently seek to foreclose one or more mortgages or deeds of trust which also secure said Obligations.

36. PRECEDENCE OF DOCUMENTS. Except as otherwise specifically set forth herein, in the event of a conflict or inconsistency between this Instrument and the provisions of the Loan Agreement, the provisions of the Loan Agreement shall govern. Except as otherwise provided herein, any terms defined in the Loan Agreement shall have the same meaning herein.

37. MODIFICATION AND AMENDMENT. Neither this Instrument nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. To the extent permitted by law, any agreement hereafter made by Borrower and Agent relating to this Instrument shall be superior to the rights of the holder of any intervening lien or encumbrance.

38. JURISDICTION, VENUE AND WAIVER OF TRIAL BY JURY. The Borrower hereby waives any and every right to interpose any counterclaim in any action or proceeding on or related to this Instrument. The Borrower hereby submits to the jurisdiction of the courts of the state wherein the Real Property is located and agrees with the Agent that personal jurisdiction over the Borrower shall rest with such courts for purposes of any action on or related to this Instrument or the enforcement of same. The Borrower hereby waives personal service by manual delivery and agrees that service of process may be made by postpaid certified mail directed to the Borrower at the Borrower's address set forth at the address recited in the preamble hereto or at such other address as may be designated in writing by the Borrower to the Agent, and that upon mailing of such process such service be effective with the same effect as though personally served. The Borrower hereby expressly waives any and every right to a trial by jury in any action on or related to this Instrument or the enforcement of same.

39. WAIVER OF MARSHALING. Notwithstanding the existence of any other security interests in the Mortgaged Property held by Agent or by any other party, Agent shall have the right to determine the order in which any or all of the Mortgaged Property shall be subjected to the remedies provided herein. Agent shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Mortgaged Property and who has actual or constructive notice hereof, hereby waives any and all right to require the marshaling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

PROVIDED, however, that these presents are upon the condition that if the Borrower shall well and truly pay to Agent, its successors and assigns, the total of the indebtedness secured hereby, and shall fully keep and perform all of the conditions, covenants and agreements to be kept and performed by Borrower under this Instrument, then this Instrument shall be void and upon demand therefor following such payment, a satisfaction or release of mortgage shall be provided by Agent to Borrower or such other party as may be required by law.

IN WITNESS WHEREOF, the said Borrower hereunto duly authorized, has caused this Instrument to be executed.

Signed and acknowledged in the presence of the following:

STERLING ACQUISITION CORP.

_____ By: _____
Printed: _____ Printed: _____

Printed: _____ Title: _____

STATE OF _____)
) ss.:
COUNTY OF _____)

On the _____ day of August, 2000, before me personally came _____, to me known, who being by me duly sworn, did depose and say that he/she is the duly authorized _____ of STERLING ACQUISITION CORP., a Kentucky corporation, described in and which executed the foregoing instrument; and that the foregoing instrument was signed on behalf of said corporation, and said _____ acknowledged the execution of said instrument to be his/her free act and deed and the free act and deed of the corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal as of the day and year first above written.

Notary Public

EXHIBIT A

LEGAL DESCRIPTION

EXHIBIT B

Assigned Rent

The total rent due and payable from Sterling Health Care Management, Inc. to Borrower attributable to the Mortgaged Property, which rent equals $237,665 per annum, as increased pursuant to the Master Lease dated December 1, 1994 and amended March 3, 1999.

FORM OF SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement") entered into this _____day of August, 2000, by and between DELTA INVESTORS I, LLC, a Maryland limited liability company corporation, having its principal office at 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 ("Borrower"), and THE PROVIDENT BANK, AGENT, an Ohio banking corporation, having its principal office at One East Fourth Street, Cincinnati, Ohio 45202 ("Agent").

1. Granting Clause.

To secure the Obligations (as defined in Section 2 hereof), Borrower hereby grants to Agent, to the extent of Borrower's right, title and interest, if any, in the following, a security interest in all of the following located on, generated by, arising from, or used in connection with, the Real Property Collateral listed in Exhibit "A" hereto, as the same may be amended from time to time (the "Premises"): Borrower's Accounts, Inventory, Equipment, General Intangibles, fixtures, leases, money, goods, motor vehicles, leasehold improvements, Documents, Instruments, Chattel Paper, Intellectual Property, inventory subject to leases and rights under lease agreements for the leasing of inventory, money, deposit accounts, securities, funds, rights to draw on letters of credit, permits, licenses and the cash or noncash produces and Proceeds (including insurance or other rights to receive payment with respect thereto) of any of the foregoing and all accessions and additions to and replacements and substitutions for the foregoing, and all books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records of Borrower and each Subsidiary) (whether or not stored in written or electronic form) pertaining to any of the foregoing (such property is hereinafter referred to as the "Collateral"). Capitalized terms used but not defined herein shall have the meanings assigned to them in that certain Loan Agreement (as hereinafter defined).

2. Obligations Secured Hereby.

Borrower and Agent have entered into a certain Loan Agreement dated August ____, 2000 (as such agreement may be amended, modified or supplemented from time to time, the "Loan Agreement"), providing for extensions of credit to be made by the Lenders to Borrower, in accordance with the terms and conditions of the Loan Agreement, on a revolving credit basis in the aggregate maximum principal amount of Seventy-Five Million Dollars and 00/100 Dollars ($75,000,000.00) (the "Loan"). To induce Agent and Lenders to enter into the Loan Agreement and to extend the credit thereunder, Borrower hereby grants a security interest in the Collateral to Agent to secure the full and timely payment and performance of the Obligations, as defined in the Loan Agreement, including, but not limited to, the full and timely payment of all sums due under the Notes.

3. Borrower's Representations, Warranties and Covenants.

(a) Collateral. Borrower hereby represents and warrants that (i) except for the security interest granted hereby and the Liens permitted under Section 8.1 of the Loan Agreement, Borrower is, or to the extent that this Security Agreement provides that the Collateral is to be acquired after the date hereof will be, the owner of the Collateral free and clear of all liens, pledges, security interests or other encumbrances of any nature whatsoever; and (ii) upon execution of this Security Agreement and recording of applicable financing statements, the security interest granted hereby will otherwise be the only security interest in the Collateral.

(b) Enforceability. Borrower represents and warrants that the execution and performance of this Security Agreement has been duly authorized by all appropriate action of Borrower and this Security Agreement has been duly executed by Borrower, delivered to Agent and constitutes the legal, valid and binding obligation of Borrower, enforceable against it in accordance with its terms, subject to applicable bankruptcy laws. Neither the execution or delivery by Borrower of this Security Agreement nor the consummation by Borrower of the transactions contemplated hereby nor compliance by Borrower with the provisions hereof, conflicts with or results in a breach of any of the provisions of the organizational documents of Borrower or of the provisions of any other agreement, instrument or understanding to which it is a party or by which it or any of its assets or properties are bound.

(c) Protection of Collateral. (i) Except for Permitted Liens or as otherwise provided herein, Borrower will keep the Collateral free from any lien, security interest or other encumbrance adverse to the security interest granted hereby and in good order and repair (ordinary wear and tear excepted) and will not waste or destroy the Collateral or any part thereof; (ii) Borrower will not use the Collateral in violation of any statute, ordinance or regulation; (iii) Agent may examine and inspect the Collateral at any reasonable time, wherever located; (iv) Borrower will at any time and from time to time execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments and will take such other action, as Agent reasonably requests and reasonably deems necessary or advisable to (a) grant Agent a security interest in all or any portion of the Collateral, (b) maintain or preserve the lien of this Security Agreement to carry out more effectively the purpose hereof, (c) perfect, publish notice of or protect the validity of or of any grant made or to be made by this Security Agreement, (d) enforce this Security Agreement, or (e) preserve and defend the Collateral and the rights of Agent therein against the claims and demands of all persons and entities claiming the same or any interest therein.

(d) Performance of Obligations. Borrower will punctually perform and observe or cause to be punctually performed and observed all of the Obligations.

(e) Maintenance and Inspection of Records. Borrower will maintain accurate and complete records in respect of the Collateral and shall at all reasonable times allow Agent by any officer, employee or agent to examine, audit or inspect (including making extracts from) such records and to arrange for verification of the Collateral. Borrower also agrees to furnish such information or reports relating to the Collateral as Agent may from time to time reasonably request.

(f) Insurance and Taxes.

(i) Insurance of Collateral. Borrower agrees to maintain, or shall require its Operator for such Premises to maintain, insurance at all times with respect to the Collateral in accordance with the lease between Borrower and its Operator for such Premises and the Mortgage in favor of Agent on the Premises.

(ii) Payment of Taxes and Assessments. Borrower agrees to promptly pay, or cause its Operator for such Premises to promptly pay, when due all taxes and assessments imposed on or with respect to all the Collateral. If such taxes and assessments are not paid when due, Agent may do so for Borrower's account and all expenditures so paid by Agent will be payable upon Agent's demand and until paid by Borrower will accrue interest at the Post-Default Rate. Notwithstanding the foregoing, Borrower shall be permitted to contest the amount or the validity, in whole or in part, of any tax or tax claim.

(g) Location of Collateral. Borrower covenants that the Collateral will be kept at all times on or in the Premises and that the Collateral will not be removed, in whole or in part, from such Premises without the prior written consent of Agent; provided, however, Agent agrees that Borrower may, at any time and from time to time, (i) substitute or replace the Collateral ("Substituted or Replaced Collateral") with Collateral of equal or greater value and that Borrower may, in connection with each such substitution or replacement, remove the Substituted or Replaced Collateral from such Premises, and (ii) dispose of or replace Collateral in the same manner that Borrower is permitted under the Loan Agreement.

(h) Survival of Representations and Warranties. All representations and warranties made by Borrower in this Security Agreement shall survive the execution and delivery of this instrument until such time as the Notes and all other Obligations shall have been paid or otherwise satisfied in full.

4. Borrower's Rights with Respect to Collateral.

Unless and until the occurrence of an Event of Default which has not otherwise been waived in writing, Borrower shall have the right to utilize the

Collateral in the ordinary course of its business and to substitute, replace, transfer, sell or dispose of the Collateral in accord with Section 3(g) hereof, but shall not have the right to otherwise sell, lease or dispose of or transfer the Collateral or any interest therein other than in connection with the Disposition of the Premises in accordance with Section 8.4 of the Loan Agreement; provided, however, so long as an Event of Default shall not have occurred and be continuing, any portion of the Collateral which constitutes Inventory or Accounts may be sold or transferred in the ordinary course of business. Unless an Event of Default shall have occurred and be continuing, Borrower shall not be required to deliver certificates or instruments representing or evidencing letters of credit or security or liquidity deposits, which the Borrower holds in connection with any of the Collateral.

5. Events of Default and Remedies.

(a) Rights and Remedies upon an Event of Default. If any Event of Default under the Loan Agreement shall have occurred and has not otherwise been waived in writing, Agent may proceed to protect and enforce its rights under this Security Agreement by suit in equity, action at law or any other appropriate proceeding and Agent shall have, without limitation, all of the rights and remedies provided by applicable law, including, without limitation, the rights and remedies of a secured party under the UCC of the state governing disposition of the Collateral. Borrower shall be liable for any deficiency remaining after the collection of the Collateral and application of the proceeds to the Obligations to the fullest extent permitted by applicable law.

(b) Power of Attorney with Respect to the Collateral. Provided an Event of Default has occurred and has not been waived in writing, Agent shall have the right with respect to the payment of the Obligations, whether as scheduled, by acceleration, or otherwise, to notify any account debtor of its security interest in the Accounts and to require payments to be made directly to Agent at such address or in such manner as Agent may deem appropriate. Upon request of Agent upon the occurrence of an Event of Default which has not been waived in writing, Borrower will so notify the account debtors and will indicate on all billings to the account debtors that the Accounts are payable to Agent. Provided an Event of Default has occurred and has not otherwise been waived in writing, in order to facilitate direct collection, Borrower hereby appoints Agent and any officer or employee of Agent, as the agent to (i) receive, open and dispose of all mail addressed to Borrower and take therefrom any payments on or proceeds of the Collateral, in which Borrower shall cooperate, to receive Borrower's mail, including notifying the post office authorities to change the address for delivery of mail addressed to Borrower to such address as Agent shall designate, (ii) endorse the name of Borrower in favor of Agent upon any and all checks, drafts, money orders, notes, acceptances or other evidences or payment or Collateral that may come into Agent's possession, (iii) sign and endorse the name of Borrower on any invoice or bill of lading relating to any of the Accounts, on verifications of Accounts sent to any Borrower, to drafts against account debtors, to assignments of Accounts and to notices to account debtors, and (iv) do all acts and things necessary to carry out this Security Agreement, including signing the name of Borrower on any instruments required by law in connection with the transactions contemplated hereby and on financing statements as permitted by the UCC. Borrower hereby ratifies and approves all acts of such attorneys-in-fact, and neither Agent nor any other such attorney-in-fact shall be liable for any acts of commission or omission, or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as any of the Obligations remain unsatisfied.

Agent shall not, under any circumstances, be liable for any error or omission or delay of any kind occurring in the settlement, collection or payment of any Accounts or any instrument received in payment thereof or for any damage resulting therefrom except for such acts or omissions resulting from Agent's gross negligence or willful misconduct. Upon the occurrence of an Event of Default which has not been waived in writing, Agent may, without notice to or

consent from Borrower, sue upon or otherwise collect, extend the time of payment of, or compromise or settle for cash, credit or otherwise upon any terms, any of the Accounts or any securities, Instruments or insurance applicable thereto and/or release the obligor thereon. If an Event of Default has occurred and has not been waived in writing, Agent is authorized to accept the return of the goods represented by any of the Accounts without notice to or consent by Borrower, or without discharging or any way affecting the Obligations hereunder.

Agent shall not be liable for or prejudiced by any loss, depreciation or other damage to Accounts or other Collateral unless caused by Agent's gross negligence or willful misconduct, and Agent shall have no duty to take any action to preserve or collect any Account or other Collateral.

(c) Distribution of Collateral. Upon enforcement of this Security Agreement following the occurrence of an Event of Default, the proceeds of the Collateral shall be applied as provided in the Loan Agreement.

(d) Costs and Expenses. Borrower absolutely and unconditionally agrees to pay to Agent, upon demand by Agent, all reasonable

out-of-pocket costs and expenses which shall be reasonably incurred or sustained by Agent or any of its directors, officers, employees or agents as a consequence of, on account of, in relation to or any way in connection with the exercise, protection or enforcement (whether or not suit is instituted) of any of its rights, remedies, powers or privileges under this Security Agreement or any of the Loan Documents or in, to or under all or any part of the Collateral or in connection with any litigation, proceeding or dispute in any respect related to this Security Agreement or any of the Loan Documents (including, but not limited to, all of the reasonable fees and disbursements of consultants, legal advisers, accountants, experts and agents for Agent, the reasonable travel and living expenses away from home of employees, consultants, experts or agents of Agent, and the reasonable fees of agents, consultants and experts not in the full-time employ of Agent for services rendered on behalf of Agent), except any of the foregoing resulting from the gross negligence or willful misconduct of Agent.

(e) Right of Set-Off. Borrower hereby confirms to Agent the continuing and immediate right of set-off of Agent and the Lenders with respect to all deposits, balances and other sums credited by or due from Agent, the Lenders or any of the offices or branches thereof to Borrower, which right is in addition to any other rights which Agent may have under applicable law. Regardless of the adequacy of any Collateral, if any principal, interest or other sum payable by Borrower to Agent under the Notes or any of the Loan Documents is not paid to Agent punctually when the same shall first become due and payable (after giving effect to any applicable grace period), or if any Event of Default shall at any time occur and not be waived in writing, any deposits, balances or other sums credited by or due from Agent, the Lenders or any of the offices or branches thereof to Borrower may, without any prior notice of any kind to Borrower (all of which are hereby expressly and irrevocably waived by Borrower to the extent permitted by law), be immediately set off, appropriated and applied by Agent or the Lenders toward the payment and satisfaction of the Obligations (but not to any other obligations of such Borrower to Agent until all of the Obligations have been paid in full) in such order and manner as Agent (in its sole and complete discretion) may determine.

6. No Waiver; Cumulative Remedies.

Agent shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by the Agent, and then only to the extent therein set forth. A waiver by Agent of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Agent would otherwise have had on any future occasion. No failure to exercise or any delay in exercising on the part of Agent any right, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights and remedies provided by law.

7. Severability of Provisions.

The provisions of this Security Agreement are severable, and if any clause or provision hereof shall be held invalid or unenforceable in whole or in part, then such invalidity or unenforceability shall attach only to such clause or provision, or part thereof and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision in this Security Agreement in any jurisdiction.

8. Amendments; Choice of Law; Binding Effect.

(a) None of the terms or provisions of this Security Agreement may be altered, modified or amended except by an instrument in writing, duly executed by each of the parties hereto.

(b) This Security Agreement shall be governed by and be construed and interpreted in accordance with the laws of the State of Ohio.

(c) This Security Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

9. Notices.

All notices and demands hereunder shall be made in writing and in the manner, and to the addresses, provided for in Section 11.2 of the Loan Agreement, and shall be deemed delivered in accordance with Section 11.2 of the Loan Agreement.

10. Headings.

The descriptive headings herein used are for convenience only and shall not be deemed to limit or otherwise effect the construction of any provisions hereof.

11. Counterpart Execution.

This Security Agreement may be executed in several counterparts each of which together shall constitute one and the same agreement.

12. Defeasance Clause.

If Borrower shall pay or cause to be paid the Notes secured by this Security Agreement and perform or cause to be performed the other Obligations, or if any Premises is actually removed from serving as Real Property Collateral in accordance with the provisions of the Loan Agreement (other than Subsection 3.5(d)), then the security interest in the Collateral granted hereby shall be void and terminated and Agent agrees to promptly execute such documents and do such acts as are necessary to release and terminate such liens.

IN WITNESS WHEREOF, the undersigned have caused this Security Agreement to be duly executed and delivered by their respective officers hereunto duly authorized, at Cincinnati, Ohio on the day and year first above written.

THE PROVIDENT BANK	DELTA INVESTORS I, LLC
	By: Omega Healthcare Investors, Inc., Member
By: _____	By: _____
Printed: _____	Printed: _____
Title: _____	Title: _____

EXHIBIT A - PREMISES

Meadowbrook Manor
3951 East Blvd.
Los Angeles, California

Sierra Vista
3455 East Highland Ave.
Highland, California

SunBridge Care and Rehabilitation for Homestead
1500 East Maine St.
Lancaster, Ohio

SunBridge Care and Rehabilitation for Circleville
1155 Atwater Ave.
Circleville, Ohio

SunBridge Care and Rehabilitation for Putnam
300 Seville Road
Hurricane, West Virginia

FORM OF COMPLIANCE CERTIFICATE

Reference is hereby made to that certain Loan Agreement dated as of August 11, 2000 by and between Omega Healthcare Investors, Inc., a Maryland corporation, Sterling Acquisition Corp., a Kentucky corporation, and Delta Investors I, LLC, a Maryland limited liability company, as Borrowers, and The Provident Bank, an Ohio banking corporation, as Agent for the Lenders (the "Loan Agreement"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Loan and Security Agreement.

The undersigned officer of Borrower hereby certifies to Agent that (i) Borrowers are in compliance with the covenants set forth above pursuant to Section 7.9 of the Loan Agreement, and that all of the computations provided below of the financial covenants are correct and complete as of _____, _____ and are in conformity with the terms and conditions of the Loan Agreement; (ii) the representations and warranties contained in Article 4 of the Loan Agreement are true and correct as though such representations and warranties were made on the date of such certificate; and no changes have occurred in the assets and liabilities or in the financial condition, business, operations or prospects of Borrowers, which, individually or in the aggregate, are materially adverse to Borrower; and (iii) no Event of Default has occurred and is continuing.

Certificate Number: _____
Date: _____
Period: _____

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Section 7.9 (a)	Actual	Default (Y/N)
(i) Indebtedness to Tangible Net Work not more than 1.50:1.00	_____	_____
(ii) Tangible Net Work of not less than $445,000,000 Plus 50% of Net Issuance Proceeds	_____	_____

(iii) Fixed Charge Coverage not less than 1.00:1.00	_____	_____
(iv) Interest Coverage of not less than 200%	_____	_____
(v) Leverage Ratio of not greater than 5.00:1.00	_____	_____
Section 7.9 (c) for Real Property Collateral		
(i) Aggregate EBITDAR of not less than $16,300,000	_____	_____
(ii) Aggregate Rent Ratio of not less than 1.25:1.00	_____	_____
Section 7.9 (d) Aggregate Rent to Interest Not less than 1.10 to 1.00	_____	_____

</TABLE>

Agreed and Acknowledged:

By: _____

Its: _____

FORM OF BORROWING BASE CERTIFICATE

As required by the Loan Agreement by and among Omega Health Care Investors, Inc. and Affiliates ("Borrower") and The Provident Bank, as Agent, for Lenders Dated August 11, 2000.

Certificate Number: _____

Date: _____

Period: _____

Aggregate EBITDA for Period. (See Attached Schedule)	_____
Multiplied by a factor of	6.14
EBITDAR Value (a)	_____
Multiplied by an advance rate (b)	75%
Net Available Borrowing Base Lesser of $75,000,000 or, (a) times (b)	_____
Outstanding Loan Balance as of _____.	_____
Excess / (Deficit)	_____

The undersigned hereby acknowledges and confirms that the calculation and information supplied above is true and correct without material adjustment representing the true and correct Borrowing Base of the Borrower as required under the Loan Agreement.

Agreed and Acknowledged:

By: _____

Its: _____

Date:_____

SCHEDULE 1.1
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

LENDERS AND LOAN COMMITMENTS

<TABLE>
<CAPTION>

	Revolving Loan A	Revolving Loan B

Name and Address of Lender	Commitment	Commitment
The Provident Bank One E. Fourth St., 211 A Cincinnati, OH 45202 Attn.: Mr. Steven Bloemer Phone : (513) 579-8722 Fax: (513) 579-2201	$50,000,000.00	$-0-
Great American Insurance Company c/o American Money Management One East Fourth St., 4th Floor Cincinnati, OH 45202 Attn.: Roger Miller Phone: (513) 579-2484 Fax: (513) 579-2945	$7,500,000.00	$-0-
Great American Life Insurance Company c/o American Money Management One East Fourth St., 4th Floor Cincinnati, OH 45202 Attn.: Roger Miller Phone: (513) 579-2484 Fax: (513) 579-2945	$7,500,000.00	$-0-
One Valley Bank One Valley Square Summers & Lee St. Charleston, WV 25326 Attn.: Tim Paxton Phone: (304) 348-7003 Fax: (304) 341-1037	$-0-	$10,000,000.00

</TABLE>

SCHEDULE 1.2
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

CLOSING FEES AND EXPENSES

Fees to Provident Capital Corp.	$ 750,000
Fees to Provident Bank	526,042
Expenses to Provident Capital Corp.	4,820
Fees to Great American Insurance Company	75,000
Fees to Great American Life Insurance Company	75,000
Fees to One Valley Bank	18,750
Fees and Expenses to Kohnen & Patton	88,394
	$1,538,006

SCHEDULE 1.3
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

REAL PROPERTY COLLATERAL

<TABLE>
<CAPTION>

Facility

Property Name	Number	Address	City	County	State	Zip
Advocat Inc. (103)						
Best Care, Inc.	204	2159 Dogwood Ridge	Wheelersburg	Scioto	OH	45694
Boone Health Care Center, Inc.	205	Lick Creek Road P.O. Box 605	Danville	Boone	WV	25053
Boyd Nursing and Rehab Center	242	12800 Princeland Drive	Ashland	Boyd	KY	41102
Canterbury Health Center	113	1720 Knowles Road	Phenix City	Russell	AL	36867
Carter Nursing & Rehab Center	206	250 McDavid Boulevard P.O. Box 904	Grayson	Carter	KY	41143
Elliott Nursing & Rehab Center	243	Howard Creek Road Route 32	Sandy Hook	Elliott	KY	41171
Laurel Nursing & Rehab Center	244	HC 75, Box 153, Clinic Rd	Ivydale	Clay	WV	25113
Lynwood Nursing Home	121	4164 Halls Mills Road	Mobile	Mobile	AL	36693
Northside Health Care	128	700 Hutchins Avenue	Gadsden	Etowah	AL	35902
Ouachita Nursing /Pine Manor Apts.	123	1411 Country Club Road	Camden	Ouachita	AR	71701
Pocahontas Nursing & Rehab Center	124	105 Country Club Road	Pocahontas	Randolph	AR	72455
South Shore Nursing & Rehab Center	207	James Hannah Drive P.O. Box 489	South Shore	Greenup	KY	41175
West Liberty Nursing & Rehab Center	210	Route 5 Wells Hill 774 Liberty Road	West Liberty	Morgan	KY	41472
Westside Health Care Center	129	4320 Judith Lane	Huntsville	Madison	AL	35805
Wurtland Nursing & Rehab Center	209	100 Wurtland Avenue	Wurtland	Greenup	KY	41144
Sun Healthcare Group, Inc. (123)						
Meadowbrook Manor	347	3951 East Boulevard	Los Angeles	Los Angeles	CA	90066
Meydenbauer Medical & Rehabilitation Ctr	326	150-102nd Avenue SE	Bellevue	King	WA	98004

Sierra Vista	352	3455 E. Highland Avenue	Highland	Los Angeles	CA 92346
SunBridge Care & Rehab - Homestead	364	1900 E. Main Street	Lancaster	Fairfield	OH 43130
SunBridge Care & Rehab for Circleville	362	1155 Atwater Avenue	Circleville	Pickaway	OH 43113
SunBridge Care & Rehab for Mount Olive	252	228 Smith Chapel Road	Mount Olive	Wayne	NC 28365
SunBridge Care & Rehab for Putnam	402	300 Seville Road	Hurricane	Putnam	WV 25526
SunBridge Care & Rehab for Siler City	249	900 West Dolphin Street	Siler City	Chatham	NC 27344
SunBridge Care & Rehab for the Triad	251	707 North Elm Street	Highpoint	Guilford	NC 27262

</TABLE>

SCHEDULE 4.1
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

STATES OF INCORPORATION, ORGANIZATION
AND QUALIFICATION, AND CAPITALIZATION OF BORROWERS

For each Borrower:

Name
- ----

1. State of Incorporation/Organization
2. Capitalization
3. Business
4. States of Qualification

Omega Healthcare Investors, Inc. ("OHI")
- --

1. Maryland
2. 100,000,000 common shares, $.10 par, 20,115,024 o/s as of July 31, 2000; 10,000,000 preferred shares, $1.00 par, 2,000,000 Series A o/s, 2,300,000 Series B o/s and 1,000,000 Series C o/s
3. Investing in, or providing financing to, income-producing properties in the healthcare industry, particularly in the long-term care segment
4. None other than Maryland

Delta Investors I, LLC
- ----------------------

1. Maryland
2. OHI is the sole member and manager
3. Purchase (and/or otherwise acquire) ownership and/or leasehold interests in one or more nursing homes, and assume (and/or otherwise incur) any such obligations, and conduct any such operations, as shall be incidental or reasonably related thereto
4. None other than Maryland

Sterling Acquisition Corp.
- --------------------------

1. Kentucky
2. 1,000 shares authorized, $.01 par, 100 issued to OHI
3. Investing in, or providing financing to, income-producing properties in the

healthcare industry, particularly in the long-term care segment
4. None other than Kentucky

SCHEDULE 4.2
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

REQUIRED CONSENTS

None

SCHEDULE 4.6
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

JUDGMENTS, ACTIONS, PROCEEDINGS

Res-Care Inc. v. Omega Healthcare Investors, Inc., United States District Court
for the Western District of Kentucky, Civil Action No. 95-42-LS):

Claim: Res Care claims that Omega was obligated to reduce the rents payable by Res Care under leases of four facilities in Indiana as a result of alleged changes in federal or state medicare/medicaid reimbursement after execution of the leases. Omega claims that (a) its obligation to renegotiate the lease was not triggered, because no change had occurred after execution of the leases, (b) even if Omega were obligated to renegotiate, the language of the leases did not require that the renegotiation result in a reduction in rent and (c) Res Care mooted its claim by exercising its option to purchase the facilities.

Status: In late 1999, the judge granted Omega's motion for summary judgment, holding that the case was mooted. In early 1999, the judge reversed himself, but found that (a) the obligation to renegotiate is merely an agreement to agree and does not result in an agreement to reduce the rents; (b) as a result, the court cannot substitute its judgment as to the rent payable; and (c) the only issues remaining were whether Omega breached its good faith obligation to renegotiate and, if so, what damages flow from that breach.

Omega Healthcare Investors, Inc. v. Res-Care, Inc.

Claim: Omega claims that, by turning in to the State of Indiana the licenses to operate four ICF/MRDD facilities located in Indiana, Res-Care breached its obligations under the leases of those facilities to return the facilities to Omega, upon expiration of the leases, in the condition required under the leases.

Status: The case is in the discovery phase.

Karrington Health, Inc. v. Omega Healthcare Investors, Inc.

Claim: Karrington Health, Inc. ("KHI") claims that Omega breached a commitment to provide $95 million in construction financing to KHI. Omega contends, among other things, that it did not have a contractual obligation to provide such financing.

Status: Omega has filed its motion for summary judgment as to liability; KHI has not yet responded

Madison/OHI Liquidity Investors, LLC v. Omega Healthcare Investors, Inc.
- ---

Claim: Madison/OHI Liquidity Investors, LLC ("Madison") claims that Omega breached and anticipatorily breached a revolving credit loan agreement under which Madison is the borrower. Madison alleges that Omega breached the agreement by refusing to fund a draw request and seeks damages of approximately $700,000. Madison further alleges that Omega anticipatorily breached the agreement as a result of statements made by Essel Bailey, Omega's then-President and CEO, to the effect that Omega was experiencing liquidity problems and would like to reduce its exposure under the loan agreement. Madison seeks damages of approximately $15 million in connection with its anticipatory breach claim or, alternatively, it seeks specific performance of the loan agreement, as modified in accordance with a course of conduct that Madison alleges has been established. Omega contends that (a) Omega informed Madison that it was ready, willing and able to perform its obligations under the loan agreement (without modification for the alleged course of conduct, which Omega denies) and (b) during such time as Madison is in default under the loan agreement, Omega is not obligated to fund draw requests.

Status: Omega has given Madison notice of default on numerous occasions and has filed a counterclaim against Madison with respect to such defaults. The defaults have ripened into events of default; accordingly, Omega has given Madison notice that the debt has been accelerated. Omega intends to amend its counterclaim to pursue its remedies against Madison. Omega further intends to pursue its remedies against Bryan Gordon and Ronald M. Dickerman, who have given limited personal guaranties to Omega as security for the obligations of Madison under the loan agreement.

Ronald M. Dickerman v. Omega Healthcare Investors, Inc., Essel W. Bailey,
- ---
Jr., David A. Stover and F. Scott Kellman
- ---

Claim: 10b-5 class action securities claim alleging fraudulent disclosure and failure to disclose (Note that the name plaintiff, Mr. Dickerman, is a partner in Madison)

Status: Claim has been made upon the D&O insurance policies, which have a combined limit of $15 million; answer due September 1

Benjamin A. LeBorys v. Omega Healthcare Investors, Inc., Essel W. Bailey,
- ---
Jr., David A. Stover and Scott F. Kellman
- ---

Claim: Same claim as in the Dickerman class action, including the same class period

Status: Omega has not yet been served with the complaint

SCHEDULE 4.7
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

FAILURE TO COMPLY WITH LAWS

None

SCHEDULE 4.8
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

BURDENSOME DOCUMENTS

Loan Agreement dated June 15, 2000 between Omega

and certain Subsidiaries, as Borrowers,
and Fleet Bank and certain banks signatory thereto

Investment Agreement dated May 11, 2000 between Omega
and Explorer Holdings, L.P.

Stockholders Agreement dated July 17, 2000 between Omega
and Explorer Holdings, L.P.

SCHEDULE 4.9(a)
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

MATERIAL LIABILITIES AND OBLIGATIONS IN ADDITION
TO THOSE DISCLOSED ON THE COMPANY'S FINANCIAL STATEMENTS

1. Any liability associated with any litigation described in Schedule 4.6.

2. Future Currency Contract assigned by the Company to Omega Worldwide, Inc. on April 2, 1998 with respect to the requirement to sell 20 million pbs for $31,740,000 on October 7, 2007.

3. Guaranty by the Company of obligations of Omega Worldwide, Inc. to Fleet Bank, as Agent, pursuant to Guaranty dated November 20, 1998.

4. Guaranty by the Company of the obligations of certain of its Subsidiaries (and Subsidiaries of Bayside Street II, Inc.) to Healthcare Personnel Associates with respect to employees of Company Properties recovered from RainTree Healthcare Corporation

5. Obligations to fund operations and capital expenditures at Company Properties recovered from The Frontier Group, Inc. and its affiliates, RainTree Healthcare Corporation, Extendacare or Sun Healthcare Group, Inc.; potential liabilities (other than liabilities associated with failure by the Company to maintain its qualification as a REIT) associated with the operation by Subsidiaries (and Subsidiaries of Bayside Street II, Inc.) of Company Properties recovered from RainTree Healthcare Corporation, The Frontier Group, Inc. and its affiliates, Extendacare or Sun Healthcare Group, Inc.

6. Obligations to fund under Loan Agreement dated October 2, 1998 between the Company and Madison/OHI Liquidity Investors LLC

7. Obligations to fund working capital pursuant to loan documents between the Company and Subsidiaries and Essex Healthcare Corporation, Metro Health/Indiana, Inc. and Metro Health/Indiana III, Inc.

8. Mortgages, deeds of trust and/or related security interests encumbering any assets that secure from time to time any loan or loans made by The Provident Bank and certain other lenders pursuant to this Agreement.

9. Mortgages, deeds of trust and/or related security interests encumbering any assets that secure from time to time the Fleet Obligations.

10. Indemnification obligations as seller with respect to any assets disposed of by Omega or any Subsidiary, including any indemnification obligations in connection with the sale of facilities to Metro Health/Indiana, Inc. and Metro Health/Indiana III, Inc.

11. Obligations to employees and directors under employee benefit plans described in Schedule 4.15, compensation agreements dated June 15, 2000 between the Company and each of F. Scott Kellman, Susan Allene Kovach and Laurence D. Rich, severance and consulting agreements between the Company and each of Essel W. Bailey, Jr. and David A. Stover

12. Extraordinary obligations for legal expenses and consulting fees (including fees of the Company's financial advisor) incurred from and after April 1, 2000.

SCHEDULE 4.14
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

VIOLATIONS/REVOCATIONS OF LICENSES

None

SCHEDULE 4.15
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

EMPLOYEE BENEFIT PLANS

Metropolitan Life Insurance Company Life Insurance Policy
Metropolitan Life Insurance Company Long-Term Disability Policy
Principal Financial Group Dental Policy
Blue Cross/Blue Shield Traditional Health Insurance Plan
Blue Cross/Blue Shield Preferred Provider Health Insurance Plan
Company-Sponsored 401-K Profit Sharing Plan
1993 Deferred Compensation Plan
2000 Stock Incentive Plan
Section 125 Plan

SCHEDULE 4.17
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

UCC FILING OFFICES

I. UCC-1 FINANCING STATEMENTS

A. Omega Healthcare Investors, Inc.
1. Alabama Secretary of State (Canterbury, Lynwood, Northside, Westside)
2. Arkansas Secretary of State (Ouachita, Pocahontas)
3. Michigan Secretary of State
4. North Carolina Secretary of State (Mt. Olive, Siler City, Triad)
5. Clerk of Oauchita County, Arkansas (Oauchita)
6. Clerk of Randolph County, Arkansas (Pocahontas)
7. Clerk of Wayne County, North Carolina (Mt. Olive)
8. Clerk of Chatham County, North Carolina (Siler City)
9. Clerk of Guilford County, North Carolina (Triad)

B. Sterling Acquisition Corp.
1. Michigan Secretary of State
2. Kentucky Secretary of State (Boyd, Carter, Elliot, South Shore, Wurtland, West Liberty)
3. Ohio Secretary of State (Best Care)
4. West Virginia Secretary of State (Boone, Laurel)
5. Scioto County Recorder (Best Care)
6. Clerk of Boyd County, Kentucky (Boyd)
7. Clerk of Carter County, Kentucky (Carter)
8. Clerk of Elliott County, Kentucky (Elliott)
9. Clerk of Greenup County, Kentucky (South Shore, Wurtland)
10. Clerk of Morgan County, Kentucky (West Liberty)

C. Delta Investors I, LLC
1. California Secretary of State (Meadowbrook, Sierra Vista)
2. Michigan Secretary of State
3. Ohio Secretary of State (Homestead, Circleville)
4. Washington Secretary of State (Meydenbauer)
5. West Virginia Secretary of State (Putnam)
6. Recorder of Fairfield County, Ohio (Homestead)
7. Recorder of Pickaway County, Ohio (Circleville)

II. FIXTURE FILINGS

A. Omega Healthcare Investors, Inc.
1. Russell County, Alabama (Canterbury)
2. Mobile County, Alabama (Lynwood)
3. Etowah County, Alabama (Northside)
4. Madison County, Alabama (Westside)
5. Clerk of Oauchita County, Arkansas - Fixture Filing (Oauchita)
6. Clerk of Randolph County, Arkansas - Fixture Filing (Pocahontas)
7. Clerk/Register of Deeds of Wayne County, North Carolina (Mt. Olive)
8. Clerk/Register of Deeds of Chatham County, North Carolina (Siler City)
9. Clerk/Register of Deeds of Guilford County, North Carolina (Triad)

B. Sterling Acquisition Corp.
1. Clerk of Boyd County, Kentucky - Fixture Filing (Boyd)
2. Clerk of Carter County, Kentucky - Fixture Filing (Carter)
3. Clerk of Elliott County, Kentucky - Fixture Filing (Elliott)
4. Clerk of Greenup County, Kentucky - Fixture Filing (South Shore, Wurtland)
5. Clerk of Morgan County, Kentucky - Fixture Filing (West Liberty)
6. Clerk of Boone County, West Virginia (Boone)
7. Clerk of Clay County, West Virginia (Laurel)

C. Delta Investors I, LLC
1. Clerk/Recorder of Los Angeles County, California (Meadowbrook)
2. Clerk/Recorder of San Bernardino County, California (Sierra Vista)
3. Clerk/Recorder of King County, Washington (Meydenbauer)
4. Clerk of Putnam County, West Virginia (Putnam)

SCHEDULE 4.17(e)
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

STATUS OF LEASES

Sun - Delta I Lease
- ------------------

The entities identified on Schedule 1 are the lessees (collectively, "Lessee") under the Facility Leases and Master Lease Agreement dated as of October 7, 1997 with Delta Investors I, LLC ("Lessor"), as amended by First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty dated April 23, 1998, by First Amendment of Security Agreements and Second Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty, and four (4) Leases dated February 28, 1997 between Delta I Investors, LLC (successor to Omega Healthcare Investors, Inc.) and SunBridge Healthcare Corporation or Mediplex Management of Palm Beach County, Inc., as the case may be, in each case as further amended by Assumption and Amendment of Delta I Master Lease Agreement and Delta I Transaction Documents dated as of November 30, 1999 (collectively, and as so amended, the "Lease").

Borrowers previously have delivered to Agent a true and correct copy of the Lease; the Lease is now in full force and effect and has not been amended, modified or assigned except as disclosed to Agent; and the Lease constitutes the entire agreement between Lessor and Lessee.

To the best of Borrowers' knowledge, there exist no defenses or offsets to enforcement of the Lease; there are, as of the date hereof, no breaches or uncured defaults on the part of Lessee or Lessor thereunder; and there exists no assignment, hypothecation, subletting or other transfer of Lessor's interest in the Lease, except as contemplated by this Agreement.

The Minimum Rent for the Lease Year 2000 is $7,168,491.73. All Rent that is due has been paid, and there are no unpaid Additional Charges owing by Lessee under

the Lease as of the date hereof. No Minimum Rent or other items (including without limitation security deposit and any impound account or funds) have been paid by Lessee in advance under the Lease except for the security deposit held by Lessor in the form of irrevocable letters of credit in the amounts of $514,500, $154,801 and $1,443,730, respectively, and the monthly installment of Minimum Rent that became due on August 1, 2000.

Lessee has no claim against Lessor for any security deposit, impound account or prepaid Rent except as provided in paragraph (iv) above.

Lessor has not begun any action, or given or received any notice, for the purpose of termination of the Lease.

All capitalized terms used herein and not defined herein shall have the meanings for such terms set forth in the Lease.

Sun - Liberty Lease
- ------------------

(i) Regency-North Carolina, Inc. is the lessee ("Lessee") under the Amended, Consolidated and Restated Lease dated as of February 1, 1996 with Omega Healthcare Investors, Inc. ("Lessor"), as amended by Assumption and Amendment of Liberty Lease and Liberty Transaction Documents (as so amended, the "Lease").

(ii) Borrowers previously have delivered to Agent a true and correct copy of the Lease; the Lease is now in full force and effect and has not been amended, modified or assigned except as disclosed to Agent; and the Lease constitutes the entire agreement between Lessor and Lessee.

(iii) To the best of Borrowers' knowledge, there exist no defenses or offsets to enforcement of the Lease; there are, as of the date hereof, no breaches or uncured defaults on the part of Lessee or Lessor thereunder; and there currently exists no assignment, hypothecation, subletting or other transfer of Lessor's interest in the Lease, except as contemplated by this Agreement.

(iv) The Minimum Rent for the Lease Year February 1, 2000 through January 31, 2001 is $2,971,706.16 All Rent that is due has been paid, and there are no unpaid Additional Charges owing by Lessee under the Lease as of the date hereof. No Minimum Rent or other items (including without limitation security deposit and any impound account or funds) have been paid by Lessee in advance under the Lease except for the security deposit held by Lessor in the amount of $453,887.33 (of which Omega has applied $28,662.74 to cure certain defaults, but as to which Lessee is obligated, pursuant to the Forbearance Agreement dated October 13, 1999 to replenish the security deposit in the amount of $28,662.74) and the monthly installment of Minimum Rent that became due on July 1, 2000.

(v) Lessee has no claim against Lessor for any security deposit, impound account or prepaid Rent except as provided in paragraph (iv) above.

(vi) Lessor has not begun any action, or given or received any notice, for the purpose of termination of the Lease.

(vii) All capitalized terms used herein and not defined herein shall have the meanings for such terms set forth in the Lease.

Advocat - 1992 Master Lease
- ---------------------------

(i) Advocat, Inc. ("Advocat"), is the indirect parent of Diversicare Leasing Corp. (the "Tenant"), the tenant under that certain Master Lease dated August 14, 1992 (as amended, the "1992 Master Lease"), which includes, among other facilities, the following facilities:

A. Canterbury Health Center
B. Northside Health Center
C. Ouachita Nursing/Pine Manor Apartments
D. Pocahontas Nursing & Rehabilitation Center
E. Westside Health Care Center
F. Lynwood Nursing Home

(ii) The current contractual annual base rent payable under the 1992 Master Lease is $8,677,214.38.

Advocat - 1994 Master Lease and Sublease
- --

(i) Tenant is also the tenant under that certain Master Lease dated December 1, 1994 (as amended, the "1994 Master Lease"), which includes, among other facilities, the following facilities:

A. Best Care Health Center
B. Boyd Nursing & Rehabilitation Center
C. Elliott Nursing & Rehabilitation Center
D. Carter Nursing & Rehabilitation Center

E. South Shore Nursing & Rehabilitation Center
F. Wurtland Nursing & Rehabilitation Center

(ii) Tenant is also the sub-tenant under that certain Master Sublease dated December 1, 1994 (as amended, the "1994 Master Sublease"), which includes the following facility:

A. West Liberty Nursing & Rehabilitation Center

(iii) The current contractual annual base rent payable under th 1994 Master Lease is $2,887,681,85.

(iv) The current contractual annual base rent payable under the 1994 Master Sublease is $198,734.95.

Advocat - 1997 Master Lease
- ---------------------------

(i) Tenant is also the parent of Sterling Health Care Management, Inc. ("SHCM"), the tenant under that certain Master Lease dated February 1, 1997 (as amended, the "1997 Master Sublease"), which includes the following facility:

A. Boone Healthcare Center
B. Laurel Nursing & Rehabilitation Center

(ii) The current contractual base rent payable under the 1997 Master Sublease is $762,132.59.

Advocat -- Standstill Agreement and Restructuring
- --

(i) Pursuant to that certain Standstill Agreement dated April 17, 2000, as amended and extended from time to time, Advocat, Tenant and SHCM are collectively currently paying $200,000 per week to Omega for payments owing under the 1992 Master Lease, the 1994 Master Lease, the 1994 Master Sublease, the 1997 Master Lease and a promissory note dated August , 1992 in the original principal amount of $7,031,250.

(ii) Omega and Advocat are in the process of negotiating a restructuring of their relationship, and Omega anticipates that the restructuring will result in the execution of a new master lease with respect to the facilities covered by the 1992 Master Lease, the 1994 Master Lease, the 1994 Master Sublease and the 1997 Master Lease, as reflected on the attached Term Sheet.

SCHEDULE 8.1
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

PERMITTED LIENS

1. Mortgages, deeds of trust and/or related security interests encumbering any assets that secure from time to time the Fleet Obligations;

2. Mortgages, deeds of trust or financing leases securing the following bond financings:

<TABLE>
<CAPTION>

Operator	Facility	Bond Proceeds	Bond Issue	Loan/Lease Maturity
<S>	<C>	<C>	<C>	<C>
Advocat	Laurel Manor Health Center (New Tazwell)	$2,310,000	IRB South Trust Alabama	2017/2002
Advocat	Manor House of Dover	$1,395,000	IRB South Trust Alabama	2011/2002
Sun Healthcare Group	SunRise Care & Rehab for La Follette	$3,635,000	IRB South Trust Alabama	2016/2006
Sun Healthcare Group	SunRise Care & Rehab for Maynardville	$1,205,000	IRB Bank of New York	2014/2006

</TABLE>

3. Mortgages, deeds of trust and/or related security interests securing any other Indebtedness (including the Indebtedness described on Schedule 8.11), provided that the aggregate principal amount of all outstanding Indebtedness of Omega and its Subsidiaries, determined on a consolidated basis, that is secured by any mortgage, lien, charge, pledge or security interest of any kind does not exceed 40% of Adjusted Total Assets (as defined on Schedule 8.11); provided, however, that nothing herein shall be deemed to permit the filing or placing of any mortgage, lien, charge, pledge or security interest of any kind upon the Real Property Collateral other than a Mortgage as set forth in the Loan Agreement.

SCHEDULE 8.10
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

PERMITTED INVESTMENTS

<TABLE>
<CAPTION>

	Investment at June 30, 2000
<S> <C> <C> <C> <C> <C> <C>	
Core Real Estate Investments	
Advocat Inc.	$111,452,261
Alden Management Services, Inc.	31,327,356
Alterra Healthcare Corporation	34,085,000
Covenant Care, Inc.	1,966,096
Eldorado Care Center, Inc. & Magnolia Manor, Inc.	5,100,000
Emerald Healthcare, Inc.	11,024,884
Essex Healthcare Corporation	16,433,498
HQM of Floyd County, Inc.	10,250,000
Hunter Management Group, Inc.	8,150,866
Integrated Health Services, Inc	161,084,097
Kansas & Missouri, Inc.	2,500,000
Liberty Assisted Living Centers, LP	5,995,490
Mariner Post-Acute Network	58,800,000
Peak Medical of Idaho, Inc.	10,500,000
Rocky Mountain Health Care	1,879,726
Senior Care Properties, Inc.	5,882,009
Sun Healthcare Group, Inc.	240,531,601
Texas Health Enterprises/HEA Mgmt. Group, Inc.	6,264,560
Tiffany Care Centers, Inc.	5,060,406
TLC Healthcare, Inc.	29,123,805
USA Healthcare, Inc.	17,212,798
Washington N & R	12,152,174
Total Core Real Estate Investments	$786,776,627
Assets Held for Sale	
Extendacare, Inc.	$20,647,603
Emerald Healthcare, Inc.	899,845
RainTree Healthcare Corporation	6,756,596
Res-Care, Inc.	1,478,559
Sun Healthcare Group, Inc.	6,344,721
Senior Care Properties, Inc.	4,442,323
OHIMA, Inc. and OHI (CT), Inc.	6,166,262
Total Assets Held for Sale	$46,735,909
Other Real Estate	
Sunrise	$798,051
OHIMA, Inc. and OHI (CT), Inc.	60,809,900
Meadowbrook Healthcare of N.C.	7,500,000
RainTree Healthcare Corporation, including Bayside Street, Inc. and Bayside Street II, Inc.	76,825,156
Total Other Real Estate	$145,933,107

Other Investments	
Investment in Omega Worldwide, Inc.	$6,816,096
Investment in Principal Healthcare Finance Limited	1,615,083
Investment in PHFT (Australia)	1,266,000
American Healthcare Centers, Inc.	7,517,798
Investment in Partnerships - Post Offices	15,747,422
Total Other Investments	$32,962,399

Notes Receivable	
Metro Health I	$1,800,000
Metro Health III	320,000
Metro-Health/Indiana	3,499,292
Alden Management Services, Inc.	424,097
Emerald Healthcare, Inc.	106,529
Essex Healthcare Corporation	4,400,000
Madison/OHI Liquidity Investors, Inc.	7,256,005
Five Star	1,672,150
BJ Development - Warren Park	1,292,366
BJ Development - Southeastern	438,275
Oakwood Living Centers	6,000,000
Parkview Hospice	40,000
TLC Healthcare, Inc.	300,000
Total Notes Receivable	$27,548,714

</TABLE>

SCHEDULE 8.11
TO LOAN AGREEMENT
BY AND AMONG
OMEGA HEALTHCARE INVESTORS, INC.
AND CERTAIN OF ITS SUBSIDIARIES,
THE BANKS SIGNATORY HERETO
AND
THE PROVIDENT BANK, AGENT

PERMITTED INDEBTEDNESS AND GUARANTIES

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

8.5% Subordinated Convertible Debentures issued January 24, 1996 and due February 1, 2001	$48,405,000
6.95% Senior Unsecured Notes issued June 10, 1998 and due June 1, 2002	$125,000,000
6.95% Senior Unsecured Notes issued July 31, 1997 and due August 1, 2007	$100,000,000
Industrial Revenue Bonds (Salem, WV) issued September 30, 1996 and due September 1, 2010	$1,885,000
Industrial Revenue Bonds (Beckley, WV) issued September 30, 1996 and due September 1, 2012	$2,760,000

</TABLE>

Obligations of a Borrower in connection with a lease of a Facility if such Borrower has subleased the Facility or assigned the lease, or right to lease, the Facility to an Operator. Such obligations shall be treated as Indebtedness if and to the extent the Operator, during any fiscal year of the Borrowers, is not obligated to fulfill such obligations.

Obligations of a Borrower incurred in connection with, or as a result of, the exercise by such Borrower or any Subsidiary of its remedies under any agreements evidencing any lease or mortgage with an operator or any other obligations of a Borrower incurred in connection with, or as a result of, attempts by such Borrower or a Subsidiary to preserve the value of its property or collateral.

Guaranty by Omega to Fleet Bank of the obligations of Omega Worldwide, Inc. in an amount that, as of July 7, 2000, was not greater than $6,850,000.

The Fleet Obligations

The Obligations of Borrowers under this Agreement,

Each of the borrowings described on Schedule 8.1

Any other borrowings by a Borrower, provided that at any time the aggregate amount of Indebtedness of Omega and its Subsidiaries, on a consolidated basis, does not exceed 60% of the sum ("Adjusted Total Assets") of (a) the total assets of Omega and its Subsidiaries (defined as the sum of the original cost plus

capital improvements of real estate assets of Omega and its Subsidiaries on such date, before depreciation and amortization), determined on a consolidated basis as of the end of the calendar quarter covered in Omega's Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the Securities and Exchange Commission prior to date of determination; and (b) the purchase price of any real estate assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent that such proceeds were not used to acquire real estate assets or mortgages receivable used to reduce indebtedness) by Omega or any Subsidiary since the end of such calendar quarter.

SETTLEMENT AND RESTRUCTURING AGREEMENT

THIS AGREEMENT, made as of the 1st day of October, 2000, by and among ADVOCAT INC., a Delaware corporation ("Advocat"), of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067, DIVERSICARE LEASING CORP., a Tennessee corporation ("DLC"), of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067, STERLING HEALTH CARE MANAGEMENT, INC., a Kentucky corporation ("SHCM"), of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067, DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation ("DMSC"), of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067, ADVOCAT FINANCE, INC., a Delaware corporation ("AFI"), of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067, OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation ("Omega"), of 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108, and STERLING ACQUISITION CORP., a Kentucky corporation ("Acquisition"), of 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108.

RECITALS:

A. Omega, individually and/or through its wholly-owned subsidiary Acquisition, as lessor, and Advocat, through its wholly owned subsidiary DLC, and/or DLC's wholly owned subsidiary SHCM, as lessees, are parties, via mesne assignments, subleases and other agreements, to four (4) master leases (identified on Schedule 1 hereto as the "1992 Master Lease", the "1994 Master Lease", the "1997 Master Lease", and the "West Liberty Master Sublease", and collectively referred to herein as the "Master Leases") covering, in the aggregate, twenty-eight (28) nursing care facilities located variously in Kentucky, Tennessee, West Virginia, Alabama, Arkansas and Ohio, listed by name and location on Schedule 1 (the "Master Leased Facilities").

B. Omega is the mortgagee of three (3) nursing care facilities located in Florida (the "Florida Mortgaged Facilities"), listed by name and location on Schedule 2 hereto, owned by Counsel Nursing Properties, Inc., a Delaware corporation ("CNP"), and leased by CNP to DLC, pursuant to a Mortgage Note in the original principal amount of $7,031,250, as amended and restated (the "CNP Note"), secured by a Mortgage and Security Agreement and Fixture Filing of even date therewith (the "CNP Mortgage"). DLC is obligated, under the terms of the subject lease(s), to make debt service payments under the CNP Note directly to Omega.

C. Omega is also the mortgagee of four (4) nursing care facilities located in Florida (the "Florida Managed Facilities"), listed by name, location and owner on Schedule 3 hereto, owned by various sister corporations of Emerald Healthcare, Inc., a Florida corporation ("Emerald"), and managed by DMSC, a wholly owned subsidiary of Advocat.

D. Counsel Corporation, an Ontario corporation ("Counsel") has provided a financial undertaking to Omega relative to the obligations of the lessee under the 1992 Master Lease and of CNP under the CNP Note and CNP Mortgage.

E. Advocat and/or certain of its subsidiaries and/or affiliates have provided guaranties pertaining to the Master Leases and the CNP Note and CNP Mortgage (the "Advocat Guaranties"), and DMSC has (i) subordinated its management fees with respect to the Florida Managed Facilities, and (ii) undertaken to make certain advances to the Florida Managed Facilities, as provided in the relevant documents.

F. Advocat and its subsidiaries have been in default of their various obligations to Omega and its subsidiaries since March 1, 2000 by virtue of, among other things, non-payment of rental and other obligations under the Master Leases and debt service under the CNP Note.

G. Advocat has made partial payments to Omega since April 24, 2000, being the date of a Standstill Agreement (the "Standstill Agreement"), the expiration date of which has been extended by the parties through September 30, 2000.

H. The parties have reached a settlement of the foregoing defaults, and have agreed upon a restructuring of their various agreements and undertakings with respect to the Master Leased Facilities, the Florida Mortgaged Facilities and the Florida Managed Facilities, all as more particularly set forth hereinbelow.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and adequacy of which are acknowledged hereby, Omega, Acquisition, Advocat, DLC, SHCM, AFI and DMSC covenant and agree as follows:

1. Acknowledgment of Default. A. Advocat, DLC, SHCM, AFI and DMSC each acknowledges and agrees that: (i) DLC and SHCM are in material default under the Master Leases; (ii) CNP is in material default under the CNP Note and CNP Mortgage, and Advocat and DLC are in material default of their obligations to Omega with respect thereto; (iii) all required notices of default under the Master Leases, the CNP Note and CNP Mortgage, and the Advocat Guaranties have been given or waived by all necessary parties, (iv) all grace and cure periods

relating to the aforementioned defaults under the Master Leases, the CNP Note and CNP Mortgage, the Advocat Guaranties, or otherwise required by applicable law, have expired without the defaults having been cured, and (v) the existence of the defaults now entitles Omega and its subsidiaries to exercise (subject only to the terms of the Standstill Agreement) all of their respective rights and remedies under the Master Leases, the CNP Mortgage, the Advocat Guaranties and applicable law. Advocat, DLC, SHCM, AFI and DMSC further acknowledge that none of Advocat, DLC, SHCM, AFI or DMSC has any claim or cause of action against Omega, Acquisition, or any of their respective subsidiaries and affiliates, nor any defense to their respective obligations under the Master Leases or with respect to the CNP Note and CNP Mortgage or any defense to or right of set-off against the Master Lease Arrearage, the Interest Arrearage, and/or the CNP Principal (all as defined below). The parties hereto acknowledge and agree that the foregoing defaults under the Master Leases and the applicable and relevant obligations of Advocat under the Advocat Guaranties with respect thereto will be cured and/or settled upon and by virtue of the consummation of the transactions contemplated by this Agreement relating to the Master Leased Facilities. Further, the parties acknowledge and agree that the foregoing defaults under the CNP Note and CNP Mortgage, and the applicable and relevant obligations of Advocat under the Advocat Guaranties with respect thereto will be cured and/or settled upon consummation of the transactions contemplated by Paragraph 3 relating to the Florida Mortgaged Facilities. However, except as specifically provided herein, pending consummation of those transactions, Omega retains all rights under the CNP Note and the CNP Mortgage against CNP and Counsel and all rights under the Advocat Guaranties as they relate to the CNP Note and CNP Mortgage.

B. The parties to this Agreement acknowledge and agree that the unpaid balance (excluding out-of-pocket costs and expenses incurred by Omega and/or its subsidiaries, and net of payments made pursuant to the Standstill Agreement) for Minimum Rent, Additional Rent and franchise and similar tax obligations of DLC and SHCM under the Master Leases as of September 30, 2000 is $2,985,111.99 (the "Master Lease Arrearage"), and that the unpaid balance (excluding out-of-pocket costs and expenses incurred by Omega and/or its subsidiaries, and net of payments made pursuant to the Standstill Agreement) for interest, accrual interest, late charges and prepayment penalty under the CNP Note as of September 30, 2000, is $1,056,568.25 (the "Interest Arrearage"). The parties also acknowledge that the principal balance on the CNP Note, in the amount of $7,031,025 (the "CNP Principal") is due and owing.

2. Closings.

A. Initial Closing.

(I) Time and Place. The consummation of the transactions contemplated by this Agreement and pertaining to the Master Leased Facilities and the Florida Managed Facilities (the "Initial Closing") shall take place on or before November 15, 2000 (the "Initial Closing Date"), with an effective date of October 1, 2000 (the "Effective Date"). The Initial Closing Date may be extended by mutual agreement of the parties, but no such extension shall operate to postpone the Effective Date. The Initial Closing shall be held at the offices of Harwell Howard Hyne Gabbert & Manner, P.C., 315 Deaderick Street, Suite 1800, Nashville, Tennessee 37238-1800, or at such other place as shall be mutually agreed upon by Omega and Advocat.

(II) Initial Closing Documents. The following documents and instruments shall be executed and/or delivered at the Initial Closing:

(i) The Amended and Restated Master Lease (reference Paragraph 4.A);

(ii)The Amended and Restated Security Agreement (reference Paragraph 4.B);

(iii) UCC Financing Statements (reference Paragraph 4.B);

(iv) The Amended and Restated Guaranty (reference Paragraph 4.C);
(v) The Amended and Restated Memoranda of Leases (reference Paragraph 4.D);

(vi) The Reaffirmation of Obligations (reference Paragraph 5);

(vii) The intercreditor agreement to be executed by and between Omega, Acquisition and AmSouth (reference Paragraphs 4 and 8);

(viii) The Subordinated Note (reference Paragraph 10);

(ix) The Stock Subscription Agreement (reference Paragraph 11);

(x) The parties shall execute a closing statement reflecting the transactions contemplated to occur at the Initial Closing;

(xi) In addition, Advocat, DLC, SHCM, AFI and DMSC shall each deliver to Omega and Acquisition a certificate, signed by the Secretary or Assistant Secretary of each such entity, confirming the incumbency of its respective officers, and to which are attached the following:

(aa) a copy of the articles of incorporation or certificate of incorporation of

each entity, as amended, and certified by the Secretary of State of the jurisdiction of incorporation as of a date not more than 40 days prior to the Initial Closing;

(bb) a true, correct and complete copy of the current bylaws of each entity, as amended;

(cc) a true, correct and complete copy of the resolutions adopted by the Board of Directors of each entity, authorizing the execution and delivery of this Agreement and the consummation of the transactions contemplated herein;

(dd) a certificate of good standing for each entity, issued as of a date not earlier than 40 days prior to the Initial Closing by the Secretary of State of the jurisdiction of its incorporation; and

(ee) a certificate of authority issued by the relevant Secretaries of State of the jurisdictions in which the Master Leased Facilities are located, confirming that DLC, SHCM and DMSC, as appropriate, are authorized to transact business as a foreign corporation in such states.

(III) Initial Closing Actions. At the Initial Closing, the following actions shall be taken:

(i) Acquisition shall call, and AmSouth Bank shall fund, $3,000,000 of the 1992 Letter of Credit (reference Paragraph 7), for payment to Omega and for application against amounts owing under the CNP Note. Upon receipt by Omega of the $3,000,000, the amount of any claim which Omega may assert on the CNP Note shall be reduced by the amount by which the claim would have been reduced if the $3,000,000 were applied first against the Interest Arrearage, second against the applicable Prepayment Premium (as defined in the CNP Note), and third against the CNP Principal.

(ii) Acquisition shall release the balance of the 1992 letter of credit over and above the foregoing $3,000,000 and shall release the Other Letter of Credit (as defined in Paragraph 7).

(IV) Prorations. There will be no prorations with respect to the Master Leased Facilities between and among the parties hereto, as DLC and SHCM are, and DLC will remain solely responsible for all taxes, insurance, utilities and other items typically prorated under the terms of the existing leases thereof and continuing under the Amended and Restated Master Lease.

B. Deferred Closing.

(I) Time and Place. The consummation of the transactions contemplated by this Agreement and pertaining to the Florida Mortgaged Facilities and CNP/Counsel obligations (the "Deferred Closing") shall take place on or before one hundred twenty (120) days after the Initial Closing Date (the "Deferred Closing Date"). The parties acknowledge that Omega's limited forbearance under Paragraph 3.D shall expire at the end of the foregoing one hundred twenty (120) day period, unless extended by Omega in writing, at Omega's sole election. The Deferred Closing Date may be extended by mutual agreement of the parties, but no such extension shall operate to postpone the Effective Date. The Deferred Closing shall be held at the offices of Harwell Howard Hyne Gabbert & Manner, P.C., 315 Deaderick Street, Suite 1800, Nashville, Tennessee 37238-1800, or at such other place as shall be mutually agreed upon by Omega and Advocat.

(II) Deferred Closing Documents. The following documents and instruments shall be executed and/or delivered at the Deferred Closing:

(i) All documents and instruments necessary or appropriate to the conveyance of the Hardee Manor facility from CNP to Acquisition, and its incorporation into the Amended and Restated Master Lease (reference Paragraph 3.A);

(ii) An escrow agreement with respect to Desoto Manor and Leesburg, and amendment of the CNP Mortgage related thereto (reference Paragraph 3.B);

(iii) An amendment to the Amended and Restated Security Agreement (reference Paragraph 4.B), adding Hardee Manor thereto;

(iv) UCC Financing Statements for Hardee Manor(reference Paragraph 4.B);

(v) An Amended and Restated Memorandum of Lease for Hardee Manor (reference Paragraph 4.D);

(vi) The Mutual Release by and between Counsel and Omega (reference Paragraph 9);

(vii) The parties shall execute a closing statement reflecting the transactions contemplated hereby;

(III) Prorations. There will be no prorations with respect to Hardee Manor between and among the parties hereto, as DLC is and will remain solely responsible for all taxes, insurance, utilities and other items typically

prorated under the terms of the existing leases thereof and continuing under the Amended and Restated Master Lease.

3. Disposition of Florida Mortgaged Facilities; Forbearance. The Florida Mortgaged Facilities shall be transferred and/or closed, in accordance with the following and subject to the limitations contained in Paragraph 3.D:

A. Hardee Manor. At or before the Deferred Closing, Advocat shall cause CNP to convey, transfer and assign Hardee Manor (including without limitation, land, building and other improvements, all furniture, fixtures and equipment located therein and used or usable in connection with the operation thereof) to Acquisition, in lieu of partial foreclosure of the mortgage covering the Florida Mortgaged Facilities. Such conveyance and assignment shall be free and clear of the existing lease to DLC, all mortgages and other liens and/or encumbrances whatsoever other than the existing CNP Mortgage. Upon conveyance to Acquisition, Hardee Manor shall be added to the Amended and Restated Master Lease to be executed by Acquisition, as lessor, and DLC, as lessee, pursuant to Paragraph 4, below. Advocat and DLC agree to promptly and timely cooperate, and to cause CNP to cooperate, with Acquisition in connection with any necessary certificate of need ("CON") and/or licensing transfers necessary or appropriate to effect the conveyance of Hardee Manor to Acquisition and the addition thereof to the Amended and Restated Master Lease.

B. Desoto Manor and Leesburg. Within one hundred twenty (120) days after the Initial Closing, Advocat shall cause CNP to place warranty deeds and bills of sale covering Desoto Manor and Leesburg irrevocably into escrow with a title company designated by Omega. The deeds and bills of sale shall be in recordable form, but blank as to grantee. At the same time, the CNP Mortgage shall be amended to (i) discharge Hardee Manor from the lien of the CNP Mortgage; (ii) provided that the conditions of Subparagraph 3.D and Paragraph 9 hereof have been met, release CNP, Advocat and DLC from their respective obligations to pay the debt under the CNP Note and CNP Mortgage; and (iii) have the CNP Mortgage continue in full force and effect for the purpose of securing the continuing post-Closing obligations of Advocat, DMSC, SHCM and DLC under this Agreement. DLC shall have the period of one hundred twenty (120) days from and after the Initial Closing (the "Advocat Option Period") during which to elect to either retain or sell Desoto Manor and/or Leesburg. Written notice of such election shall be given by DLC to Acquisition not later than two (2) business days following the expiration of the Advocat Option Period. If DLC elects to retain either or both facilities, Acquisition's name shall be inserted as grantee in the applicable warranty deed(s) and bill(s) of sale, and such instruments shall be released from escrow to Acquisition. Simultaneously, Desoto Manor and/or Leesburg, as the case may be, shall be added to the Amended and Restated Master Lease, which shall be amended for such purpose and to provide for rent at fair market value for the added facility or facilities. If Acquisition and DLC cannot in good faith agree upon fair market value rental, then such determination shall be made by an arbitrator jointly selected by Acquisition and DLC, whose decision shall be final. If DLC elects to sell either or both of Desoto Manor and/or Leesburg, then in such event Omega and Acquisition shall have the period of forty-five (45) days from and after receipt of DLC's notice to that effect (the "Omega Option Period"), during which to elect (as to each applicable facility), by written notice to Advocat and DLC given within two (2) business days following expiration of the Omega Option Period, either to acquire the facility(ies) for a purchase price of one dollar ($1.00), or to permit DLC to sell the facility(ies) to one or more unrelated third parties. If Omega elects to acquire either or both facilities, Acquisition's name (or such other name as Omega may designate in writing) shall be inserted as grantee in the applicable warranty deed(s) and bill(s) of sale, and such instruments shall be released from escrow to Omega. If Omega elects not to acquire either or both facilities, DLC's name (or such other name as Advocat may designate in writing) shall be inserted as grantee in the applicable warranty deed(s) and bill(s) of sale, and such instruments shall be released from escrow to Advocat. If Omega and Acquisition permit the sale of the facility(ies), Advocat and DLC shall promptly commence marketing the facility(ies). Advocat and DLC shall have the period of one hundred eighty (180) days during which to attempt to sell the facility(ies) as operating nursing homes. If they are unable to accomplish the sale of one or both (as applicable) facility(ies) within such one hundred eighty (180) days, the applicable facility(ies) shall be closed, and the real estate and other assets comprising the facilities sold as soon as reasonably practicable. In any event, eighty percent (80%) of the Net Sales Proceeds from the sale of either or both of Desoto Manor and/or Leesburg shall be paid over to or at the direction of Omega. As used herein, "Net Sale Proceeds" shall be the gross sale price less (i) bona fide commissions payable to third party brokers not related to or affiliated with Advocat, DLC, CNP or any subsidiary or affiliate thereof, and (ii) ordinary and customary closing costs and expenses, including title insurance premiums, transfer or stamp taxes, and property tax prorations).

C. Indemnity Obligation. Advocat, DLC and DMSC, jointly and severally, shall defend, indemnify and hold harmless Omega, Acquisition, and their respective officers, directors, shareholders, successors and assigns (the "Indemnified Parties"), with respect to any of the Florida Mortgaged Facilities conveyed to Omega, Acquisition, or designees thereof, from and against:

1. Health Care Laws.

All cost report settlements and audits arising from CNP's, Advocat's or DLC's ownership or operation of such Florida Mortgaged Facilities prior to the conveyance of such Facilities to the Indemnified Parties or their designees, and any liability, including without limitation Medicare and/or Medicaid clawback liability, pursuant to any federal, state or local laws, rules, ordinances, regulations and all administrative and judicial interpretations applicable to it pertaining to operation of a skilled nursing facility prior to such conveyance, including without limitation, Title XVIII of the Social Security Act, 42 U.S.C. Sections 1395-1395ccc (the Medicare statute); Title XIX of the Social Security Act, 42 U.S.C. Sections 1396 et seq. (the Medicaid statute); the Federal Programs Anti-Kickback Statute, 42 U.S.C. Section 1320a-7b(b); the Stark Law, 42 U.S.C. Section 1395nn; the False Claims Act, 31 U.S.C. Sections 3729 et seq. (as amended); the Program Fraud Civil Remedies Act, 31 U.S.C. Section 3801 et seq.; the federal Anti-Kickback Act, 42 U.S.C. Sections 52 et seq.; the Civil Monetary Penalties Law, 42 U.S.C. Section 1320a-7a; and the Criminal Penalties Law for Acts Involving Federal Health Care Programs, 42 U.S.C. Section 1320a-7b; and all applicable implementing regulations, rules, ordinances and orders, as well as any similar state and local statutes and regulations relating to health care service providers and suppliers (the "Health Care Laws").

2. Environmental.

Any claims, (including, without limitation, third party claims for personal injury or real or personal property damage or damage to natural resources or the environment), actions, administrative proceedings (including formal proceedings), judgments, damages, penalties, fines, costs, liabilities (including sums paid in settlements of claims), interest or losses, including reasonable attorneys' fees and expenses (including any such fees and expenses incurred in enforcing this Agreement or collecting any sums due hereunder), reasonable consultant fees, and reasonable expert fees, together with all other costs and expenses of any kind or nature (collectively, the "Costs") that arise directly or indirectly from or in connection with the violation of any applicable Environmental Law (as defined below) by CNP, Advocat and/or DLC or the presence, storage, transportation, disposal or release of any Hazardous Substance (as defined below) in or into the structure, building, air, soil, surface water, groundwater or soil vapor (collectively, the "Environment") at, on, under, from, or within the Florida Mortgaged Facilities or any portion thereof, to the extent that such Costs result from such conditions or events occurring prior to the date of conveyance of the Facility(ies) to the Indemnified Parties, their designees, or any of them.

As used herein, "Environmental Laws" shall mean and refer to all federal, state and local, civil and criminal laws, regulations, rules, ordinances, codes, decrees, judgments, directives, policies or guidance, common law, or judicial or administrative orders relating to pollution or protection of the environmental, natural resources or human health and safety, including, without limitation, laws relating to releases or threatened releases of Hazardous Substances [as defined below] (including, without limitation, releases to ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, transport, disposal or handling of Hazardous Substances. "Environmental laws" includes, without limitation, CERCLA, the Hazardous Materials Transportation Act (19 U.S.C. ss.ss.1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. ss.ss. 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. ss.ss. 1251 et seq.), the Clean Air Act (42 U.S.C. ss.ss.7401 et seq.), the Toxic Substances Control Act (15 U.S.C. ss.ss.2601 et seq.), the Oil Pollution Act (33 U.S.C. ss.ss.2701 et seq.), the Emergency Planning and Community Right-to-Know Act (42 U.S.C. ss.ss.11001 et seq.), the Occupational Safety and Health Act (29 U.S.C. ss.ss.651 et seq.), and all other state and local laws analogous to any of the above. "Hazardous Substances" shall mean and refer to any hazardous or toxic substance, material or waste, pollutant or contaminant, flammable or explosive material, radioactive material, dioxins, heavy metals, radon gas, asbestos, petroleum products or by-products, polychlorinated biphenyls, medical or infectious waste or materials, or any other substance, waste or material which is included under or regulated by any Environmental Law.

3. Other Matters.

Any and all losses, damages, costs, expenses, liabilities, obligations and claims of any kind (including, without limitation, reasonable attorney fees and other legal costs and expenses) which the Indemnified Parties may at any time suffer or incur, or become subject to, as a result of or in connection with:

(a) the operation of the Florida Mortgaged Facilities prior to the respective date(s) of conveyance thereof to the Indemnified Parties, their designees, or any of them; or

(b) any suit, action or other proceeding brought by any governmental authority or person arising out of, or in any way related to, any of the matters referred to in this Paragraph 3.C.

D. Limited Forbearance; Action upon/Release of CNP Note Indebtedness. Subject to the timely consummation of those transactions covered by the Initial Closing, and provided that (i) DLC shall make current interest payments, in arrears, on the CNP Note in the amount of $16,666.00 per month from the Initial Closing Date (commencing November 15, 2000) through the Deferred Closing Date, (ii) Advocat, DLC, SHCM and DMSC shall otherwise comply in all respects with the terms and conditions of this Agreement, and (iii) no Triggering Event shall have occurred as defined in Paragraph 4.G, Omega agrees to forbear from exercising its remedies under the CNP Note and CNP Mortgage, and based on the undertakings of Counsel and/or Advocat (including the Advocat Guaranty) with respect thereto, for the period of one hundred twenty (120) days following the Initial Closing. During the time, and so long as, DLC shall timely make the interest payments

under sub-subparagraph 3.D.(i), Acquisition shall reduce the monthly Base Rent installments under the Amended and Restated Master Lease by an equal amount. If the Deferred Closing timely occurs, including the consummation of the transfer of Hardee Manor and its incorporation into the Amended and Restated Master Lease pursuant to and as contemplated in Paragraph 3.A, and further conditioned upon Omega's receipt at the Initial Closing of the $3,000,000 payment in accordance with Paragraph 7, below, Omega shall release Advocat and DLC from their obligations to pay the principal and any further unpaid interest indebtedness (beyond that to which the $3,000,000 payment is applied) under the CNP Note and the CNP Mortgage; provided, however, that Advocat shall not be released from its guaranty of the CNP Mortgage to the extent of any continuing obligations following its amendment as contemplated by Paragraph 3.B. If the Deferred Closing does not occur within one hundred twenty (120) days following the Initial Closing, Omega shall be free to exercise any and all its rights and remedies under the CNP Note, the CNP Mortgage, the Advocat Guaranty with respect thereto, and the undertakings of Counsel with respect thereto.

4. Amended and Restated Master Lease; Divestiture of Certain Facilities; Cash Management System Requirements.

A. Omega shall cause title to the Master Leased Facilities to be consolidated into Acquisition at or prior to the Initial Closing. SHCM shall simultaneously assign its interest in the Master Leased Facilities covered by the 1997 Master Lease to DLC. At the Initial Closing, Acquisition, as lessor, and DLC, as lessee, shall enter into an Amended and Restated Master Lease consolidating, amending and restating the Master Leases, and adding (or providing for the subsequent addition, pursuant to Paragraph 3.A, of) Hardee Manor to the Master Leased Facilities, all in substantially the form attached hereto as Exhibit "B" (the "Amended and Restated Master Lease"). In connection therewith:

B. At Initial Closing, DLC shall enter into and execute an Amended and Restated Security Agreement, covering all of the Master Leased Facilities, in substantially the form attached hereto as Exhibit "C", together with amended and restated UCC financing statements for each of the Master Leased Facilities in form satisfactory to Acquisition.

C. Also at Initial Closing, Advocat, AFI and DMSC shall execute an Amended and Restated Guaranty, in substantially the form attached hereto as Exhibit "D".

D. Also at Initial Closing, Acquisition and DLC shall enter into an Amended and Restated Memorandum of Lease for each of the jurisdictions in which the Master Leased Facilities are located, in substantially the form attached hereto as Exhibit "E"; provided, however, that an Amended and Restated Memorandum of Lease for Hardee Manor shall be entered into at the Deferred Closing.

E. Also at Initial Closing, DLC and SHCM shall enter into a sublease of the Master Leased Facilities covered by the 1997 Master Lease, in conformity with the requirements of Paragraph 13 of this Agreement. DLC and SHCM shall, at Initial Closing, execute and deliver to Acquisition the collateral documents for subleases as described in Paragraph 13.

F. No later than one hundred eighty (180) days following the Initial Closing, Advocat and DLC shall create a new wholly owned subsidiary of DLC ("NewSub"), and shall transfer to NewSub all of DLC's ownership, tenancy and/or operation of each facility, including all accounts receivable and personal property, included in the Master Leased Facilities (including within the Master Leased Facilities for purposes of this determination Hardee Manor, Desoto Manor and Leesburg) leased by DLC under the Amended and Restated Master Lease, so that the assets of NewSub shall be limited to the Master Leased Facilities. NewSub shall assume all obligations of DLC with respect to the Master Leased Facilities. NewSub shall be created as a single purpose entity, and its articles of incorporation and bylaws (or articles of organization and operating agreement, if NewSub is created as a limited liability company) shall contain

language reasonably satisfactory to Omega and in compliance with its obligations, if any, to AmSouth with respect, and limited, to potential guaranty of DLC's obligations to AmSouth and/or pledge of its stock/membership interests to AmSouth, to effectuate such status. In connection with the foregoing, DLC shall promptly initiate and diligently pursue to completion all necessary and appropriate actions to make SHCM and all other Sublessees wholly owned subsidiaries of NewSub. Upon the completion of the requirements of this Paragraph 4.F, all references to DLC in Paragraph 4.G shall be deemed to be requirements of NewSub.

G. Within ninety (90) days from the Initial Closing, DLC (or NewSub, as the case may be) and its permitted sublessees (the "Sublessees") will, as a material inducement to Omega and Acquisition to enter into this Agreement, and as an express covenant under the Amended and Restated Master Lease, establish a new cash management system (the "New Cash Management System"). The new Cash Management System will include the following procedures:

(i) If a Facility is operated by a Sublessee, all receipts related to that Facility shall be deposited daily into one or more accounts in the name of Sublessee.

(ii) If a Facility is operated by DLC or NewSub, all receipts related to that Facility shall be deposited daily into one or more accounts maintained by DLC or NewSub in the name of the Facility. The accounts maintained by each Sublessee and by DLC or NewSub in the name of Facilities into which funds are deposited as set forth in this clause (ii) and in clause (i) are herein referred to as the "Facility Accounts".

(iii) On a daily basis, the balance in each Facility Account may, at DLC's (NewSub's) option, be transferred into a concentration account maintained by Advocat (the "Advocat Concentration Account").

(iv) DLC ("NewSub") shall promptly establish, with AmSouth Bank or another financial instution satisfactory to Omega and Acquisition, a separate concentration account, unrelated to the Advocat Concentration Account, and which shall be referred to herein as the "DLC Concentration Account". DLC (NewSub) shall make, and thereafter maintain, a deposit or deposits in amounts sufficient to keep the DLC Concentration Account open and operative at all times.

(v) In the absence of a Triggering Event, funds from Facility Accounts swept into the Advocat Concentration Account may continue to be commingled with funds from other facilities owned or operated by Advocat, DLC and/or their respective affiliates, and utilized in accordance with existing practices. Advocat shall maintain financial records which will make it possible to identify (x) funds deposited into the Advocat Concentration Account from the Facilities, and (y) expenses of the Facilities paid with funds in the Advocat Concentration Account. For purposes hereof, "Triggering Event" shall mean any one or more of the following:

(1) DLC (or NewSub, as the case may be) shall fail to pay the Base Rent and/or Impositions as defined in the Amended and Restated Master Agreement, or Advocat fails to pay any principal or interest due under the Subordinated Note in accordance with its terms, and Omega shall provide a copy of notice of such default to AmSouth Bank;

(2) Acquisition gives notice of termination of the Amended and Restated Master Lease following an Event of Default, and provides a copy of such notice to AmSouth Bank;

(3) An involuntary bankruptcy proceeding is initiated against Advocat, DLC (or NewSub, as the case may be), or Advocat or DLC (or New Sub, as the case may be): (i) admits in writing its inability to pay its debts generally as they become due, (ii) files a petition in bankruptcy or a petition to take advantage of any insolvency law, (iii) makes a general assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, or (v) files a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, subject to the applicable provisions of the Bankruptcy Code (11 USC ss.101 et. seq.);

(4) AmSouth Bank or any successor thereto declares an event of default, and accelerates any or all of the indebtedness, or commences any action against DLC (or NewSub, as the case may be) or any sublessee, or takes any action to realize on AmSouth's junior interest in accounts receivable, under any document or instrument evidencing an obligation of Advocat, DLC, NewSub or any affiliate of any of the foregoing to AmSouth Bank; or

(5) AmSouth Bank declines, for any reason, to fund a working capital or other advance under any line of credit or other credit facility of Advocat, DLC or any affiliate of either.

(vi) In connection with the foregoing, and as a material inducement to Omega and Acquisition to enter into this Agreement, Advocat and/or DLC shall provide AmSouth written notice clearly identifying the Facility Accounts at AmSouth and any other account at AmSouth which holds only funds of NewSub or any of its sublesees.

(vii) From and after a Triggering Event, except for incidental expenses paid at the Facility level, all expenses of DLC/NewSub and the Sublessees (the "Facility Expenses") shall be paid by DLC/NewSub, either on its own behalf or on behalf of the Sublessees, from the DLC Concentration Account. After a Triggering Event, under no circumstances will funds of DLC/NewSub or any Sublessee be commingled with funds belonging to Advocat or any affiliate of Advocat (except for the Sublessees).

H. As a material inducement for Omega and Acquisition to enter into this Agreement, and as an express covenant under the Amended and Restated Master Lease, Advocat and DLC/New Sub shall not transfer, or permit the transfer, of the Advocat Concentration Account or the DLC Concentration Account to any financial institution other than AmSouth Bank, unless the new depository institution (the "Replacement Bank") shall first execute an intercreditor agreement with Omega and Acquisition substantially similar to the intercreditor agreement executed with AmSouth Bank pursuant to Paragraph 8.D, below.

5. Florida Managed Facilities. All existing contractual relationships of the parties, including without limitation for purposes hereof the existing management agreements and subordination of management fees with and by DMSC and the Advocat guaranties of DMSC's performance, with respect to the Florida Managed Facilities shall remain in existence without modification. Omega, Advocat and DMSC shall execute, at the Initial Closing, a Reaffirmation of Obligations in substantially the form attached hereto as Exhibit "F". The parties acknowledge that DMSC has not heretofore executed and joined in the Cash Collateral Agreement dated as of August 1, 1998, pertaining to the Florida Managed Facilities. Advocat and Omega shall negotiate, prior to January 31, 2001, an amendment to that instrument which will (i) resolve, in a manner consistent with the intent of the Cash Collateral Agreement, DMSC's reasonable objections to the flow of funds established thereby, and (ii) provide a consent by Advocat and DMSC to the sale or transfer of the Florida Managed Facilities, or any of them, to or at the direction of Omega, provided, however, that any such sale or transfer shall be subject to the concomitant assignment of the existing DMSC management agreement, which will remain in effect in accordance with its terms following such sale or transfer.

6. Capital Expenditures Undertaking. As a material inducement for Omega and Acquisition entering into this Agreement and consummating the transactions contemplated hereby, and as an express covenant under the Amended and Restated Master Lease, DLC (or NewSub, as applicable) agrees to undertake special project capital expenditures ("Special Project Capital Expenditures") with respect to the Master Leased Facilities (including, for purposes hereof, Hardee Manor if and when it is added to the Amended and Restated Master Lease pursuant to Paragraph 3.A) in the cumulative amount of not less than One Million and no/100 Dollars ($1,000,000.00) during the first two (2) Lease Years under the Amended and Restated Master Lease. The Special Project Capital Expenditures shall be for items intended to enhance the marketability and functionality of the Master Leased Facilities, and shall be subject to the reasonable approval of Acquisition, to be obtained in writing in advance of the expenditure. The Special Project Capital Expenditures shall be in addition to the annual Minimum Qualified Capital Expenditures required under Section 8.3.2 of the Amended and Restated Master Lease. Advocat shall guaranty the performance of and payment for the Special Project Capital Expenditures. DLC/NewSub shall in any event expend not less than Two Hundred Fifty Thousand and no/100 Dollars ($250,000.00) by June 30, 2001, and shall expend (unless prevented from doing so by Force Majeure, as defined in the Amended and Restated Master Lease) not less than Two Hundred Fifty Thousand and no/100 Dollars ($250,000.00), on a cumulative basis, in each subsequent six (6) month period thereafter during the two (2) year period therefor. DLC/NewSub shall not receive a credit for expenditures on Special Project Capital Expenditures against its annual Minimum Qualified Capital Expenditures obligations under Section 8.3.2 of the Amended and Restated Master Lease; provided, however, that the Special Project Capital Expenditures shall be undertaken and performed in accordance with the requirements for Qualified Capital Expenditures projects under the Amended and Restated Master Lease, and that failure (i) to spend, or have plans in place reasonably acceptable to Omega to spend, for Special Project Capital Expenditures, at least Five Hundred Thousand and no/100 Dollars ($500,000.00), on a cumulative basis, by September 30, 2001 or to spend, or have plans in place reasonably acceptable to Omega to spend, for Special Project Capital Expenditures, at least One Million and no/100 Dollars ($1,000,000.00), on a cumulative basis, by May 31, 2002, or (ii) to timely deposit the required expenditure amount into the Special

Project Capital Expenditures Reserve described below, shall in either such event constitute an Event of Default under the Amended and Restated Master Lease. If and to the extent the Minimum Qualified Capital Expenditures budget of $325 per bed per year during the first two (2) Lease Years is not sufficient to fund all the scheduled capital expenditure items set forth on Schedule 4, attached hereto and incorporated herein by reference, DLC/NewSub may utilize funds from the Special Project Capital Expenditures funding to complete Schedule 4 items. Without limitation of the foregoing, if and to the extent DLC/NewSub fails to make Special Project Capital Expenditures of Two Hundred Fifty Thousand and no/100 Dollars ($250,000.00) by June 20, 2001 and Two Hundred Fifty Thousand and no/100 Dollars ($250,000.00) in each six (6) month period thereafter, on a cumulative basis in accordance with the foregoing, an amount equal to the unexpended amount, less any funds already so deposited, shall be deposited on or before the fifteenth (15th) day of the month following the end of such applicable period, by DLC/NewSub into the Capital Expenditure Reserve Account established and administered under and pursuant to the Amended and Restated Lease. DLC/NewSub shall provide reports to Acquisition of the status of completion and funding of Special Project Capital Expenditures, commencing on June 30, 2001 for the prior six (6) month period, and at the end of each six (6) month period thereafter during the first two (2) Lease years.

7. Letters of Credit/Security Deposit. The parties acknowledge that Omega and Acquisition now hold security deposits with respect to the CNP Note and Master Leased Facilities as follows: (i) a letter of credit in the amount of $3,800,000 (the "1992 Letter of Credit") which secures obligations relating to the CNP Note and the 1992 Master Lease, (ii) a second letter of credit (the "Other Letter of Credit") in the amount of $1,150,000 which secures obligations under all of the Master Leases other than the 1992 Master Lease, and (iii) a cash deposit in the amount of $340,304.35, which secures obligations under all of the Master Leases other than the 1992 Master Lease. The cash deposit was previously applied by Omega/Acquisition against unpaid rent, but the letters of credit have not been called, pursuant to and based on the Standstill Agreement. The letters of credit were issued by AmSouth Bank ("AmSouth") or its predecessors. AmSouth maintains a first priority security interest in the accounts receivable of the Master Leased Facilities, as security for, among other things, the letters of credit. At the Initial Closing, and in connection with (and conditioned upon) the consummation of the restructuring of Advocat/DLC/SHCM's debt with and by AmSouth, including without limitation the release by AmSouth of its first priority security interest in the accounts receivable of the Master Leased Facilities (including, for purposes hereof, Hardee Manor), Omega/Acquisition shall (x) call and retain $3,000,000 of the 1992 Letter of Credit, (y) release and relinquish the remaining $800,000 balance of the 1992 Letter of Credit, and the $1,150,000 under the Other Letter of Credit, and (z) reverse the prior application of the cash deposit. The $3,000,000 shall be applied against the balance owing on the CNP Note as set forth in Paragraph 2B.(III). The prior cash deposit shall be held as the security deposit under the Amended and Restated Master Lease. In connection with the foregoing, Omega and Acquisition shall terminate and discharge the existing Letter of Credit Agreements. The parties hereto agree that (i) Acquisition is incurring substantial losses by the restructuring of the 1992 Master Lease into the Amended and Restated Master Lease, and (ii) not more than $3,000,000 of the 1992 Letter of Credit is fairly allocable to the CNP Note.

8. AmSouth Restructuring. The obligation of Omega and Acquisition to proceed to Initial Closing hereunder and to consummate the transactions contemplated hereby is expressly conditioned on the simultaneous consummation of a debt restructuring by and between AmSouth and Advocat/DLC (and their respective subsidiaries and affiliates), incorporating the following:

A. AmSouth shall release and relinquish its existing $3,000,000 first priority security interest in the accounts receivable of the Master Leased Facilities and the Florida Mortgaged Facilities. The parties acknowledge that AmSouth will continue to have a fully subordinated security interest in the subject accounts receivable, which shall be subject to the terms and conditions of the intercreditor agreement referred to in subparagraph 8.D, below.

B. The $3,000,000 draw by Omega on the letters of credit shall become a separate indebtedness of Advocat to AmSouth, in reduction of the existing promissory note, line of credit and overline indebtedness of Advocat to AmSouth. The new indebtedness shall be evidenced by a new promissory note (the "Non-Accrual Note"), which shall not bear interest, and which shall be paid solely as follows: (i) first, all net proceeds from the anticipated sale, if any, received by Advocat or its subsidiaries/affiliates of the nursing home facilities located in Texas and owned by Texas Diversicare Limited Partnership ("TDLP") and the Carteret nursing home facility, located in North Carolina, shall be applied against the Non-Accrual Note; (ii) in the event the foregoing amounts are not sufficient to liquidate the Non-Accrual Note in full, then surplus cash flow of Advocat (to be defined in terms satisfactory to Advocat, but in no event shall surplus cash include any amounts payable to Omega/Acquisition under the Amended and Restated Master Lease, or required for the operation of the Master Leased Facilities) shall be applied to the Non-Accrual Note until it has been paid in full.

C. At the Effective Date, the interest rate on the existing promissory note, overline and line of credit (the "AmSouth Debt") shall be established at nine and one-half percent (9 1/2%) per annum. Principal payments on the AmSouth Debt shall be made solely from surplus cash flow (defined in accordance with and subject to subparagraph B, above) after payment in full of the Non-Accrual Note.

D. Documentation of the foregoing debt restructuring shall be in form satisfactory to Omega, and at Initial Closing, Omega, Acquisition and AmSouth shall enter into an intercreditor agreement in form satisfactory to Omega, implementing both the matters set forth in this Paragraph 8 and the matters set forth in Subparagraphs 4.F and 4.G.

9. Counsel. Upon the last to occur of (i) consummation of the transfer of Hardee Manor to Acquisition in accordance with Paragraph 3.A, (ii) execution by CNP of all documents and instruments necessary or appropriate to the consummation of the transactions contemplated by Paragraph 3.B, and (iii) Advocat's certification to Omega that it has satisfactorily reached an accommodation with Counsel with respect to Advocat's Canadian subsidiaries and affiliates and their contractual and other relationships with Counsel, Omega shall release Counsel and its subsidiaries, and the officers, directors, shareholders, attorneys, successors and assigns thereof, and Counsel shall release Omega, Acquisition and their respective subsidiaries, and the officers, directors, shareholders, attorneys, successors and assign thereof, pursuant to a Mutual Release in form satisfactory to the parties thereto.

10. Subordinated Note. At Initial Closing, Advocat shall execute and deliver to Omega a Subordinated Note in the par amount of $1,700,000, in substantially the form attached hereto as Exhibit "H".

11. Preferred Stock. At Initial Closing, Advocat shall issue to Omega its preferred stock having a liquidation preference valued at $3,300,000 plus accrued and unpaid dividends, if any, and having conversion rights, dividend provisions, mandatory conversion and mandatory redemption provisions and dates, and such other terms and conditions as are set forth in the Stock Subscription Agreement to be executed by Omega and Advocat at Initial Closing, in substantially the form attached hereto as Exhibit "I".

12. Closing and Sale of Facilities. Omega and Advocat shall use commercially reasonable efforts, following the Initial Closing, (i) to define an appropriate process under which certain of the Master Leased Facilities which are, or which may later become, no longer economically viable as skilled nursing facilities, and approving or implementing the alternative use of such facilities during the term of the Amended and Restated Master Lease, (ii) to work out structural issues relating to licensure and liability compartmentalization by the potential use of subleases, and (iii) to work out structural issues to minimize, to the extent practicable, the corporate state tax in Alabama. The foregoing undertakings are independent of, and shall not modify, impair or abrogate in any way the effectiveness of the Amended and Restated Master Lease or any other undertakings or liabilities of Advocat/DLC/SHCM under this Agreement or under any other document or instrument executed in connection herewith or otherwise remaining in effect between or among them following the Initial Closing hereunder. Any implementation of agreement reached in connection with, or as a result of, the undertakings and consideration by Omega and Advocat as described in this Paragraph shall be implemented by written instrument, signed by Omega, Advocat, and any other party to be charged therewith. Notwithstanding any of the foregoing, and in any event: (a) none of the Master Leased Facilities listed on Schedule 5, attached hereto, shall be subject to closure or alternative uses during the initial term of the Amended and Restated Master Lease without the prior written consent of Omega and any lender holding a first mortgage on the subject facilities; and (b) there will be no adjustment in base rent under the Amended and Restated Master Lease as a consequence of the closing or alternative use of any of the Master Leased Facilities (provided, however, that with respect to closed facilities, the CPI adjustments otherwise required by the Amended and Restated Master Lease shall not apply after closure thereof).

13. Sublease of Facilities. Omega and Acquisition acknowledge that, at or following the Initial Closing, DLC/NewSub may desire to sublease certain of the Master Leased Facilities to wholly-owned subsidiaries of DLC, including in particular but without limitation SHCM. Omega and Acquisition hereby consent to such subleasing of certain of the Master Leased Facilities, provided the following conditions are satisfied prior to any such sublease: (a) each sublessee shall execute, as security for the Amended and Restated Master Lease, but subject to the terms and conditions of the AmSouth intercreditor agreement executed pursuant to Paragraph 8.D, (i) a Sublease Guaranty in the form attached hereto as Exhibit "J" whereby each sublessee jointly and severally guaranties Advocat's/DLC's/SHCM's obligations under the Amended and Restated Master Lease, (ii) a Security Agreement based upon the form of the Amended and Restated Security Agreement attached hereto as Exhibit "C", and (iii) those UCC financing statements as deemed necessary by Acquisition to secure those interests granted by the Security Agreement; and, (b) Advocat or DLC, as applicable, shall execute, as security for the Amended and Restated Master Lease, but subject to the terms and conditions of the AmSouth intercreditor agreement executed

pursuant to Paragraph 8.D, (i) a pledge of the stock (or membership interests, if a limited liability company) of any such sublessee in the form of the Stock Pledge Agreement attached hereto as Exhibit "K" , and (ii) a collateral assignment of the sublease.

14. Payments Until Initial Closing; Deferred Compensation. A. Advocat shall continue to pay Omega $209,134.62 per week during the period from October 1, 2000 through the Initial Closing Date, which shall be credited at Initial Closing against the accrued Base Rent otherwise due and payable at the Initial Closing.

B. Advocat and DLC acknowledge and agree that the amount of rent which Acquisition is forbearing from receiving as a consequence of entering into this Agreement and the Master Lease totals at least Five Million Dollars ($5,000,000). In order to induce Omega and Acquisition to enter into this Agreement, Advocat and DLC jointly and severally agree to pay Acquisition as damages the amount of ($5,000,000), together with interest thereon from the Effective Date through the date of payment at the rate of eleven percent (11%) per annum. Such amount shall be payable at the expiration of the Term (as defined in the Amended and Restated Master Lease) or earlier termination of the Lease. Omega and Acquisition agree to waive and forever forgive any obligation of either Advocat or DLC to pay such amount provided DLC/ NewSub fulfills in all

material respects its obligations under the Amended and Restated Master Lease, to transfer the Facilities and Lessee's Personal Property (as defined in the Amended and Restated Master Lease, subject to the excluded items therein) to Acquisition at the expiration of the Term or earlier termination of the Amended and Restated Master Lease. However, unless waived and forgiven as set forth in the preceding sentence, such amount shall be immediately due and payable at the end of the Term or earlier termination of the Master Lease. Payment of the amount owing under this Paragraph 14.B shall be a non-recourse obligation of Advocat and DLC secured (which security interest shall be acknowledged and covered by the Amended and Restated Security Agreement to be executed at Initial Closing, and by the security agreements to be executed by any sublessees of the Facilities) solely by the Lessee's Personal Property located at the Facilities at the expiration of the Term or earlier termination of the Amended and Restated Master Lease. Advocat and DLC acknowledge that their obligations under this Paragraph 14.B are independent of and do not arise under the Amended and Restated Master Lease.

15. Survival of Provisions; Default. A. Representations made by any party hereto, as well as the provisions hereof which contemplate or necessarily involve actions or representations by any party hereto after the Initial Closing and/or the Deferred Closing, shall survive the Initial Closing and/or the Deferred Closing, as the case may be.

B. In the event of a default by Advocat, DLC, SHCM, AFI or DMSC in the timely performance of their respective obligations under this Agreement, Omega and Acquisition shall have the right, upon written notice to the defaulting party, to pursue an action for specific performance of this Agreement, and to pursue any other remedies under applicable law. In the event of a default by Omega or Acquisition in the timely performance of their respective obligations under this Agreement, Advocat, DLC, SHCM , AFI and DMSC shall have the right, upon written notice to the defaulting party, to pursue an action for specific performance of this Agreement, and to pursue any other remedies under applicable law.

16. Time of the Essence. Time shall be of the essence in all respects with respect to Advocat's and DLC's performance under this Agreement.

17. Notices. All notices given pursuant to this Agreement shall be in writing and shall be delivered by ordinary first class mail (postage prepaid), personal delivery, overnight courier service, or confirmed fax, at the addresses set forth below:

If to Advocat, DLC, SHCM, AFI or DMSC:

Advocat Inc.
277 Mallory Station Road, Suite 130
Franklin, Tennessee 37067
Attention: Chief Financial Officer
Telephone No.: (615) 771-7575
Facsimile No.: (615) 771-7409

With a copy to:

Harwell Howard Hyne Gabbert & Manner, P.C.
315 Deaderick Street
Nashville, Tennessee 37238
Attention: Mark Manner
Telephone No.: (615) 256-0500
Facsimile No.: (615) 251-1059

If to Omega or Acquisition:

Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attention: Susan Allene Kovach
Telephone No.: (734) 887-0200
Facsimile No.: (734) 887-0201

With a copy to: Fred J. Fechheimer
Dykema Gossett PLLC
39577 Woodward Avenue, Suite 300
Bloomfield Hills, Michigan 48304-2820
Telephone No.: (248) 203-0743
Facsimile No.: (248) 203-0763

All notices given by personal delivery or confirmed fax will be conclusively deemed given upon the date of personal delivery or faxing, as applicable; all notices given by mail or overnight courier service will be conclusively deemed given on the business day immediately following the date the notice is deposited in the mail or with the overnight courier service.

18. Authority. Advocat, DLC, SHCM, AFI and DMSC jointly and severally represent and warrant to Omega and Acquisition that the execution, delivery and performance of this Agreement has been duly approved and authorized by all necessary corporate action of Advocat, DLC, SHCM, AFI and DMSC (including without limitation, all necessary action of the shareholders and directors of Advocat, DLC, SHCM, AFI and DMSC), and that no consent or approval from any other person or entity is required for the due and valid execution, delivery and performance of this Agreement by Advocat, DLC, SHCM, AFI and DMSC. Omega and Acquisition jointly and severally represent and warrant to Advocat, DLC, SHCM, AFI and DMSC that the execution, delivery and performance of this Agreement has been duly approved and authorized by all necessary corporate action of Omega and Acquisition (including without limitation, all necessary action of the shareholders and directors of Omega and Acquisition), and that no consent or approval from any other person or entity is required for the due and valid execution, delivery and performance of this Agreement by Omega and Acquisition.

19. Releases. A. Subject to, and in consideration for, Omega entering into this Agreement and consummating the transactions contemplated hereby, Advocat, DLC, SHCM, AFI and DMSC (collectively, the "Advocat Entities", and individually, an "Advocat Entity"), conditioned upon and effective simultaneously with the consummation of the transactions contemplated hereby at Initial Closing, releases and forever discharges Omega, Acquisition and their respective successors, assigns, agents, shareholders, directors, officers, employees, agents, parent corporations, subsidiary corporations, affiliated corporations, affiliates, and each of them, from any and all claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action, of every nature and description, whether known or unknown, absolute, mature, or not yet due, liquidated or non-liquidated, contingent, non-contingent, direct or indirect or otherwise, which any Advocat Entity now has or at any time may hold, by reason of any matter, cause or thing occurred, done, omitted or suffered to be done on or prior to the Initial Closing (collectively, "Omega Liabilities"), other than from Omega Liabilities arising out of this Agreement or any document or instrument executed in connection herewith or in consummation of the transactions contemplated hereby. Each Advocat Entity waives the benefits of any law, which may provide in substance: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor." Each Advocat Entity understands that the facts which it believes to be true at the time of making the release provided for herein may later turn out to be different than it believes now or at the time of granting such release, and that information which is not now or then known or suspected may later be discovered. Each Advocat Entity accepts this possibility, and each Advocat Entity assumes the risk of the facts turning out to be different and new information being discovered; and each Advocat Entity further agrees that the release provided for herein shall in all respects continue to be effective and not subject to termination or rescission because of any difference in such facts or any new information.

B. Release of Advocat Entities. Subject to, and in consideration for, the Advocat Entities entering into this Agreement and consummating the transactions contemplated hereby, Omega and Acquisition (together, the "Omega Entities", and individually, an "Omega Entity"), conditioned upon and effective simultaneously with the consummation of the respective transactions contemplated hereby at Initial Closing or thereafter in accordance herewith, releases and forever discharges the Advocat Entities (expressly excluding, for purposes hereof, Counsel Corporation and CNP) and their respective successors, assigns, agents, shareholders, directors, officers, employees, agents, parent corporations, subsidiary corporations, affiliated corporations, affiliates, and each of them, from any and all claims, debts, liabilities, demands, obligations,

costs, expenses, actions and causes of action, of every nature and description, whether known or unknown, absolute, mature, or not yet due, liquidated or non-liquidated, contingent, non-contingent, direct or indirect or otherwise, which any Omega Entity now has or at any time may hold, with respect to the following obligations arising under the Master Leases and in existence as of September 30, 2000 (but not as to any such obligations arising from and after October 1, 2000 under the Amended and Restated Master Lease, nor as to any other obligations under the Master Leases not specifically included in the following listing):

(i). The payment of "Minimum Rent" and "Additional Fixed Rent" (as defined in and to the extent applicable to the Master Leases);

(ii). The payment of any franchise tax incurred by an Omega Entity in connection with the collection of any type of rent under the Master Leases;

(iii). The payment of any late fees or default interest incurred in connection with the failure to pay Minimum Rent and any franchise tax; and

(iv). The payment of attorneys' fees and costs incurred by an Omega Entity in connection with the collection of past due amounts owing under the Master Leases.

As of the last to occur of (aa) transfer of Hardee Manor to Acquisition, and incorporation of Hardee Manor into the Amended and Restated Master Lease in accordance with Paragraph 3.A, (bb) execution by CNP of all documents and instruments necessary to effect the disposition of DeSoto Manor and Leesburg in accordance with Paragraph 3.B, and (cc) receipt by Omega/Acquisition of the $3,000,000.00 in letter of credit proceeds pursuant to Paragraph 7, the foregoing release by the Omega Entities shall also extend to the payment of principal under the CNP Note and the CNP Mortgage (but not any continuing obligations under the CNP Mortgage following the amendment thereof as contemplated in Subparagraph 3.B, above, nor Advocat's guaranty of such continuing obligations under the CNP Mortgage, nor Advocat's and DLC's continuing obligations under Paragraph 14.B, above).

Each Omega Entity understands that the facts which it believes to be true at the time of making the release provided for herein may later turn out to be different than it believes now or at the time of granting such release, and that information which is not now or then known or suspected may later be discovered. Each Omega Entity accepts this possibility, and each Omega Entity assumes the risk of the facts turning out to be different and new information being discovered; and each Omega Entity further agrees that the release provided for herein shall in all respects continue to be effective and not subject to termination or rescission because of any difference in such facts or any new information.

Notwithstanding anything to the contrary contained in this Paragraph 19 or otherwise, this release shall only be effective on and as of the Initial Closing or such later applicable date set forth in this Paragraph 19, as the case may be and not otherwise.

20. Non-Disclosure. A. Until Omega and Advocat mutually agree to publicly announce this Agreement, (i) the parties hereto, and each of their officers, directors, employees, agents, consultants and advisors, shall keep confidential all terms hereof and information contained herein (except to the extent required either (a) in connection with the satisfaction of the conditions contained herein (including, without limitation, providing such information to its creditors and their advisors), (b) by the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), or (c) reporting requirements, if any, of the New York Stock Exchange ("NYSE Requirements"), (ii) neither Advocat, DLC, SHCM, DMSC, nor any persons or entities affiliated with any of them or their officers, directors, employees, agents, consultants and advisors (within the meaning of Rule 405 under the Securities Act of 1933, as amended) shall trade in Omega's stock, and (iii) neither Omega, Acquisition, nor any persons or entities affiliated with any of them or their officers, directors, employees, agents, consultants and advisors (within the meaning of Rule 405 under the Securities Act of 1933, as amended) shall trade in Advocat's stock. Advocat, DLC, SHCM and DMSC acknowledge that Omega may disclose the existence of this Agreement and the transactions contemplated hereby in appropriate public filings under the Exchange Act, or pursuant to the NYSE Requirements. Omega and Acquisition acknowledge that Advocat may disclose the existence of this Agreement and the transactions contemplated hereby in appropriate public filings under the Exchange Act. No press releases with respect to this Agreement or the transactions contemplated hereby shall be issued absent the prior mutual approval of Omega and Advocat.

B. Notwithstanding subparagraph A, above, each party hereto may and shall give all required notices of the existence of this Agreement and the pending consummation of the transactions contemplated hereby to any and all appropriate governmental authorities.

C. The parties agree not to disclose or permit their respective representatives, attorneys, auditors or agents to disclose, except as may be required by law or performance hereunder, any confidential, non-public

information of the others which is obtained by any of them in connection with the transactions contemplated by this Agreement.

21. MUTUAL WAIVER OF RIGHT TO JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS AGREEMENT, OR (ii) ANY CONDUCT, ACTS OR OMISSIONS OF ANY PARTY HERETO OR ANY OF THEIR DIRECTORS, TRUSTEES, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH THEM; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

22. Miscellaneous. The recitals to this Agreement are incorporated into and made a part of this Agreement. This Agreement may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts taken together shall constitute one and the same instrument. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, legatees, personal representatives, successors and permitted assigns; provided, however, neither Advocat, DLC, SHCM, AFI nor DMSC may assign its respective rights or duties hereunder or in connection herewith or any interest herein (voluntarily, by operation of law, as security or otherwise) without the prior written consent of Omega, which consent may be withheld in the sole discretion of Omega. This Agreement shall not be construed so as to confer any right or benefit upon any person other than the parties to this Agreement and their respective successors and permitted assigns. This Agreement shall be governed by and construed only in accordance with Michigan law, without regard to conflicts of law principles; provided, however, that applicable state law shall control to the extent necessary to effect the real property remedies of Omega and Acquisition set forth herein. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction, which provisions shall remain in full force and effect. This Agreement, the Schedules and Exhibits hereto, constitute the entire agreement between the parties with respect to the transaction herein contemplated and, except as set forth herein, supersede all prior agreements or negotiations between the parties. Any modification or amendment to this Agreement shall be effective only if in writing and executed by the party against whom enforcement of the modification or amendment is sought. Section headings used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement. ADVOCAT, DLC, SHCM, AFI AND DMSC EACH HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY, WITHOUT DURESS OR INFLUENCE, WITHOUT RELYING ON ANY AGREEMENT OR REPRESENTATION NOT SPECIFICALLY SET FORTH IN THIS AGREEMENT, AND AFTER HAVING AN ADEQUATE OPPORTUNITY TO CONSULT WITH COUNSEL OF THEIR CHOICE.

23. Exhibits and Schedules. The following Exhibits and Schedules are attached to, and incorporated by reference in, this Agreement:

EXHIBITS:	
Exhibit "A"	[Intentionally Deleted]
Exhibit "B"	Amended and Restated Master Lease - Filed Separately
Exhibit "C"	Form of Amended and Restated Security Agreement
Exhibit "D"	Form of Amended and Restated Guaranty
Exhibit "E"	Form of Amended and Restated Memorandum of Lease
Exhibit "F"	Form of Reaffirmation of Obligations (Florida Managed Facilities)
Exhibit "G"	[Intentionally Deleted]
Exhibit "H"	Form of Subordinated Note
Exhibit "I"	Form of Stock Subscription Agreement
Exhibit "J"	Form of Sublease Guaranty
Exhibit "K"	Form of Stock Pledge Agreement
Exhibit "L	[Intentionally Deleted]
SCHEDULES:	
Schedule 1	Master Leased Facilities
Schedule 2	Florida Mortgaged Facilities

Schedule 3 Florida Managed Facilities

Schedule 4 Certain Qualified Capital Expenditures Items

Schedule 5 Master Leased Facilities Not Subject to Closure

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

[SIGNATURES ON FOLLOWING PAGE]

ADVOCAT INC., a Delaware corporation

By: /s/ James F. Mills, Jr.
Its: Senior Vice President

DIVERSICARE LEASING CORP., a Tennessee corporation

By: /s/ James F. Mills, Jr.
Its: Senior Vice President

STERLING HEALTH CARE MANAGEMENT INC., a Kentucky corporation corporation

By: /s/ James F. Mills, Jr.
James F. Mills, Jr.
Its: Senior Vice President

DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee

By: /s/ James F. Mills, Jr.
James F. Mills, Jr.
Its: Senior Vice President

ADVOCAT FINANCE, INC., a Delaware corporation

By: /s/ James F. Mills, Jr.
Its: Senior Vice President

OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation

By: /s/ Susan Allene Kovach
Susan Allene Kovach
Vice President

STERLING ACQUISITION CORP., a Kentucky corporation

By: /s/ Susan Allene Kovach
Susan Allene Kovach
Vice President

EXHIBIT C

FORM OF AMENDED AND RESTATED SECURITY AGREEMENT

THIS AMENDED AND RESTATED SECURITY AGREEMENT (the "Security Agreement") is made and entered into as of November , 2000 by and between DIVERSICARE LEASING CORP., a Tennessee corporation (the "Debtor"), and STERLING ACQUISITION CORP., a Kentucky corporation ("Secured Party").

RECITALS:

A. Capitalized terms used and not otherwise defined herein shall have the meanings given them in Article I below.

B. Concurrently herewith, Secured Party and Debtor have entered into the Lease, pursuant to which Secured Party has leased to Debtor the Facilities.

C. This Security Agreement is intended to consolidate, amend and restate those certain security agreements previously delivered to secure the 1992 Master Lease, the 1994 Master Lease, the 1997 Master Lease, and the West Liberty Master Lease into one document.

D. The obligations of the Original Security Agreements have been

assigned to, and assumed by, the Debtor.

E. The rights, title and interests to the Collateral secured by the Original Security Agreements have been assigned to, and assumed by, the Debtor subject to the security interests of the Secured Party.

F. The rights and obligations of the lessee under the Original Master Leases have been assigned to, and assumed by, the Debtor, as the lessee thereunder.

G. The rights and obligations of the lessors under the Original Master Leases have been assigned to, and assumed by, the Secured Party, as the lessor thereunder.

H. As a condition to Secured Party's agreement to enter into the Lease, Secured Party has required Debtor to enter into this Security Agreement and to grant, amend and restate security interests to Secured Party as herein provided.

NOW, THEREFORE, in order to induce Secured Party to enter into the Lease, and for other good and valuable consideration the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

ARTICLE I - DEFINITIONS

This Security Agreement is executed and delivered in connection with the Lease. Terms defined in the Commercial Code (as hereinafter defined) and not otherwise defined in this Security Agreement or in the Lease shall have the meanings ascribed to those terms in the Commercial Code. In addition to the other definitions contained herein, when used in this Agreement the following terms shall have the following meanings:

"1992 Master Lease" means the certain master lease dated August 14, 1992 between Omega Healthcare Investors, Inc. as lessor, and Diversicare Corporation of America, as lessee, for the facilities described therein.

"1994 Master Lease" means the certain master lease dated December 1, 1994 between Secured Party as lessor, and Sterling Health Care Management, Inc., as lessee, for the facilities described therein.

"1997 Master Lease" means the certain master lease dated March 1, 1997 between Secured Party as lessor, and Sterling Health Care Management, Inc., as lessee, for the facilities described therein.

"Collateral" means the collateral described in Article II, Section 2 below.

"Commercial Code" means the Uniform Commercial Code, as enacted and in force from time to time in the state in which the Facilities are located.

"Debtor's Personal Property" means any tangible personal property owned by Debtor and not used in connection with the operation of the Facilities.

"Facilities" means the healthcare facilities identified on attached Schedule 1.

"Lease" means the Consolidated Amended and Restated Master Lease executed concurrently herewith by Secured Party, as lessor, and Debtor, as lessee of the Facilities.

"Original Master Leases" means the 1992 Master Lease, the 1994 Master Lease, the 1997 Master Lease, and the West Liberty Master Lease, collectively.

"Original Security Agreements" means any and all security agreements delivered to secure the Original Master Leases or any one of them.

"Settlement and Restructuring Agreement" means that certain settlement and restructuring agreement by and among Advocat, Inc., a Delaware corporation, Debtor, Sterling Health Care Management, Inc., a Kentucky corporation, Diversicare Management Services Co., a Tennessee corporation, Omega Healthcare Investors, Inc., a Maryland corporation, and Secured Party of even date herewith.

"Subordinated Note" means that certain subordinated note from Advocat, Inc., a Delaware corporation to Omega Healthcare Investors, Inc., a Maryland corporation in the original principal amount of Three Million Dollars ($3,000,000.00) Dollars of even date herewith.

"West Liberty Master Lease" means the certain first amendment to master sublease dated March 3, 1999 between OS Leasing Company as lessor, and Diversicare Leasing Corp., as lessee, for the facilities described therein.

ARTICLE II - AGREEMENT

1. GRANT OF SECURITY INTEREST. Debtor hereby grants to Secured Party a continuing security interest in the Collateral to secure the payment of all amounts now or hereafter due and owing to Secured Party from Debtor under the Lease, or any extension or renewal thereof, and any and all other obligations incurred in connection therewith, together with all other obligations or indebtedness of Debtor and/or Advocat, Inc. to Secured Party under the Lease, Settlement and Restructuring Agreement, and Subordinated Note however created, evidenced or arising, whether direct or indirect, absolute or contingent, now or hereafter existing, due or to become due, plus all interest, costs, out-of-pocket expenses and reasonable attorneys' fees which may be made or incurred by Secured Party in the administration, and collection thereof (the "Liabilities"), and in the protection, maintenance, and liquidation of the Collateral. This Security Agreement shall be and become effective when, and continue in effect as long as, any Liabilities of Debtor to Secured Party are outstanding and unpaid, and except as otherwise permitted pursuant to the terms of this Agreement, the Settlement and Restructuring Agreement, or the Lease, Debtor will not sell, assign, transfer, pledge or otherwise dispose of or encumber any Collateral to any third party while this Security Agreement is in effect without the prior and express written consent of Secured Party. Notwithstanding the foregoing, the obligation of Debtor to pay Secured Party Five Million Dollars ($5,000,000) plus interest thereon as set forth in Section 15 of the Settlement and Restructuring Agreement shall be secured only by the Equipment (as hereinafter defined).

2. COLLATERAL. The "Collateral" covered by this Agreement is all of the personal property described below that Debtor now owns or shall hereafter acquire or create, immediately upon the acquisition or creation thereof, and that is located at or used exclusively in connection with, or arises from or in connection with Debtor's use and operation of, the Facilities, consisting of the following:

(a) Accounts. To the extent permitted by law, all accounts, Health Care Insurance Receivables (as defined in Revised Article 9, hereinafter

deferred), accounts receivable, deposits, prepaid items, documents, chattel paper, instruments, contract rights (including rights under any management agreement or franchise agreement with respect to the Facilities), general intangibles, choses in action, including any right to any refund of any taxes paid to any governmental authority prior to or after the date of this Agreement, and all ledgers, printouts, papers, data, file materials and information relating to any account debtors in respect thereof, and/or to the operation of the Debtor's business relating to the Facilities, and all rights of access to such books, records, ledgers, printouts, data, file materials and information, and all property in which such books, records, ledgers, printouts, data, file materials and information are stored (the "Accounts"); and

(b) Certificates of Need. To the extent permitted by law, all Certificates of Need now or hereafter issued in connection with the Facilities (the "Certificates"); and

(c) Equipment. All equipment, furniture, fixtures and other personal property used in connection with the operation of the Facilities, whether now owned or hereafter acquired by Debtor, together with all accessions, additions, parts, attachments, accessories, or appurtenances thereto including but not limited to linens, motor vehicles, furniture, fixtures and movable equipment, leasehold improvements, and all books and records now owned or hereafter acquired pertaining to any of the above described property other than Debtor's Personal Property, but specifically excluding any computer readable memory and any computer hardware or software necessary to process such memory (the "Equipment") and

(d) Insurance Rights. All rights under contracts of insurance now owned or hereafter acquired covering any of the Collateral ("Insurance Rights"); and

(e) Inventory. All inventory and goods, now owned or hereafter acquired, including but not limited to, raw materials, work in process, finished goods, food, medicines, tangible property, stock in trade, wares and merchandise used in or sold in the ordinary course of business at the Facilities (the "Inventory"); and

(f) Medicaid. To the extent permitted by law, all rights to reimbursement under that certain program of medical assistance, funded jointly by the federal government and the states, for impoverished individuals who are aged, blind and/or disabled, and/or members of families with dependent children, which program is more fully described in Title XIX of the Social Security Act (42 U.S.C. ss.ss. 1396 et seq.) and the regulations promulgated thereunder; and

(g) Medicare. To the extent permitted by law, all rights to reimbursements under that certain federal program providing health insurance for eligible elderly and other individuals, under which physicians, hospitals, skilled nursing homes, home health care, and other providers are reimbursed for certain covered services they provide to the beneficiaries of such program, which program is more fully described in Title XVIII of the Social Security Act

(42 U.S.C. ss.ss. 1395 et seq.) and the regulations promulgated thereunder; and

(h) Other Property. All other tangible and intangible property of Debtor now or hereinafter acquired by Debtor and located at the Facilities or used exclusively in connection with the operation of the Facilities, including without limitation, but specifically excluding Debtor's continuous quality improvement program, manuals and materials; management information systems; policy, procedure and educational manuals and materials; and similar proprietary property including any right to the use of the name "Diversicare"' and

(i) Patient Agreements. To the extent permitted by law, any and all contracts, authorizations, agreements or consents made by or on behalf of any patient or resident of any of the Facilities, or any other person seeking or obtaining services or goods from Debtor, pursuant to which Debtor provides skilled nursing care, intermediate care, personal care and/or assisted living facilities, or any form of patient or residential care, as well as related services at any of the Facilities (as such contracts, authorizations, agreements or consents may be amended, supplemented, renewed, replaced, extended or modified from time to time); including consents to treatment and assignments of payment of benefits (collectively, the "Patient Agreements");and

(j) Permits. To the extent permitted by law, (i) the operating licenses for each of the Facilities, any certificate of need, any other license, permit, approval or certificate which from time to time, may be issued or is required to be issued by the United States, any state or local government, or any agency or instrumentality of any of the foregoing with respect to the construction, installation or operation of any of the Facilities or any portion or component of any of the Facilities, the providing of any professional or other services by the Debtor, the purchase, sale, dispensing, storage, prescription or use of drugs, medications or the like by Debtor, or any other operations or businesses of Debtor; and (ii) certifications and eligibility for participation by Debtor, in respect of its operation of any of the Facilities, in programs or arrangements of or reimbursement from any third-party payors, including Medicare and Medicaid; and (iii) all other licenses permits and certificates used or useful in connection with the ownership, operation, use or occupancy of any of the Facilities (collectively, the "Permits"); and

(k) Investment Property. All Investment Property (as defined in the Uniform Commercial Code), other than a security, whether certificated or uncertificated, in a subsidiary or affiliate of Debtor; and,

(l) Proceeds. Proceeds arising out of the operation of the Facilities, including, without limitation, proceeds of hazard or other insurance policies and eminent domain or condemnation awards, of all of the foregoing described Inventory or Equipment, together with any and all deposits or other sums at any time credited by or due from Secured Party to Debtor and any and all instruments, documents, policies and certificates of insurance, securities,

goods, accounts receivable, choses in action, chattel paper, cash, property and the proceeds thereof (whether or not the same are Collateral or Proceeds thereof hereunder) owned by Debtor or in which Debtor has an interest, which are now or at any time hereafter in possession or under the control of Secured Party or in transit by mail or carrier to or from Secured Party or in the possession of any third party acting on behalf of Secured Party, without regard to whether Secured Party received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise, or whether Secured Party has conditionally released the same (the "Proceeds"); and

(m) Reimbursement Contracts. To the extent permitted by law, all rights to third-party reimbursement contracts for the Facilities which are now or hereafter in effect with respect to residents or patients qualifying for coverage under the same, including Medicare and Medicaid, managed care plans and private insurance agreements, and any successor program or other similar reimbursement program and/or private insurance agreements, now or hereafter existing; and

(n) Rights. All rights, remedies, powers and/or privileges of Debtor with respect to any of the foregoing.

The form of a description of the Collateral to be attached to financing statements executed by Debtor in connection herewith is attached hereto as Exhibit A. Except to the extent set forth above, the term "Collateral" does not include Debtor's Personal Property.

3. PERFECTION OF SECURITY INTEREST.

(a) Debtor hereby authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral pledged by Debtor hereunder, without the signature of Grantor where permitted by law. A copy of each such statement and amendment will be timely provided to Debtor. Debtor shall execute and deliver to Secured Party, concurrently with Debtor's execution of this Security Agreement, and at any time or times hereafter at the request of Secured Party, all financing statements and continuation financing statements (where not covered by the foregoing sentence),

assignments, affidavits, reports, notices, letters of authority, vehicle title notations and all other documents that Secured Party may reasonably request, in a form reasonably satisfactory to Secured Party, to perfect and maintain perfected Secured Party's security interests in the Collateral. In order to fully consummate all of the transactions contemplated hereunder, Debtor shall make appropriate entries on its books and records disclosing the security interests created hereby in the Collateral.

4. WARRANTIES AND COVENANTS. In addition to the warranties and representations, if any, made in the Lease, Debtor warrants, represents and agrees that:

(a) To the extent permitted by law, Debtor has rights in or the power to transfer the Collateral, and is and will be the lawful owner or lessee of all of the Collateral, with the right, to the extent permitted by law, to subject the owned or leased property to the security interests of Secured Party hereunder;

(b) Except for the security interests in the Collateral herein granted to Secured Party and as described in the Settlement and Restructuring Agreement, there are no other adverse claims, liens, restrictions on transfer or pledge, or security interests in the Collateral that are known to Debtor, and there are no financing statements covering any of the Collateral filed in any public office created by or known to Debtor prior to the date hereof, except as previously disclosed by Debtor to Secured Party. Debtor shall defend Secured Party against any claims and demands of any and all other persons to the Collateral inconsistent with this Agreement;

(c) All of the Collateral is or will be (upon delivery) located at the Facilities or at the chief executive offices of Debtor;

(d) Except as permitted under the Lease or hereunder, Debtor shall not remove the Collateral from the Facilities or its chief executive offices without Secured Party's prior written consent and shall not use or permit the Collateral to be used for any unlawful purpose whatsoever. Except as permitted under the Lease or hereunder, Debtor shall not remove any Collateral from the state in which the Facilities or its chief executive offices are located, without the prior written consent of Secured Party;

(e) Except as permitted under the Lease, Debtor shall not conduct business under any name at the Facilities other than that given above or set forth on attached Schedule 1, nor will Debtor change or reorganize the type of business entity under which it presently does business, except upon prior and express written approval of Secured Party, and, if such approval is granted, Debtor agrees that all documents, instruments and agreements reasonably requested by Secured Party and relating to such change shall be prepared, filed and recorded at Debtor's expense before the change occurs;

(f) Debtor shall not remove any records concerning the Collateral located at the Facilities or its chief executive offices nor keep any of its records concerning the same at any other location unless written notice thereof is given to Secured Party at least ten (10) days prior to the removal of such records to any new addresses; and

(g) Debtor has the right and power and is duly authorized to enter into this Security Agreement. The execution of this Security Agreement does not and will not constitute a breach of any provision contained in any agreement or instrument to which Debtor is or may become a party or by which Debtor is or may be bound or affected.

(h) Debtor shall not change the state of its incorporation, and shall not change its corporate name without providing Secured Party thirty (30) days prior written notice.

(i) Debtor's (i) chief executive office is located in the state of Tennessee, (ii) state of incorporation is the state first set forth in the first paragraph of this Security Agreement (the "Debtor State"), and (iii) exact legal name is as set forth in the first paragraph of this Security Agreement.

(j) Debtor shall at all times maintain the Collateral in good order and repair and with reasonable promptness make all necessary and appropriate repairs thereto of every kind and nature whether ordinary or extraordinary, foreseen or unforeseen, or arising by reason of a condition whether or not existing prior to the date of this Security Agreement. It is the intention of this provision that the level of maintenance of the Collateral shall be not less than that of a first class nursing home operator making use of the Collateral for its intended use.

(k) All agreements and papers required to be filed, registered or recorded in order to create in favor of the Secured Party a perfected lien in the Collateral have been, or will be, filed, registered or recorded in the appropriate filing offices, and to the best of Debtor's knowledge, no further or subsequent filing, refiling, registration, re-registration, recorded or re-recording is necessary in any jurisdiction, except as provided under

applicable law with respect to the filing of continuation statements.

5. COLLECTION OF ACCOUNTS.

(a) Secured Party hereby authorizes and permits Debtor to collect the Accounts from its debtors. This privilege may be terminated by Secured Party at any time after notice from Secured Party upon the occurrence and during the continuance of a Triggering Event under the Settlement and Restructuring Agreement (a "Notice of Default"), and Debtor shall execute, upon demand therefor, such assignments so as to vest in Secured Party full title to the Accounts (to the extent permitted under applicable law), and Secured Party thereupon shall be entitled to and have all of the ownership, title, rights, securities and guarantees of Debtor with respect thereto, and with respect to the property evidenced thereby, including the right of stoppage in transit, and Secured Party may notify any debtor or debtors of the assignments of the Accounts and collect the same; thereafter, Debtor will receive all payments on the Accounts as agent of and for Secured Party and will transmit to Secured Party, on the day of receipt thereof, all original checks, drafts, acceptances, notes and other evidence of payment received in payment of or on account of the Accounts, including all cash moneys similarly received by Debtor. Until such delivery, Debtor shall keep all such remittances separate and apart from Debtor's own funds, capable of identification as the property of Secured Party, and shall hold the same in trust for Secured Party. After Notice of Default from the Secured Party, all items or amounts that are delivered by Debtor to Secured Party on account of partial or full payment or otherwise as Proceeds of any of the Collateral shall be deposited in accordance with the terms of the Settlement and Restructuring Agreement. To the extent permitted by law, Secured Party or its representatives is hereby authorized to endorse, in the name of Debtor, any

item, howsoever received by Secured Party, representing any payment on or other proceeds of any of the Collateral, and may endorse or sign the name of Debtor to any accounts, invoices, assignments, financing statements, notices to debtors, bills of lading, storage receipts, or other instruments or documents in respect to Accounts or the property covered thereby requested by Secured Party. Debtor shall promptly give Secured Party, upon demand, copies of all Accounts, to be accompanied by such information and by such documents or copies thereof as Secured Party may reasonably require. After Notice of Default from Secured Party, Debtor shall maintain such records with respect to the Accounts and the conduct and operation of its business as Secured Party may reasonably request, and will furnish to Secured Party all information with respect to the Accounts and the conduct and operation of its business, including balance sheets, operating statements and other financial information, as Secured Party may reasonably request from time to time.

(b) Until such time as Secured Party shall notify Debtor of the revocation of such power and authority by reason of an a Triggering Event (and effective only during the continuance thereof), Debtor (i) may, only in the ordinary course of business, at its own expense, sell, lease or furnish under contracts of service any of the Inventory normally held by Debtor for such purpose; (ii) may use and consume any raw materials, work in process or materials, the use and consumption of which is necessary in order to carry on Debtor's business at the Facilities; (iii) replace Equipment in accordance with the provisions of the Lease; and (iv) shall, at its own expense, endeavor to collect, as and when due, all amounts due with respect to any of the Collateral, including the taking of such action with respect to such collection as Secured Party may reasonably request or, in the absence of such request, as Debtor may deem advisable. A sale in the ordinary course of business shall not include a transfer in partial or total satisfaction of a debt.

6. INSPECTIONS/INFORMATION. Debtor shall permit Secured Party or its agents upon reasonable written request and during business hours to have access to and to inspect any of the Collateral. Secured Party may from time to time inspect, check, make copies of, or extracts from the books, records and files of Debtor relating to the Collateral, and Debtor shall make the same available to Secured Party upon reasonable written notice and during business hours. Secured Party's right of access and inspection shall be subject to any prohibitions or limitations on disclosure under applicable law, including any so-called "Patient's Bill of Rights" or similar legislation, including such limitations as may be necessary to preserve the confidentiality of the Facility-patient relationship and the physician-patient relationship.

7. DEFAULT/REMEDIES

(a) The occurrence of any "Event of Default" under the Lease or a default under the Settlement and Restructuring Agreement shall constitute a Security Agreement Event of Default without any additional notice or grace period. In addition, the following shall also constitute a Security Agreement Event of Default:

(i) If any of the representations or warranties made by Debtor hereunder prove to be untrue when made in any material respect, the Secured Party or Collateral is materially and adversely affected thereby, and same is not cured within fifteen (15) days after written notice from

Secured Party thereof; or

(ii) If Debtor fails to perform any term, covenant, or condition of this Security Agreement and such failure is not cured within fifteen (15) days after written notice from Secured Party thereof; unless such default by its nature cannot be cured within said fifteen (15) days in which event Debtor shall have such additional time, not to exceed sixty (60) days from the date of such notice, as may be reasonably required under the circumstances to cure such default, provided Debtor commences such cure within said fifteen (15) day period and diligently prosecutes such cure thereafter.

(b) Whenever a Security Agreement Event of Default shall have occurred and so long as its continues, Secured Party may exercise from time to time any rights and remedies, including the right to immediate possession of the Collateral, available to it under the Lease, this Security Agreement or applicable law. Secured Party shall have the right to hold any property then in or upon the Facilities (but excluding any property belonging to patients at the Facilities) at the time of repossession not covered by this Security Agreement until return is demanded in writing by Debtor. Debtor agrees, in case of the occurrence of a Security Agreement Event of Default and upon the request of Secured Party, to assemble, at its expense, all of the Collateral at a convenient place acceptable to Secured Party and to pay all costs of Secured Party of collection of all the Liabilities, and enforcement of rights hereunder, including reasonable attorneys' fees and legal expenses, including participation in bankruptcy proceedings, and the expenses of locating the Collateral and the expenses of any repairs to any realty or other property to which any of the Collateral may be affixed or be a part. If the Collateral is disposed of at a public sale, the parties agree that a public sale with at least ten (10) calendar days prior notice to, Debtor and notice to the public by one publication in a local newspaper is commercially reasonable. If any notification of intended disposition of any of the Collateral is required by law, such notification, if mailed, shall be deemed reasonably and properly given if sent at least ten (10) days before such disposition, by first class mail, postage prepaid, addressed to the Debtor either at the address set forth in the notice section hereof, or at any other address of the Debtor appearing on the records of Secured Party.

(c) TO THE EXTENT PERMITTED BY LAW, DEBTOR AGREES THAT SECURED PARTY SHALL, UPON THE OCCURRENCE OF ANY SECURITY AGREEMENT EVENT OF DEFAULT, HAVE THE RIGHT TO PEACEFULLY RETAKE ANY OF THE COLLATERAL. DEBTOR WAIVES ANY RIGHT IT MAY HAVE, IN SUCH INSTANCE, TO A JUDICIAL HEARING PRIOR TO SUCH RETAKING.

8. INDEMNITY. In addition to the indemnities set forth in the Lease, Debtor shall protect (except to the extent same is caused by the gross negligence or wilful misconduct of Secured Party), indemnify and hold harmless Secured Party and its officers, employees, directors and agents from and against all liabilities, obligations, claims, damages, penalties, causes of action, and out-of-pocket costs and expenses whatsoever (including, without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Secured Party or its officers, employees, directors or agents, by reason of the ownership, use, construction and operation of the Collateral by Debtor, its officers, directors, servants, agents and employees or by reason of enforcement of Secured Party's rights hereunder or under the Lease. As used in this Security Agreement, the term "attorneys' fees" includes fees incurred in any appeal and/or enforcement proceedings. In case any action, suit or proceeding is brought against Secured Party by reason of any such occurrence, Debtor, upon request of Secured Party, shall at Debtor's expense cause such action, suit or proceeding to be resisted and defended by counsel approved by Secured Party with respect to proceedings and matters involving Secured Party. Any amounts payable to Secured Party under this Section 8 which are not paid within thirty (30) days after written demand therefor shall bear interest at the Overdue Rate as specified in the Lease from the date of such demand, and such amounts, together with such interest, shall be indebtedness secured by this Security Agreement. The obligations of Secured Party under this Section 8 shall survive the expiration or earlier termination of the Term of the Lease for a period of three (3) years; provided, however, if Secured Party has delivered notice to Debtor of a claim or potential claim under this Section 8, then the obligations of Debtor shall be extended with respect to such claim or potential claim until the final resolution of such claim or potential claim by the parties thereto.

9. CONCERNING REVISED ARTICLE 9 OF THE UNIFORM COMMERCIAL CODE. The parties acknowledge and agree to the following provisions of this Security Agreement in anticipation of the possible application, in one or more jurisdictions to the transactions contemplated hereby, of the revised Article 9 of the Uniform Commercial Code in the form or substantially in the form approved in 1998 by the American Law Institute and the National Conference of Commissioners on Uniform State Law ("Revised Article 9").

(a) Attachment. In applying the law of any jurisdiction in which Revised Article 9 is in effect, the Collateral is all assets of the

Debtor, whether or not within the scope of Revised Article 9. The Collateral shall include, without limitation and without limitation to the Collateral as defined herein, the following categories of assets as defined in Revised Article 9: goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts (including health-care-insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, general intangibles (including payment intangibles and software), supporting obligations and any and all proceeds of any thereof, wherever located, whether now owned and hereafter acquired. If the Debtor, or any of them, shall at any time, whether or not Revised Article 9 is in effect in any particular jurisdiction, acquire a commercial tort claim with respect to a Facility, as defined in Revised Article 9, Debtor shall immediately notify the Secured Party, in a writing signed by Debtor, of the details thereof and grant to Secured Party in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Security Agreement, with such writing to be in form and substance satisfactory to Secured Party.

(b) Perfection by Filing. Secured Party may at any time and from time to time, pursuant to the provisions of this Agreement, file financing statements, continuation statements and amendments thereto that describe the Collateral as all assets of Debtor or words of similar effect and which contain any other information required by Part 5 of Revised Article 9 for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether that Debtor is an organization, the type of organization and any organization identification number(s) issued to the Debtor. Debtor agrees to furnish any such information to Secured Party promptly upon request. Any such financing statements, continuation statements or amendments may be signed by Secured Party on behalf of Debtor, as provided in this Agreement, and may be filed at any time in any jurisdiction whether or not Revised Article 9 is then in effect in that jurisdiction.

(c) Other Perfection, etc. Debtor shall at any time and from time to time, whether or not Revised Article 9 is in effect in any particular jurisdiction, take such steps as Secured Party may reasonably request for Secured Party (a) to obtain an acknowledgment, in form and substance satisfactory to Secured Party, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for Secured Party, (b) to obtain "control" of any investment property, deposit accounts, letter-of-credit rights or electronic chattel paper (as such terms are defined in Revised Article 9 with corresponding provisions in Rev. ss.ss.9-104, 9-105, 9-106 and 9-107 relating to what constitutes "control" for such items of Collateral), with any agreements establishing control to be in form and substance satisfactory to Secured Party, and (c) otherwise to insure the continued perfection and priority of Secured Party's security interest in any of the Collateral and of the preservation of its rights therein, whether in anticipation and following the effectiveness of Revised Article 9 in any jurisdiction.

(d) Savings Clause. Nothing contained in this Section 9 shall be construed to narrow the scope of Secured Party's security interest in any of the Collateral or the perfection or priority thereof or to impair or otherwise limit any of the rights, powers, privileges or remedies of Secured Party except (and then only to the extent) mandated by Revised Article 9 to the extent then applicable.

(e) Nothing contained in this Section 9 shall be construed as granting a security interest in any assets of Debtor, except assets which are located at or are used exclusively in connection with, or which arise from or in connection with Debtor's use and operation of, the Facilities.

10. GENERAL

(a) Time shall be deemed of the essence with respect to this Security Agreement.

(b) Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if it takes such action for that purpose as Debtor requests in writing, but failure of Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care. Failure of Secured Party to preserve or protect any rights with respect to such Collateral against any prior parties shall not be deemed a failure to exercise reasonable care in the custody and preservation of such Collateral.

(c) Any delay on the part of Secured Party in exercising any power, privilege or right under the Lease, this Security Agreement or under any other instrument or document executed by Debtor in connection herewith shall not operate as a waiver thereof. No single or partial exercise thereof, or the exercise of any other power, privilege or right shall preclude other or further exercise thereof, or the exercise of any other power, privilege or right. The waiver by Secured Party of any default by Debtor shall not constitute a waiver of any subsequent defaults but shall be restricted to the default so waived.

(d) All rights, remedies and powers of Secured Party hereunder are irrevocable and cumulative, and not alternative or exclusive, and shall be in addition to all rights, remedies and power is given by the Lease or the Commercial Code, or any other applicable laws now existing or hereafter enacted.

(e) Whenever the singular is used hereunder, it shall be deemed to include the plural (and vice-versa), and reference to one gender shall be construed to include all other genders, including neuter, whenever the context of this Security Agreement so requires. Section captions or headings used in this Security Agreement are for convenience and reference only and shall not affect the construction thereof.

(f) Whenever possible each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement.

(g) This Security Agreement may be executed in multiple counterparts, each of which shall be considered an original but all of which, when taken together, shall constitute one agreement.

(h) The rights and privileges of Secured Party hereunder shall inure to the benefit of its successors and assigns, and this Security Agreement shall be binding on all assigns and successors of Debtor as may be permitted under the Lease.

(i) In the event of any action to enforce this Security Agreement or to protect the security interest of Secured Party in the Collateral, or to protect, preserve, maintain, process, assemble, develop, insure, market or sell any Collateral, Debtor agrees to pay the costs owed and expenses thereof, together with reasonable and documented attorneys' fees (including fees incurred in appeals and post judgment enforcement proceedings).

(j) THIS SECURITY AGREEMENT SHALL BE CONSTRUED, AND THE RIGHTS AND OBLIGATIONS OF THE DEBTOR AND SECURED PARTY SHALL BE DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF MICHIGAN, EXCEPT THAT THE LAWS OF THE STATE WHERE THE COLLATERAL IS LOCATED SHALL GOVERN THIS SECURITY AGREEMENT (A) TO THE EXTENT NECESSARY TO PERFECT AND/OR ENFORCE THE LIENS CREATED BY THIS SECURITY AGREEMENT AND TO THE EXTENT NECESSARY TO OBTAIN THE BENEFIT OF THE RIGHTS AND REMEDIES SET FORTH HEREIN WITH RESPECT TO THE COLLATERAL, AND (B) FOR PROCEDURAL REQUIREMENTS THAT MUST BE GOVERNED BY THE LAWS OF THE STATE IN WHICH THE COLLATERAL IS LOCATED.

(k) DEBTOR CONSENTS TO IN PERSONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF THE STATE IN WHICH THE COLLATERAL IS LOCATED AND MICHIGAN AND AGREES THAT ALL DISPUTES CONCERNING THIS SECURITY AGREEMENT BE HEARD IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE IN WHICH THE COLLATERAL IS LOCATED OR IN MICHIGAN. DEBTOR AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED UPON IT UNDER ANY METHOD PERMISSIBLE UNDER THE LAWS OF THE STATE IN WHICH THE COLLATERAL IS LOCATED OR MICHIGAN, AND DEBTOR IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN THE STATE AND FEDERAL COURTS OF THE STATE IN WHICH THE COLLATERAL IS LOCATED AND MICHIGAN.

(l) No amendment to this Security Agreement shall be effective unless the same shall be in writing and signed by the parties.

(m) Nothing contained herein shall be construed as in any way modifying or limiting the effect of terms or conditions set forth in the Lease, but each and every term and condition hereof shall be in addition thereto.

(n) All notices required or permitted to be given hereunder shall be given and deemed effective as provided in the Lease. The parties hereby agree that a notice sent as specified in this paragraph at least ten (10) days before the date of any intended public sale or the date after which any private sale or other intended disposition of the Collateral is to be made shall be deemed to be reasonable notice of such sale or other disposition.

(o) Upon the full payment, satisfaction and discharge of the Liabilities herein secured, the security interests provided for herein shall terminate and Secured Party shall file, register or record UCC-3 termination statements or other appropriate evidence of such termination with the appropriate filing offices in all jurisdictions necessary to evidence such termination of the security interests herein provided.

IN WITNESS WHEREOF, the parties have executed this Security Agreement as of the date first written above.

SECURED PARTY:

STERLING ACQUISITION CORP.

By:

Its:

DEBTOR:

DIVERSICARE LEASING CORP.

By:

Its:

SCHEDULE 1

DEBTOR: DIVERSICARE LEASING CORP.

SECURED PARTY: STERLING ACQUISITION CORP.

FACILITIES:

Alabama

Canterbury Health Facility
1720 Knowles Road
Phenix City, Alabama 36869
Russell County

Lynwood Nursing Home
4164 Halls Mills Road
Mobile, Alabama 36693
Mobile County

Northside Healthcare
700 Hutchins Avenue
Gadsden, Alabama 35904
Etowah County

Westside Healthcare
4320 Judith Lane
Huntsville, Alabama 35805
Madison County

Arkansas

Ash Flat Nursing and Rehabilitation Center
HC 67, Box 5A
Ash Flat, Arkansas 72513
Sharp County

Des Arc Nursing and Rehabilitation Center
2216 West Main Street
Des Arc, Arkansas 72040
Prairie County

Eureka Springs Nursing and Rehabilitation Center
235 Huntsville Road
Eureka Springs, Arkansas 72632
Carroll County

Faulkner Nursing and Rehabilitation Center
2603 Dave Ward Drive
Conway, Arkansas 72032
Faulkner County

Garland Nursing and Rehabilitation Center
610 Carpenter Dam Road
Hot Springs, Arkansas 71901
Garland County

Ouachita Nursing and Rehabilitation Center
1411 Country Club Road
Camden, Arkansas 71701
Ouachita County

The Pines Nursing and Rehabilitation Center
534 Carpenter Dam Road
Hot Springs, Arkansas 71901
Garland County

Pocahontas Nursing and Rehabilitation Center
105 Country Club Road
Pocahontas, Arkansas 72455
Randolph County

Rich Mountain Nursing and Rehabilitation Center
306 Hornbeck
Mena, Arkansas 71953
Polk County

Sheridan Nursing and Rehabilitation Center
113 South Briarwood Drive
Sheridan, Arkansas 72150
Grant County

Stillmeadow Nursing and Rehabilitation Center
105 Russelville Road
Malvern, Arkansas 72104
Hot Spring County

Walnut Ridge Nursing and Rehabilitation Center
1500 West Main
Walnut Ridge, Arkansas 72476
Lawrence County

Kentucky

Boyd Nursing and Rehabilitation
12800 Princeland Drive
Ashland, Kentucky 41102
Boyd County

Carter Nursing and Rehabilitation Center
P.O. Box 904 (250 McDavid Boulevard)
Grayson, Kentucky 41143
Carter County

Elliott Nursing and Rehabilitation Center
P.O. Box 694 (Route 32 East, Howard Creek Road)
Sandy Hook, Kentucky 41171
Elliott County

South Shore Nursing and Rehabilitation Center
P.O. Box 489 (James Hannah Drive)
South Shore, Kentucky 41175
Greenup County

West Liberty Nursing and Rehabilitation Center
P.O. Box 219 (774 Liberty Road)
West Liberty, Kentucky 41472
Morgan County

Wurtland Health Care Center
P.O. Box 677 (100 Wurtland Avenue)
Greenup, Kentucky 41144
Greenup County

Ohio

Best Care
2159 Dogwood Ridge
Wheelersburg, Ohio 45694
Scioto County

Tennessee

Laurel Manor Health Care Facility
902 Buchanan Road
New Tazwell, Tennessee 37825
Claiborne County

Manor House of Dover
Highway 49 East, P.O. Box 399
Dover, Tennessee 37058

Stewart County

Mayfield Rehabilitation and Special Care Center
200 Mayfield Drive
Smyrna, Tennessee 37167
Rutherford County

EXHIBIT A

FORM OF EXHIBIT TO FINANCING STATEMENT

Debtor: DIVERSICARE LEASING CORP.

Secured Party: STERLING ACQUISITION CORP.

Description of Collateral

All personal property of Debtor described below, which it now owns or shall hereafter acquire or create, immediately upon the acquisition or creation thereof and wherever situated, including, without limitation, the following:

(a) Accounts. To the extent permitted by law, all accounts, Health Care Insurance Receivables (as defined in Revised Article 9, hereinafter deferred), accounts receivable, deposits, prepaid items, documents, chattel paper, instruments, contract rights (including rights under any management agreement or franchise agreement with respect to the Facilities), general intangibles, choses in action, including any right to any refund of any taxes paid to any governmental authority prior to or after the date of this Agreement, and all ledgers, printouts, papers, data, file materials and information relating to any account debtors in respect thereof, and/or to the operation of the Debtor's business relating to the Facilities, and all rights of access to such books, records, ledgers, printouts, data, file materials and information, and all property in which such books, records, ledgers, printouts, data, file materials and information are stored (the "Accounts"); and

(b) Certificates of Need. To the extent permitted by law, all Certificates of Need now or hereafter issued in connection with the Facilities (the "Certificates"); and

(c) Equipment. All equipment, furniture, fixtures and other personal property used in connection with the operation of the Facilities, whether now owned or hereafter acquired by Debtor, together with all accessions, additions, parts, attachments, accessories, or appurtenances thereto including but not limited to linens, motor vehicles, furniture, fixtures and movable equipment, leasehold improvements, and all books and records now owned or hereafter acquired pertaining to any of the above described property other than Debtor's Personal Property, but specifically excluding any computer readable memory and any computer hardware or (except as set forth herein) software necessary to process such memory (the "Equipment") and

(d) Insurance Rights. All rights under contracts of insurance now owned or hereafter acquired covering any of the Collateral ("Insurance Rights"); and

(e) Inventory. All inventory and goods, now owned or hereafter acquired, including but not limited to, raw materials, work in process, finished goods, food, medicines, tangible property, stock in trade, wares and merchandise used in or sold in the ordinary course of business at the Facilities (the "Inventory"); and

(f) Medicaid. To the extent permitted by law, all rights to reimbursement under that certain program of medical assistance, funded jointly by the federal government and the states, for impoverished individuals who are aged, blind and/or disabled, and/or members of families with dependent children, which program is more fully described in Title XIX of the Social Security Act (42 U.S.C. ss.ss. 1396 et seq.) and the regulations promulgated thereunder; and

(g) Medicare. To the extent permitted by law, all rights to reimbursements under that certain federal program providing health insurance for eligible elderly and other individuals, under which physicians, hospitals, skilled nursing homes, home health care, and other providers are reimbursed for certain covered services they provide to the beneficiaries of such program, which program is more fully described in Title XVIII of the Social Security Act (42 U.S.C. ss.ss. 1395 et seq.) and the regulations promulgated thereunder; and

(h) Other Property. All other tangible and intangible property of

Debtor now or hereinafter acquired by Debtor and located at the Facilities or used exclusively in connection with the operation of the Facilities, including without limitation, but specifically excluding Debtor's continuous quality improvement program, manuals and materials; management information systems; policy, procedure and educational manuals and materials; and similar proprietary property including any right to the use of the name "Diversicare"' and

(i) Patient Agreements. To the extent permitted by law, any and all contracts, authorizations, agreements or consents made by or on behalf of any patient or resident of any of the Facilities, or any other person seeking or obtaining services or goods from Debtor, pursuant to which Debtor provides skilled nursing care, intermediate care, personal care and/or assisted living facilities, or any form of patient or residential care, as well as related services at any of the Facilities (as such contracts, authorizations, agreements or consents may be amended, supplemented, renewed, replaced, extended or modified from time to time); including consents to treatment and assignments of payment of benefits (collectively, the "Patient Agreements");and

(j) Permits. To the extent permitted by law, (i) the operating licenses for each of the Facilities, any certificate of need, any other license, permit, approval or certificate which from time to time, may be issued or is required to be issued by the United States, any state or local government, or any agency or instrumentality of any of the foregoing with respect to the construction, installation or operation of any of the Facilities or any portion or component of any of the Facilities, the providing of any professional or other services by

the Debtor, the purchase, sale, dispensing, storage, prescription or use of drugs, medications or the like by Debtor, or any other operations or businesses of Debtor; and (ii) certifications and eligibility for participation by Debtor, in respect of its operation of any of the Facilities, in programs or arrangements of or reimbursement from any third-party payors, including Medicare and Medicaid; and (iii) all other licenses permits and certificates used or useful in connection with the ownership, operation, use or occupancy of any of the Facilities (collectively, the "Permits"); and

(k) Investment Property. All Investment Property (as defined in the Uniform Commercial Code), other than a security, whether certificated or uncertificated, in a subsidiary or affiliate of Debtor; and,

(l) Proceeds. Proceeds arising out of the operation of the Facilities, including, without limitation, proceeds of hazard or other insurance policies and eminent domain or condemnation awards, of all of the foregoing described Inventory or Equipment, together with any and all deposits or other sums at any time credited by or due from Secured Party to Debtor and any and all instruments, documents, policies and certificates of insurance, securities, goods, accounts receivable, choses in action, chattel paper, cash, property and the proceeds thereof (whether or not the same are Collateral or Proceeds thereof hereunder) owned by Debtor or in which Debtor has an interest, which are now or at any time hereafter in possession or under the control of Secured Party or in transit by mail or carrier to or from Secured Party or in the possession of any third party acting on behalf of Secured Party, without regard to whether Secured Party received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise, or whether Secured Party has conditionally released the same (the "Proceeds"); and

(m) Reimbursement Contracts. To the extent permitted by law, all rights to third-party reimbursement contracts for the Facilities which are now or hereafter in effect with respect to residents or patients qualifying for coverage under the same, including Medicare and Medicaid, managed care plans and private insurance agreements, and any successor program or other similar reimbursement program and/or private insurance agreements, now or hereafter existing; and

(n) Rights. All rights, remedies, powers and/or privileges of Debtor with respect to any of the foregoing.

Except as stated above, the term Collateral does not include Debtor's Personal Property (as defined in the Security Agreement of even date herewith between Secured Party and Debtor related to that certain Lease of even date herewith between Secured Party, as lessor, and Debtor, as lessee).

EXHIBIT D

FORM OF GUARANTY

This GUARANTY ("Guaranty") is given as of November , 2000 ("Effective Date"), by ADVOCAT, INC., a Delaware corporation, whose address is 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067("Advocat"), ADVOCAT FINANCE, INC. , a Delaware corporation ("Finance") whose address is 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067 and DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation ("Management") whose address is 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067(jointly and severally the "Guarantors" and individually referred to herein as a

"Guarantor"), in favor of STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor") whose address is 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108, with reference to the following facts:

RECITALS

A. Diversicare Leasing Corp., a Delaware corporation (the "Lessee"), has executed and delivered to Lessor a Consolidated Amended and Restated Master Lease dated of even date herewith (the "Master Lease") pursuant to which the Lessee is leasing from Lessor certain healthcare facilities identified therein (the "Facilities").

B. By a guaranty dated May ___, 1994 and by an amended and restated guaranty dated February 1, 1997, Advocat guaranteed certain obligations of the Lessee and certain predecessors in interest as set forth therein.

C. By a guaranty dated February 1, 1997, Finance guaranteed certain obligations of the Lessee and certain predecessors in interest as set forth therein.

D. By a guaranty dated February 1, 1997, Management guaranteed certain obligations of the Lessee and certain predecessors in interest as set forth therein.

E. Pursuant to Section 19(B) of that certain Settlement and Restructuring Agreement by and among Lessor, Omega Healthcare Investors, Inc., a Maryland corporation, Advocat, Management, and Sterling Health Care Management Corporation, a Kentucky corporation of even date herewith, and only to the extent set forth therein, Lessor released Advocat, Finance and Management from liability under those guarantees described above.

F. Each Guarantor continues to maintain a direct financial interest in the Lessee and it is to the advantage of each Guarantor that Lessor enter into the Master Lease.

G. As a material inducement to Lessor to lease the Facilities pursuant to the Master Lease, each Guarantor has agreed to jointly and severally guarantee the payment of all amounts due from, and the performance of all obligations undertaken by the Lessee under the Master Lease and any security agreements, promissory notes, letter of credit agreements, guarantees or other documents which evidence, secure or otherwise relate to the Master Lease (the Master Lease and all such documents, and any and all amendments, modifications, extensions and renewals thereof, are hereinafter referred to collectively as the "Sterling Transaction Documents"), all as hereinafter set forth.

WHEREFORE, the parties hereby agree as follows:

1. Defined Terms. All capitalized terms used herein and not defined herein shall have the meaning for such terms set forth in the Master Lease.

2. Guaranty. Guarantors hereby unconditionally and irrevocably, jointly and severally, guarantee to Lessor (i) the payment when due of all Rent and all other sums payable by the Lessee under the Master Lease, and (ii) the faithful and prompt performance when due of each and every one of the terms, conditions and covenants to be kept and performed by the Lessee under the Sterling Transaction Documents, any and all amendments, modifications, extensions and renewals of the Sterling Transaction Documents, including without limitation all indemnification obligations, insurance obligations, and all obligations to operate, rebuild, restore or replace any facilities or improvements now or hereafter located on the real estate covered by the Master Lease. In the event of the failure of Lessee to pay any such amounts owed, or to render any other performance required of Lessee under the Sterling Transaction Documents, when due, Guarantors shall forthwith perform or cause to be performed all provisions of the Sterling Transaction Documents to be performed by Lessee thereunder, and pay all damages that may result from the non-performance thereof to the full extent provided under the Sterling Transaction Documents (collectively, the "Obligations"). As to the Obligations, each Guarantor's liability under this Guaranty is without limit.

3. Survival of Obligations. The obligations of Guarantors under this Guaranty with respect to the Sterling Transaction Documents shall survive and continue in full force and effect (until and unless all Obligations, the payment and performance of which are hereby guaranteed, have been fully paid and performed) notwithstanding:

(a) any amendment, modification, or extension of any Sterling Transaction Document;

(b) any compromise, release, consent, extension, indulgence or other action or inaction in respect of any terms of any Sterling Transaction Document or any other guarantor;

(c) any substitution or release, in whole or in part, of any security for this Guaranty which Lessor may hold at any time;

(d) any exercise or non-exercise by Lessor of any right, power or remedy under or in respect of any Sterling Transaction Document or any security held by Lessor with respect thereto, or any waiver of any such right, power or remedy;

(e) any bankruptcy, insolvency, reorganization, arrangement, adjustment, composition, liquidation, or the like of Lessee or any other guarantor;

(f) any limitation of the Lessee's liability under any Sterling Transaction Document or any limitation of the Lessee's liability thereunder which may now or hereafter be imposed by any statute, regulation or rule of law, or any illegality, irregularity, invalidity or unenforceability, in whole or in part, of any Sterling Transaction Document or any term thereof;

(g) any sale, lease, or transfer of all or any part of any interest in any Facility to any other person, firm or entity other than to Lessor;

(h) any act or omission by Lessor with respect to any of the security instruments given or made as a part of the Sterling Transaction Documents or any failure to file, record or otherwise perfect any of the same;

(i) any extensions of time for performance under the Sterling Transaction Documents, whether prior to or after maturity;

(j) the release of any collateral from any lien in favor of Lessor, or the release of Lessee from performance or observation of any of the agreements, covenants, terms or conditions contained in any Sterling Transaction Document by operation of law or otherwise;

(k) the fact that Lessee may or may not be personally liable, in whole or in part, under the terms of any Sterling Transaction Document to pay any money judgment;

(l) the failure to give Guarantors any notice of acceptance, default or otherwise;

(m) any other guaranty now or hereafter executed by Guarantors or anyone else in connection with any Sterling Transaction Document;

(n) any rights, powers or privileges Lessor may now or hereafter have against any other person, entity or collateral; or

(o) any other circumstances, whether or not Guarantors had notice or knowledge thereof, other than the payment or performance of all of the Obligations.

4. Primary Liability. The liability of Guarantor with respect to the Sterling Transaction Documents shall be joint and several, primary, direct and immediate, and Lessor may proceed against any Guarantor: (i) prior to or in lieu of proceeding against Lessee, its assets, any security deposit, or any other guarantor; and (ii) prior to or in lieu of pursuing any other rights or remedies available to Lessor. All rights and remedies afforded to Lessor by reason of this Guaranty or by law are separate, independent and cumulative, and the exercise of any rights or remedies shall not in any way limit, restrict or prejudice the exercise of any other rights or remedies.

In the event of any default under any Sterling Transaction Document, a separate action or actions may be brought and prosecuted against the Guarantors, or any one of them, whether or not Lessee is joined therein or a separate action or actions are brought against Lessee. Lessor may maintain successive actions for other defaults. Lessor's rights hereunder shall not be exhausted by its exercise of any of its rights or remedies or by any such action or by any number of successive actions until and unless all indebtedness and obligations the payment and performance of which are hereby guaranteed have been paid and fully performed.

5. Obligations Not Affected. In such manner, upon such terms and at such times as Lessor in its sole discretion deems necessary or expedient, and without notice to Guarantors, Lessor may: (a) amend, alter, compromise, accelerate, extend or change the time or manner for the payment or the performance of any obligation hereby guaranteed; (b) extend, amend or terminate any of the Sterling Transaction Documents; or (c) release Lessee by consent to any assignment (or otherwise) as to all or any portion of the obligations hereby guaranteed. Any exercise or non-exercise by Lessor of any right hereby given Lessor, dealing by Lessor with Guarantors or any other guarantor, Lessee or any other person, or change, impairment, release or suspension of any right or remedy of Lessor against any person including Lessee and any other guarantor will not affect any of the obligations of Guarantors hereunder or give

Guarantors any recourse or offset against Lessor.

6. Waiver. With respect to the Sterling Transaction Documents, each Guarantor hereby waives and relinquishes all rights and remedies accorded by applicable law to sureties and/or guarantors or any other accommodation parties, under any statutory provisions, common law or any other provision of law, custom or practice, and agrees not to assert or take advantage of any such rights or remedies including, but not limited to:

(a) any right to require Lessor to proceed against Lessee or any other person or to proceed against or exhaust any security held by Lessor at any time or to pursue any other remedy in Lessor's power before proceeding against any Guarantor or to require that Lessor cause a marshaling of Lessee's assets or the assets, if any, given as collateral for this Guaranty or to proceed against Lessee and/or any collateral, including collateral, if any, given to secure Guarantors' obligation under this Guaranty, held by Lessor at any time or in any particular order;

(b) any defense that may arise by reason of the incapacity or lack of authority of any other person or persons;

(c) notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of Lessee, Lessor, any creditor of Lessee or any Guarantor or on the part of any other person whomsoever under this or any other instrument in connection with any obligation or evidence of indebtedness held by Lessor or in connection with any obligation hereby guaranteed;

(d) any defense based upon an election of remedies by Lessor which destroys or otherwise impairs the subrogation rights of Guarantors or the right of Guarantors to proceed against Lessee for reimbursement, or both;

(e) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(f) any duty on the part of Lessor to disclose to Guarantors any facts Lessor may now or hereafter know about the Lessee, regardless of whether Lessor has reason to believe that any such facts materially increase the risk beyond that which each Guarantor intends to assume or has reason to believe that such facts are unknown to Guarantors or has a reasonable opportunity to communicate such facts to Guarantors, it being understood and agreed that each Guarantor is fully responsible for being and keeping informed of the financial condition of the Lessee and of all circumstances bearing on the risk of non-payment or non-performance of any obligations or indebtedness hereby guaranteed;

(g) any defense arising because of Lessor's election, in any proceeding instituted under the federal Bankruptcy Code, of the application of Section 1111 (b)(2) of the federal Bankruptcy Code; and

(h) any defense based on any borrowing or grant of a security interest under Section 364 of the federal Bankruptcy Code.

(i) any extension of time conferred by any law now or hereafter in effect and any requirement or notice of acceptance of this Guaranty or any other notice to which the undersigned may now or hereafter be entitled to the extent such waiver of notice is permitted by applicable law.

7. Warranties. With respect to the Sterling Transaction Documents, each Guarantor warrants that: (a) this Guaranty is executed at Lessee's request; and (b) Guarantor has established adequate means of obtaining from Lessee on a continuing basis financial and other information pertaining to the Lessee's financial condition. Guarantors agree to keep adequately informed from such means of any facts, events or circumstances which might in any way affect any Guarantor's risks hereunder, and Guarantors further agree that Lessor shall have no obligation to disclose to Guarantors information or material acquired in the course of Lessor's relationship with Lessee.

8. No-Subrogation. Guarantors shall have no right of subrogation and waive any right to enforce any remedy which Lessor now has or may hereafter have against Lessee and any benefit of, and any right to participate in, any security now or hereafter held by Lessor with respect to the Master Lease.

9. Subordination. Upon the occurrence of an Event of Default under any

Sterling Transaction Document, which is not cured by Guarantor, the indebtedness or obligations of Lessee to any Guarantor shall not be paid in whole or in part nor will Guarantors accept any payment of or on account of any amounts owing, without the prior written consent of Lessor and at Lessor's request, Guarantors shall cause the Lessee to pay to Lessor all or any part of the subordinated indebtedness until the obligations under the Sterling Transaction Documents have been paid in full. Any payment by Lessee in violation of this Guaranty shall be received by Guarantors in trust for Lessor, and Guarantors shall cause the same to be paid to Lessor immediately on account of the amounts owing from the Lessee to Lessor. No such payment will reduce or affect in any manner the liability of Guarantors under this Guaranty.

10. No Delay. Any payments required to be made by Guarantors hereunder shall become due on demand in accordance with the terms hereof immediately upon the happening of an Event of Default under any Sterling Transaction Document.

11. Application of Payments. With respect to the Sterling Transaction Documents, and with or without notice to Guarantors, Lessor, in Lessor's sole discretion and at any time and from time to time and in such manner and upon such terms as Lessor deems appropriate, may (a) apply any or all payments or recoveries from Lessee or from any other guarantor under any other instrument or realized from any security, in such manner and order of priority as Lessor may determine, to any indebtedness or other obligation of Lessee with respect to the Sterling Transaction Documents and whether or not such indebtedness or other obligation is guaranteed hereby or is otherwise secured or is due at the time of such application, and (b) refund to Lessee any payment received by Lessor under the Sterling Transaction Documents.

12. Guaranty Default.

(a) As used herein, the term Guaranty Default shall mean one or more of the following events (subject to applicable cure periods):

(i) the failure of any Guarantor to pay the amounts required to be paid hereunder at the times specified herein;

(ii) the failure of any Guarantor to observe and perform any covenants, conditions or agreement on its part to be observed or performed, other than as referred to in Subsection (i) above, for a period of thirty (30) days after written notice of such failure has been given to Guarantors by Lessor, unless Lessor agrees in writing to an extension of such time prior to its expiration;

(iii) the occurrence of a default under any other guaranty between Lessor and any Guarantor.

(b) Upon the occurrence of a Guaranty Default, Lessor shall have the right to bring such actions at law or in equity, including appropriate injunctive relief, as it deems appropriate to compel compliance, payment or deposit, and among other remedies to recover its attorneys' fees in any proceeding, including any appeal therefrom and any post-judgement proceedings.

13. Financial Statements. Each Guarantor shall deliver those Consolidated Financial Statements and other certificates as required by Article XXIII of the Master Lease in the form and at the times set forth therein.

14. Miscellaneous.

(a) No term, condition or provision of this Guaranty may be waived except by an express written instrument to that effect signed by Lessor. No waiver of any term, condition or provision of this Guaranty will be deemed a waiver of any other term, condition or provision, irrespective of similarity, or constitute a continuing waiver of the same term, condition or provision, unless otherwise expressly provided.

(b) If any one or more of the terms, conditions or provisions contained in this Guaranty is found in a final award or judgment rendered by any court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining terms, conditions and provisions of this Guaranty shall not in any way be affected or impaired thereby, and this Guaranty shall be interpreted and construed as if the invalid, illegal, or unenforceable term, condition or provision had never been contained in this Guaranty.

(c) THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MICHIGAN, EXCEPT THAT THE LAWS OF THE STATE IN WHICH A FACILITY IS LOCATED SHALL GOVERN THIS AGREEMENT TO THE EXTENT NECESSARY (i) TO OBTAIN THE BENEFIT OF THE- RIGHTS AND REMEDIES SET FORTH HEREIN WITH RESPECT TO SUCH FACILITY, AND (ii) FOR PROCEDURAL REQUIREMENTS WHICH MUST BE GOVERNED BY THE LAWS OF THE STATE IN WHICH SUCH FACILITY IS LOCATED. EACH GUARANTOR CONSENTS TO IN PERSONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF MICHIGAN AND

AGREES THAT ALL DISPUTES CONCERNING THIS GUARANTY BE HEARD IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED OR IN MICHIGAN. EACH GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED UPON IT UNDER ANY METHOD PERMISSIBLE UNDER THE LAWS OF THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED OR MICHIGAN AND IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN THE STATE AND FEDERAL COURTS OF THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED AND OF MICHIGAN.

(d) EACH GUARANTOR AND LESSOR HEREBY WAIVE TRIAL BY JURY AND THE RIGHT THERETO IN ANY ACTION OR PROCEEDING OF ANY KIND ARISING ON, UNDER, OUT OF, BY REASON OF OR RELATING IN ANY WAY TO THIS GUARANTY OR THE INTERPRETATION, BREACH OR ENFORCEMENT THEREOF.

(e) In the event of any suit, action, arbitration or other proceeding to interpret this Guaranty, or to determine or enforce any right or obligation created hereby, the prevailing party in the action shall recover such party's actual costs and expenses reasonably incurred in connection therewith, including, but not limited to, attorneys' fees and costs of appeal, post judgment enforcement proceedings (if any) and bankruptcy proceedings (if any). Any court, arbitrator or panel of arbitrators shall, in entering any judgment or making any award in any such suit, action, arbitration or other proceeding, in addition to any and all other relief awarded to such prevailing party, include in such-judgment or award such party's costs and expenses as provided in this paragraph.

(f) Each Guarantor (i) represents that it has been represented and advised by counsel in connection with the execution of this Guaranty; (ii) acknowledges receipt of a copy of the Sterling Transaction Documents; and (iii) further represents that Guarantor has been advised by counsel with respect thereto. This Guaranty shall be construed and interpreted in accordance with the plain meaning of its language, and not for or against Guarantors or Lessor, and as a whole, giving effect to all of the terms, conditions and provisions hereof.

(g) Except as provided in any other written agreement now or at any time hereafter in force between Lessor and Guarantors, this Guaranty shall constitute the entire agreement of Guarantors with Lessor with respect to the subject matter hereof, and no representation, understanding, promise or condition concerning the subject matter hereof will be binding upon Lessor or Guarantors unless expressed herein.

(h) All stipulations, obligations, liabilities and undertakings under this Guaranty shall be binding upon Guarantors and their respective successors and assigns and shall inure to the benefit of Lessor and to the benefit of Lessor's successors and assigns.

(i) The term "Guarantor" as used in this Guaranty shall mean the "Guarantor and each of them, jointly and severally.

(j) Whenever the singular shall be used hereunder, it shall be deemed to include the plural (and vice-versa) and reference to one gender shall be construed to include all other genders, including neuter, whenever the context of this Guaranty so requires. Section captions or headings used in the Guaranty are for convenience and reference only, and shall not affect the construction thereof.

[signatures on next page]

IN WITNESS WHEREOF, the undersigned has executed this Guaranty as of the date first written above.

GUARANTORS:

ADVOCAT, INC.

By: _____

Its: Executive Vice President

ADVOCAT FINANCE, INC.

By: _____

Its: Executive Vice President

DIVERSICARE MANAGEMENT SERVICES CO.

By: _____

Its: Executive Vice President

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of November, 2000, by James F. Mills, Jr., the Executive Vice President of Advocat, Inc. known to me to be the person who executed this Guaranty.

Notary Public, _____ County,
My Commission Expires: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of November, 2000, by James F. Mills, Jr., the Executive Vice President of Advocat Finance, Inc. known to me to be the person who executed this Guaranty.

Notary Public, _____ County,
My Commission Expires: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of November, 2000, by James F. Mills, Jr., the Executive Vice President of Diversicare Management Services Co. known to me to be the person who executed this Guaranty.

Notary Public, _____ County,
My Commission Expires: _____

EXHIBIT E

FORM OF MEMORANDUM OF CONSOLIDATED, AMENDED AND RESTATED LEASE

THIS LEASE, made and entered into as of October _____, 2000 by and between Sterling Acquisition Corp., a Kentucky corporation, having its principal office at c/o Omega Healthcare Investors, Inc., 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 as Lessor and Diversicare Leasing Corp., a Tennessee corporation, having its principal office at c/o Advocat, Inc., 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067 as Lessee with respect to the real property identified in Exhibit "A" attached hereto and located in Phenix City, Alabama.

WITNESSETH:

1. Omega Healthcare Investors, Inc., a Maryland corporation and Diversicare Corporation of America, a Delaware corporation, entered into a Master Lease dated August 11, 1992 (the "Original Lease"), as evidenced by the Short Form Lease dated August 11, 1992 and recorded on August 14, 1992 in Book 753 at Page 186 in the Office of the Judge of Probate of Russell County, Alabama and as Assigned by the Assignment and Assumption of Lease dated May 10, 1994 and recorded on June 7, 1994 in Book 788 at Page 286 in the Office of the Aforesaid.

2. Lessor and Lessee, as the successors-in-interest to the Original Lease, have entered into a Consolidated, Amended and Restated Master Lease of even date herewith (the "Amended Lease").

3. For and in consideration of the rents reserved and the other covenants contained in the Amended Lease, Lessor has and does hereby continue to lease to Lessee, and Lessee has and does hereby continue to take and rent from Lessor, all of Lessor's rights and interest in and to the parcel of real property described in Exhibit "A" and the improvements, fixtures, personal and other property included within the definition of "Leased Properties" as set forth in the Lease.

4. The Initial Term of the Amended Lease is approximately ten (10) years, commencing October 1, 2000 (the "Commencement Date") and ending on September 30, 2012.

5. As more particularly provided in the Amended Lease, Lessee may elect to renew the original term for one (1) ten (10) year optional renewal periods ("Renewal Terms") for a maximum term, if exercised, of twenty (20) years after the Commencement Date.

6. This instrument is executed and recorded for the purpose of giving notice of Lessee's interest in the Leased Properties and giving notice of the existence of the Lease, to which reference is made for a full statement of the terms and conditions thereof. The respective addresses of the parties hereto are:

Lessee:

Diversicare Leasing Corp.
c/o Advocat, Inc.
277 Mallory Station Road, Suite 130
Franklin, Tennessee 37067
Attn: Chief Financial Officer
Telephone: (615) 771-7575
Telecopier: (615) 771-7409

Lessor:

Sterling Acquisition Corp.
c/o Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attn.: F. Scott Kellman and
Susan Allene Kovach
Telephone: (734) 887-0200
Telecopier: (734) 887-0201

IN WITNESS WHEREOF, the parties have caused this instrument to be executed by their duly authorized officer or officers and general partners, as applicable, all as of the day and date first above written.

LESSOR:	LESSEE:
STERLING ACQUISITION CORP., a Kentucky corporation	DIVERSICARE LEASING CORP., a Tennessee corporation
By:	By:
Name:	Name
Its:	Its:

STATE OF MICHIGAN)
)SS
COUNTY OF WASHTENAW)

On this _____ day of October, 2000, before me, _____, a Notary Public within and for the County and State aforesaid, duly qualified, commissioned and acting, appeared in person the within named Susan A. Kovach, to me personally well known, who stated that they were the Vice President, of STERLING ACQUISITION CORP., a Kentucky corporation, and were duly authorized in their respective capacities to execute the foregoing Memorandum of Amended and Restated Lease for and in the name and behalf of said corporation, and further stated and acknowledged that they had so signed, executed and delivered said Memorandum of Amended and Restated Lease in the capacities and for the consideration and purposed therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this _____ day of October, 2000.

Notary Public

(NOTARY SEAL)

My commission expires:_____

STATE OF _____)
)SS
COUNTY OF _____)

On this _____ day of October, 2000, before me, _____, a Notary Public within and for the County and State aforesaid, duly qualified, commissioned and acting, appeared in person the within named _____, to me personally well known, who stated that they were the _____, of DIVERSICARE LEASING CORP., a Tennessee corporation, and were duly authorized in their respective capacities to execute the foregoing Memorandum of Amended and Restated Lease for and in the name and behalf of said corporation, and further stated and acknowledged that they had so signed, executed and delivered said Memorandum of Amended and Restated Lease in the capacities and for the consideration and purposed therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this _____ day of October, 2000.

Notary Public

(NOTARY SEAL)

My commission expires:_____

Exhibit A

Name of Facility: Canterbury Health Facility

Facility Address: 1720 Knowles Road
Phenix City, Alabama 36868

Legal Description:

Part of Section 22, Township 17 N, Range 30 E, Phenix City, Russell County, Alabama, and being more particularly described as follows: COMMENCE at the northeastern most corner of the intersection of 23rd Court and Knowles Road in Phenix City, Alabama, and run thence in a northeasterly direction along the Right of Way of Knowles Road a distance of 200.84 feet to the iron pin at the point of beginning of the property herein conveyed; thence North 43 deg. 11.5 min. west a distance of 596.82 feet to an iron pin; thence North 02 deg. 40.5 min. west 331.28 feet to an iron pin; thence North 87 deg. 03.5 min. East 621.16 feet to an iron pin; thence south 38 deg. 00.5 min. East 439.27 feet to an iron pin located on the right of way of Knowles Road; thence South 45 deg. 03 min. west along said ROW a distance of 408.50 feet to an iron pin; thence continue along said ROW along a curve having a radius of 2824.93 feet an arc distance of 241.14 feet to the iron pin at the point of beginning.

SUBJECT TO a sixty foot easement for ingress and egress to the general public along the northeastern most line of subject property.

Being the same property conveyed to Omega Healthcare Investors, Inc. by General Warranty Deed from Counsel Nursing Properties, Inc. recorded in Vol. 753, Page 105 in the Probate Office of Russell County, Alabama.

EXHIBIT F

FORM OF REAFFIRMATION OF OBLIGATIONS
(FLORIDA MANAGED FACILITIES)

THIS REAFFIRMATION OF OBLIGATIONS is made this day of November, 2000, by Advocat, Inc., a Delaware corporation ("Advocat"), and Diversicare Management Services Co., a Tennessee corporation ("DMSC"), to and for the benefit of Omega Healthcare Investors, Inc., a Maryland corporation ("Omega").

RECITALS:

A. Omega is the holder of two (2) Mortgage Notes (each a "Mortgage Note", and collectively, the "Mortgage Notes"), being respectively a purchase money note in the original principal amount of $12,891,500.00 and a working capital note in the original principal amount of $2,000,000.00 [a related third Mortgage Note, representing a liquidity deposit loan in the amount of $908,500.00 having been previously paid in full] in the aggregate original principal amount of $14,891,500.00 (such indebtedness being referred to herein as the "Loans"), evidenced by four (4) Loan Agreements (the "Loan Agreements"),

and secured by four (4) Mortgages, Security Agreements and Fixture Filings (collectively, the "Mortgages"), covering the following four (4) skilled nursing facilities located in the State of Florida (each a "Facility", and collectively, the "Facilities"):

Facility	Owner/Mortgagor
Emerald-Cedar Hills	Emerald-Cedar Hills, Inc.
Emerald-Southern Pines	Emerald-Southern Pines, Inc.
Emerald-Golfcrest	Emerald-Golfcrest, Inc.
Emerald-Golfview	Emerald-Golfview, Inc.

B. The foregoing Owners/Mortgagors (the "Emerald Entities") are affiliates of Emerald Healthcare, Inc., a Florida corporation ("Emerald"), by virtue of common ownership thereof by R. Brent Maggio ("Maggio").

C. DMSC is the manager of each of the Facilities, pursuant to and by virtue of four (4) separate management agreements, one with each of the Emerald Entities (the "Management Agreements"), and Advocat guaranteed the performance by and obligations of DMSC under the Management Agreements, including the obligation to make certain working capital advances to the Emerald Entities, by virtue of four (4) separate Guaranties (the "Guaranties"), one given to each Emerald Entity.

D. DMSC subordinated its rights under the Management Agreements, including without limitation its fees payable thereunder, to Omega and its rights under the Mortgage Notes and Mortgages, by virtue of a certain Subordination of Management Agreement and Management Fees dated as of February 20, 1996 (the "Subordination Agreement").

E. Omega, Emerald, the Emerald Entities and Maggio are parties to a certain Cash Collateral Agreement dated as of August 1, 1998, not yet executed by DMSC, pursuant to which, among other things, DMSC was to have agreed, and Emerald, the Emerald Entities and Maggio have consented, that DMSC would retain and pay over to Omega all "Net Cash Receipts" (as defined in the Cash Collateral Agreement) from the Facilities, subject to and in accordance with its terms and conditions.

F. Omega and its subsidiary Sterling Acquisition Corp., a Kentucky corporation ("Acquisition"), and Advocat, DMSC, and their affiliates/subsidiaries Sterling Healthcare Management, Inc., a Kentucky corporation ("SHCM") and Diversicare Leasing Corp., a Delaware corporation ("DLC"), are parties to a certain Settlement and Restructuring Agreement dated as of October 1, 2000 (the "Settlement Agreement"), pursuant to which they have resolved certain defaults of Advocat, SHCM and DLC under obligations to Omega and Acquisition with respect to other skilled nursing home facilities leased to and operated by SHCM and/or DLC, and have restructured their relationships with respect thereto.

G. As a condition of, and an inducement to Omega and Acquisition to enter into, the Settlement Agreement, Advocat and DMSC have agreed that their obligations to Omega with respect to the Facilities will remain in full force and effect.

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration, the receipt and adequacy of which are acknowledged hereby:

1. Advocat and DMSC acknowledge, ratify and reaffirm, as if fully restated herein in their entirety, the Management Agreements, Guaranties and Subordination Agreement (collectively, the "Florida Emerald Agreements"), and all of their individual and collective responsibilities and obligations thereunder, and further covenant and agree that such instruments shall continue to remain in full force and effect, unabated and without being limited in any respect by virtue of the Settlement Agreement and the documents and instruments executed and or delivered by the parties thereto in the consummation of the transactions contemplated therein.

2. As indicated above, DMSC has not heretofore executed and joined in the Cash Collateral Agreement. Advocat and Omega shall negotiate, prior to January 31, 2001, an amendment to that instrument which will (i) resolve, in a manner consistent with the intent of the Cash Collateral Agreement, DMSC's reasonable objections to the flow of funds established thereby, and (ii) acknowledge and reaffirm the consent by Advocat and DMSC to the sale or transfer of the Florida Managed Facilities as provided in Paragraph 4, below.

3. Advocat and DMSC, jointly and severally, warrant and represent to Omega that (i) the Florida Emerald Agreements are in full force and effect as of the date hereof, (ii) to their knowledge, Advocat and DMSC have fully performed all their respective obligations under the Florida Emerald Agreements, (iii) neither has received any notice or allegation of default from Emerald or any of the Emerald Entities with respect to the obligations of Advocat or DMSC under

the Florida Emerald Agreements, and (iv) neither the execution of the Settlement Agreement by Advocat and DMSC, nor the consummation of the transactions contemplated thereby is inconsistent with, nor would constitute a default under, the Management Agreements or the Guaranties. The foregoing representations and warranties shall survive the consummation of the transactions contemplated by the Settlement Agreement.

4. Advocat and DMSC each consents to any conveyance(s) and assignment(s) by one or more of the Emerald Entities and/or Emerald Healthcare, Inc. and/or Maggio, of their respective ownership and/or equity interests one or more of the Facilities and/or the related Emerald Entity(ies), to Omega or its designee, and Advocat and DMSC covenant and agree to recognize and attorn to the assignment of the relevant Management Agreement(s) relating to such Facility(ies).

5. Advocat and DMSC acknowledge and agree that this Reaffirmation, and the matters set forth herein, constitute a material inducement to Omega's agreement to enter into the Settlement Agreement, and that Omega would not consummate the transactions contemplated in the Settlement Agreement in the absence of the reaffirmations, representations and warranties set forth herein.

6. This Reaffirmation is given to, and for the express benefit of, and may be relied upon by Omega and its successors and assigns.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Advocat and DMSC have executed this Reaffirmation as of the date first above written.

WITNESSES:

ADVOCAT, INC., a Delaware corporation

By:
Its:

DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation

By:
Its:

STATE OF TENNESSEE)
:SS
COUNTY OF)

The foregoing instrument was acknowledged before me this day of , 2000, by , the of Advocat, Inc., a Delaware corporation, on behalf of the corporation.

Notary Public
County, Tennessee
My commission expires:

STATE OF TENNESSEE)
:SS
COUNTY OF)

The foregoing instrument was acknowledged before me this day of , 2000, by , the of Diversicare Management Services Co., a Tennessee corporation, on behalf of the corporation.

Notary Public
County, Tennessee

My commission expires:

EXHIBIT H

FORM OF SUBORDINATED NOTE

$1,700,000 Franklin, Tennessee
Dated as of November ____, 2000

FOR VALUE RECEIVED, Advocat Inc., a Delaware corporation, with an address of 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067 ("Borrower"), hereby promises to pay to Omega Healthcare Investors, Inc., a Maryland corporation with an address of 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 ("Payee"), or to order, the principal sum of One Million Seven Hundred Thousand Dollars ($1,700,000), and to pay interest from the date hereof on the unpaid principal amount hereof at a rate of interest at all times equal to seven percent (7%) per annum, which interest shall be accrued quarterly. Accrued interest (including, but not limited to, all interest accruing from the date of this Note but not paid pursuant to this sentence) shall be payable in cash quarterly beginning with the quarter following the payment in full of that certain Reimbursement Note dated the same date as this Note made by the Borrower to AmSouth Bank (the "Reimbursement Note"). To the extent accrued interest is not paid quarterly, including interest payments not made pursuant to the preceding sentence, it shall be compounded quarterly. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The quarterly interest payments shall be made on March 31, June 30, September 30 and December 31. Borrower may pre-pay this Note in part or in full at any time without penalty. All payments of principal and interest shall be in lawful money of the United States, and shall be made by wire transfer of immediately available funds to Payee or to such other account as is designated by Payee in writing to Borrower. All outstanding principal and accrued interest shall be due and payable in full on September 30, 2007 (the "Maturity Date").

1. (a) On the Maturity Date, the Borrower may, at its option subject to the limitations contained below in Sections 1(b) and 1(c), convert all or any portion of the outstanding principal and accrued unpaid interest on this Note as follows:

(1) If the holder of this Note also holds shares of Borrower's Series B Convertible Preferred Stock ("Preferred Stock") on the Maturity Date, then to shares of Preferred Stock. The number of shares of Series B Preferred Stock to be issued in respect of any of the principal and/or accrued unpaid interest shall be equal to the amount of such principal and/or accrued unpaid interest divided by the Stated Value (as defined in the Certificate of Designation of Series B Preferred Stock) of the Series B Convertible Preferred Stock on the Maturity Date.

(2) If the holder of this Note does not hold shares of Preferred Stock on the Maturity Date, then to shares of Borrower's Common Stock, $0.01 par value ("Common Stock"). The number of shares of Common Stock to be issued in respect of any of the principal and/or accrued unpaid interest shall be equal to (A) (1) the amount of such principal and/or accrued unpaid interest divided by (2) the Stated Value of the Preferred Stock (as defined in the Certificate of Designation of Series B Preferred Stock) which would then be in effect as of the Maturity Date multiplied by (B) the Conversion Rate of the Preferred Stock (as defined in the Certificate of Designation of Series B Preferred Stock) which would then be in effect as of the Maturity Date.

(b) Borrower may not convert outstanding principal or accrued unpaid interest into equity securities of Borrower pursuant to Section 1(a) if the aggregate amount of outstanding principal and accrued interest to be converted is less than $250,000. Borrower shall not issue fractions of shares of equity securities upon conversion of this Note. If any fractional share would, except for the provisions of this Section 1(b), be issuable upon conversion of this Note, Borrower shall pay to the person entitled to receive such equity security an amount in cash equal to (1) in the case of Preferred Stock, the value of such fractional share calculated using the Stated Value, calculated to the nearest one-one hundredth (1/100) of a share; or (2) in the case of Common Stock, the value of such fractional share calculated using the quotient of (x) the Stated Value of the Preferred Stock which would then be in effect as of the Maturity Date divided by (y) the Conversion Price of the Preferred Stock which would then be in effect as of the Maturity Date, calculated to the nearest one-one hundredth (1/100) of a share.

(c) Notwithstanding anything in this Note, the Settlement and Restructuring Agreement dated the same date as this Agreement among Borrower, Payee and certain other parties (the "Restructuring Agreement") or any other document, instrument or agreement between Borrower and Payee or any affiliate of

Payee, Borrower may not convert any outstanding principal or accrued unpaid interest into equity securities of Borrower, including Preferred Stock or Common Stock, and the holders of this Note shall continue to hold this Note, unless, as of the date of the proposed conversion:

(1) Payee's accountants or legal counsel render a written opinion (the "Conversion Opinion") to Payee that such conversion will not result in, cause or create a material risk of, the Payee losing its status as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended; provided, however, that Borrower may convert a portion of outstanding principal or accrued unpaid interest into equity securities of Borrower if Payee's accountants or legal counsel render a Conversion Opinion with respect to such portion and if subparagraphs (2) thru (5) of this Section 1(c) are satisfied as of the date of the proposed conversion;

(2) the Common Stock is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "34 Act") and Borrower has timely filed all reports required to be filed by Borrower under the 34 Act within the previous two years;

(3) no Default (as defined in Section 4 below) has occurred and is continuing;

(4) the Common Stock is listed for trading on the Nasdaq National Market, the New York Stock Exchange or upon a comparable national stock exchange; and

(5) the average weekly trading volume of the Common Stock over the prior four weeks was at least 500,000 shares traded (as adjusted for stock splits, stock dividends or similar transactions).

All costs associated with the Conversion Opinion shall be paid by Borrower.

2. (a) Payment of this Note shall be subordinated in right of payment and distribution of the assets of Borrower (including without limitation, any distribution of the assets of Borrower to its creditors in any insolvency, bankruptcy, reorganization or similar proceeding with respect to Borrower) to all Senior Indebtedness (as defined below); provided, that Borrower may make regular quarterly payments of interest due on this Note as provided in the preceding paragraph and payment of principal upon maturity ("Permitted Payments"), unless (i) a Default (as defined in any such Senior Indebtedness) has occurred or (ii) an event or condition which with the passage of time or giving of notice, or both, could become a Default has occurred and is continuing (collectively, the "Default Restrictions"). For purposes of this Note, "Senior Indebtedness" shall mean the principal, premium, if any, and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company whether or not a claim for post-filing interest is allowed in such proceeding), fees, charges, expenses, reimbursement and indemnification obligations, and all other amounts payable under or with respect of (i) any indebtedness of the Company (excluding this Note and indebtedness by its terms expressly ranking subordinate to or pari passu with this Note, herein, the "Subordinated Indebtedness") for money borrowed, whether or not evidenced by debentures, notes or similar instruments, issued, incurred, or assumed by the Company and whether outstanding on the dates of this Note or hereafter created or incurred; (ii) all indebtedness and other obligations guaranteed by the Company, or the payment and performance of which is secured by a lien on property or assets of the Company; (iii) the Borrower's Credit Facility with AmSouth Bank; (iv) the Borrower's mortgage obligations with General Motors Acceptance Corporation; and (v) the Reimbursement Note.

(b) Borrower shall notify Payee in writing before or at the time an interest payment is due if a Default Restriction has occurred. Except with respect to payments made to Payee pursuant to Section 1(a) in the form of the Corporation's Series B Preferred Stock or Common Stock, if Payee receives any cash payment on account of principal or of interest on this Note in violation of these subordination provisions, Payee shall receive the same as trustee for the holders of the Senior Indebtedness and will pay or deliver the same to such holders immediately and Payee hereby assigns to such holders all rights of Payee to any such payments and Payee shall execute such agreements as may be reasonably required to effectuate this assignment. Any amounts so paid to the holders of the Senior Indebtedness shall be deemed not to have been paid by Borrower, or received by Payee, under this Note. If any event or condition which is the subject of a Default Restriction shall be cured or waived in writing by the holders of the Senior Indebtedness, within the applicable grace period, if any, provided in the Senior Indebtedness, Borrower shall resume payments of interest (including any past due interest) on this Note and may pay the principal of this Note, according to the terms set forth herein, subject to

future application of the Default Restrictions. Payee acknowledges that this is a continuing agreement of subordination, and the Borrower and its senior lenders may amend, modify or extend, and such lenders may grant waivers under the provisions of any such Senior Indebtedness without approval of or notice to Payee.

(c) Until the Senior Indebtedness is paid in full, Payee shall not (a) initiate or participate with others in any suit, action or proceeding against Borrower to enforce payment or collect all or part of the indebtedness under this Note, (b) accelerate the maturity of or increase the principal of or amend the subordination provisions of this Note, (c) increase the interest rate on this Note, or (d) exercise any right of setoff with respect to, or take any security from Borrower for, this Note. Except to the extent expressly provided in this Note, nothing contained herein shall impair, between Borrower and Payee, the obligations of Borrower to make payments of principal of or interest on this Note to Payee as and when the same shall become due and payable in accordance with the terms hereof.

(d) The holder of this Note by his acceptance hereof acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the issuance of this Note, and each holder of Senior Indebtedness shall be deemed conclusively to have relied upon such subordination provisions in acquiring and continuing to hold such Senior Indebtedness.

3. This Note is secured by all guaranties, security interests, liens, assignments and encumbrances granted concurrently herewith, and granted previously or from time to time hereafter by Borrower or any of Borrower's affiliates to Payee, or any of Payee's affiliates, including, but not limited to, the security interests granted by Diversicare Leasing Corp., a Delaware corporation, to Sterling Acquisition Corp., a Kentucky corporation, in connection with the Amended and Restated Master Lease (as defined in the Restructuring Agreement) (collectively, the "Security Documents"). Reference is hereby made to the Security Documents for additional terms and conditions concerning this Note.

4. The occurrence of any of the following shall constitute a "Default" under this Note: (i) the Borrower fails to pay when due, whether by acceleration or otherwise, any amount payable under this Note; or (ii) an Event of Default under the Amended and Restated Master Lease; or (iii) an Event of Default under any of the Security Documents.

5. If a Default has occurred and is continuing, Payee may (subject to the limitations set forth in Section 2 of this Note) without demand of performance and without other notice declare the unpaid principal of and interest on this Note to be immediately due and payable, whereupon the same shall be due and payable without presentation, demand, protest or notice of any kind, all of which are expressly waived, anything herein to the contrary notwithstanding. Payee may proceed to protect and enforce Payee's rights either by suit in equity and/or by action at law, whether for specific performance, or proceed to enforce any other legal or equitable right as a holder of this Note. All remedies of Payee provided herein are cumulative and concurrent and may be exercised independently, successively or together against Borrower at the sole discretion of Payee, shall not be exhausted by any exercise thereof, and may be exercised as often as occasion therefor may occur, and shall not be construed to be waived or released by Payee's delay in exercising, or failure to exercise, them or any of them at any time it may be entitled to do so.

6. All notices, requests and other communications hereunder shall be made in the manner set forth in the Restructuring Agreement.

7. Borrower waives presentment for payment, demand, notice of nonpayment, notice of protest and protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default (except as expressly provided herein) or enforcement of the payment of this Note and agrees that the liability of Borrower shall not be in any manner affected by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Payee.

8. Acceptance by Payee of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and Payee's acceptance of any such partial payment shall not constitute a waiver of Payee's right to receive the entire amount due. Upon any Default, neither the failure of the Payee to promptly exercise its right to declare the outstanding principal and accrued unpaid interest hereunder to be immediately due and payable, nor the failure of Payee to demand strict performance of any other obligation of Borrower or any other person who may be liable hereunder, shall constitute a waiver of any such rights, nor a waiver of such rights in connection with any future default on the part of Borrower or any other person who may be liable under this Note.

9. Payee shall not by any act of omission or commission be deemed to have waived any of its rights or remedies hereunder unless such waiver be in writing and signed by Payee, and then only to the extent specifically set forth

therein; a waiver of one event shall not be construed as continuing or as a bar or waiver of such right or remedy on a subsequent event.

10. Unless a Default has occurred and not been fully cured, all payments received by Payee under this Note shall be applied, subject to the limitations set forth in Section 2 of this Note, first against interest which has accrued and not been paid, and second to principal, with the balance applied against principal and any other amounts which may be owing to Payee under this Note. Following the occurrence of a Default, and until such Default is fully cured, Payee may apply, subject to the limitations set forth in Section 2 of this Note, any payment which it receives, whether directly from the Borrower or as a consequence of realizing upon any security which it holds, in its sole and absolute discretion, to any amount owing to it under this Note or the Security Documents.

11. The Borrower shall pay to Payee, immediately upon demand, any and all taxes (including, but not limited to, state franchise taxes) assessed against Payee by reason of its holding of this Note and the receipt by it of interest payments hereunder (other than income taxes assessed by the United States, or by any foreign government or political subdivision thereof having jurisdiction over the Payee on such interest payments), and any and all other sums and charges that may at any time become due and payable under the Security Agreements.

12. The Borrower, and any other person who may be liable hereunder in any capacity, agree to pay all costs of collection and any litigation, including attorney fees (including any appeals relating to such enforcement or collection proceedings), in case the principal of the Note or any payment of interest thereon is not paid as it becomes due, or in case it becomes necessary to protect the security for this Note, whether suit is brought or not.

13. All payments by the Borrower shall be paid in full without setoff or counterclaim and without reduction for and free from any and all taxes, levies, imposts, duties, fees, charges, deductions or withholdings of any type or nature imposed by any government or any political subdivision or taxing authority thereof.

14. IT IS SPECIFICALLY AGREED THAT TIME IS OF THE ESSENCE OF THIS NOTE.

15. All agreements between the Borrower, and any other party liable for the payment of the indebtedness evidenced by this Note, and Payee, or any subsequent holder of this Note, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of demand or acceleration of the maturity of this Note or otherwise, shall the interest contracted for, charged, received, paid or agreed to be paid to the holder of this Note exceed the maximum amount permissible under applicable law. If, from any circumstance whatsoever, interest would otherwise be payable to the holder of this Note in excess of the maximum lawful amount, the interest payable to the holder of this Note shall be reduced to the maximum amount permitted by applicable law; and if from any circumstance the holder of this Note shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal of this Note and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of the principal of this Note, such excess shall be refunded to the Borrower or to another party, or parties, liable for the payment of the indebtedness evidenced by this Note, as applicable. All interest paid or agreed to be paid to the holder of this Note shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread through the full period of this Note (including the period of any renewal or extension hereof) until payment in full of the principal so that the interest for such full period shall not exceed the maximum permitted by applicable law. This Section 15 shall control all agreements between the Borrower and the holder of this Note.

16. If any provision hereof is found by a court of competent jurisdiction to be prohibited or unenforceable, it shall be ineffective only to the extent of such prohibition or unenforceability, and such prohibition or unenforceability shall not invalidate the balance of such provision to the extent it is not prohibited or unenforceable, nor invalidate the other provisions hereof, all of which shall be liberally construed in favor of Payee in order to effect the provisions of this Note.

17. This Note shall be governed by and construed in accordance with the internal substantive laws of the State of Delaware, without regard to any conflict of laws rule or principle that would result in the application of the domestic substantive law of any other jurisdiction.

Signature on following page.

IN WITNESS WHEREOF, Borrower has caused this Subordinated Note to be executed and delivered by its proper and duly authorized officer the day and year written above.

ADVOCAT INC.

By: _____

AGREED TO AND ACCEPTED BY PAYEE;

OMEGA HEALTHCARE INVESTORS, INC.

By: _____

EXHIBIT I

FORM OF STOCK ISSUANCE AND SUBSCRIPTION AGREEMENT

This Stock Issuance and Subscription Agreement ("Agreement") is entered into this ____ day of November, 2000 between Advocat Inc. ("Advocat") and Omega Healthcare Investors, Inc. ("Omega").

WHEREAS, Advocat and Omega and certain of their affiliates have entered into that certain Settlement and Restructuring Agreement dated November ____, 2000 (the "Restructuring Agreement") pursuant to which Advocat and Omega have agreed to restructure their relationship.

WHEREAS, in accordance with Section 11 of the Restructuring Agreement, Advocat has agreed to issue Series B Preferred Stock having the powers, preferences and rights as provided in the Certificate of Designation of Advocat ("Designation") as attached hereto as Exhibit A.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Advocat and Omega agree as follows:

1. Issuance of Shares. In consideration of the mutual promises and agreements set forth in, and the consummation of the transactions contemplated by, the Restructuring Agreement, Advocat hereby issues to Omega and Omega accepts from Advocat, subject to the terms and conditions hereof, 393,658 shares of Advocat Series B Convertible Preferred Stock (the "Shares"). Advocat shall deliver to Omega concurrently with the execution and delivery of this Agreement a stock certificate evidencing its ownership of the Shares and bearing a restrictive legend stating substantially the following:

> The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended. Such shares have been acquired for investment and may not be offered for sale, sold, delivered after sale, transferred, pledged or hypothecated in the absence of an effective registration statement covering such shares under the Securities Act or an opinion of counsel satisfactory to the company that such registration is not required.

2. Registration Rights Agreement. Concurrently with the execution and delivery of this Agreement, Advocat shall execute and deliver to Omega a Registration Rights Agreement (the "Registration Rights Agreement") substantially in the form of Exhibit B to this Agreement.

3. Representations and Warranties of Advocat. Advocat hereby represents and warrants to Omega as follows:

> 3.1 Advocat is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted.
>
> 3.2 Advocat has the full right, power and authority to execute, deliver and carry out the terms of this Agreement and all documents and agreements necessary to give effect to the provisions of this Agreement and to consummate the transactions contemplated hereby.
>
> 3.3 The execution, delivery and consummation of this Agreement have been duly and properly authorized by all necessary action on the part of Advocat. The Board of Directors of Advocat has duly and validly approved and taken all corporate action required to be taken by the Board of Directors for the consummation of the transactions contemplated by this Agreement and the Registration Rights Agreement including, but not limited to, all actions required to render the provisions of Section 203 of the Delaware General Corporation Act

restricting business combinations with "interested shareholders" inapplicable to such transactions and to provide that none of Omega or any of its affiliates shall become an"interested shareholder" upon the execution and delivery of this Agreement or the acquisition of Shares or shares of Advocat's Common Stock pursuant to this Agreement, the conversion of the Shares, or the acquisition of Shares pursuant to the Subordinated Note (as defined in the Restructuring Agreement).

3.4 This Agreement, upon due execution and delivery thereof, will constitute the valid and binding obligation of Advocat, enforceable in accordance with its terms.

3.5 Upon the issuance of the Shares, such Shares will be duly authorized, validly issued, fully paid and nonassessable.

3.6 The execution and delivery of this Agreement, the consummation of the transactions contemplated by this Agreement and the compliance with the terms of this Agreement do not and will not:

(a) conflict with or result in any breach of any provision of any agreement or other instrument to which Advocat is a party or by which it or any of its property may be bound, or conflict with or result in any breach of any provision of Advocat's Charter, as amended by the attached Designation, Bylaws or the Rights Agreement dated as of March 13, 1995 by and between Advocat and Third National Bank in Nashville, as amended (the "Rights Plan");

(b) conflict with, result in a breach of any provision of, constitute (with or without due notice or lapse of time or both) a default under, result in the modification or cancellation of, result in any increase in the obligations of Advocat or any of its subsidiaries under, or give rise to any right of termination or acceleration in respect of, any contract, agreement, commitment, understanding, arrangement or restriction of any kind to which Advocat is a party or to which Advocat or any of its property is subject;

(c) result in the creation of any Lien (as defined in Section 9.7 below) upon, or any Person (as defined in Section 9.7 below) obtaining the right to acquire, any of the Shares, any equity interest in Advocat or any of Advocat's assets;

(d) violate or conflict with any law, ordinance, code, rule, regulation, decree, order or ruling of any court or Governmental Entity (as defined in Section 9.7 below), to which Advocat or any of its assets is subject;

(e) require any authorization, consent, order, permit or approval of, or notice to, or filing, registration or qualification with, any governmental, administrative or judicial authority ("Consent"), other than (1) the filing of the Designation with the Delaware Secretary of State and (2) the filing of a Form D with the Securities and Exchange Commission; or

(f) require any Consent of any Person to the execution, delivery or performance of this Agreement or to the consummation of the transactions contemplated hereby, including (but not limited to) Consents from parties to leases or other agreements or commitments.

3.7 The authorized capital stock of Advocat consists of 20,000,000 shares of common stock, $0.01 par value, and 1,000,000 shares of preferred stock, $0.10 par value of which 200,000 have been designated Series A Junior Participating Preferred Stock of which none are issued and outstanding and 600,000 have been designated Series B Convertible Preferred Stock of which none are issued and outstanding immediately prior to the issuance of the Shares. After giving effect to the consummation of the transactions (i.e., the Closing) contemplated by this Agreement, the only shares of capital stock issued and outstanding, reserved for issuance or committed to be issued will be:

(a) 5,491,621 fully paid and non-assessable shares of Common Stock, duly issued and outstanding;

(b) 200,000 shares of Series A Junior Preferred Stock reserved for issuance pursuant to the Rights Plan;

(c) 393,658 fully paid and non-assessable shares of Series B Convertible Preferred Stock, duly issued and outstanding and owned of record and beneficially by Omega;

(d) 706,561 shares of Common Stock reserved for issuance upon conversion of the Series B Preferred Stock;

(f) 441,892 shares of Common Stock reserved for issuance upon the conversion of all accrued and unpaid dividends on the Shares (calculated assuming (1) a conversion date of September 30, 2007, (2) no change in the Conversion Price (as defined in the Designation) and (3) no payment of dividends on the Shares as of such date); and

(f) 206,342 shares of Series B Preferred Stock and 370,356 shares of Common Stock reserved for issuance upon the conversion of all unpaid principal and one fiscal quarter of accrued interest under the Note (calculated assuming no change in the Conversion Price) to either Series B Preferred Stock or Common Stock, as applicable.

There are no declared but unpaid dividends or undeclared dividend arrearages on any shares of capital stock of Advocat. Except as set forth on Schedule 3.7, there are no outstanding options, warrants, rights, calls, agreements, convertible securities or other commitments or rights to purchase or acquire any unissued stock or other securities from Advocat, and no other securities of Advocat are reserved for any purpose. Except as set forth on Schedule 3.7, there are no material contracts, commitments, agreements, understandings, arrangements or restrictions to which Advocat is a party which relate to the capital stock of Advocat.

3.8 As of the date of this Agreement, the aggregate book value of Advocat's outstanding "securities" (as that term is defined in Investment Company Act of 1940) exceeds $60,000,000.

4. Representations and Warranties of Omega. Omega hereby represents and warrants to Advocat as follows:

4.1 Omega is an "accredited investor" as defined in the Securities Act of 1933, as amended (the "Securities Act"), and rules and regulations promulgated thereunder.

4.2 The Shares are being acquired by Omega solely for its own account for investment, with no present intention of making or participating in a distribution thereof within the meaning of the Securities Act. None of the Shares will be sold or transferred by Omega in violation of the Securities Act, any state securities law or any other applicable securities legislation and the financial condition of Omega is such that Omega can bear the risk of this investment indefinitely.

4.3 Omega is aware that the Shares have not been registered under the Securities Act or any state securities law or any other applicable securities legislation, that the Shares must be held indefinitely unless they are subsequently registered or an exemption from such registration is available and that, except as provided in the Registration Rights Agreement, Advocat is under no obligation to register the Shares under the Securities Act, any state securities law, or any other applicable securities legislation. Omega is aware that an exemption from the registration requirements of the Securities Act

pursuant to Rule 144 thereunder is not presently available; that Advocat has not covenanted to make available an exemption from the registration requirements pursuant to such Rule 144 or any successor rule for resale of the Shares; and that even if an exemption under Rule 144 were available, the Rule generally permits only routine public market sales of securities in limited amounts in accordance with the terms and conditions of such Rule.

4.4 Omega confirms that Advocat has made available to Omega, or its representatives, the opportunity to ask questions of Advocat's officers and directors and to acquire such additional information about the business and financial condition of Advocat as Omega has requested, which additional information has been received.

4.5 Omega confirms that no representations or warranties have been made by Advocat other than as set forth or confirmed in this Agreement, in the Restructuring Agreement and in the documents and agreements which evidence or secure the transactions contemplated by the Transaction Documents (as defined in Section 9.7 below).

5. Indemnification.

5.1 Advocat agrees to indemnify and hold Omega, and its successors and assigns, harmless from and against any and all liabilities, losses, damages, injuries, liabilities, claims, deficiencies, judgments, fines, costs and expenses, including reasonable counsel fees ("Losses"), suffered, incurred or sustained by Omega or its successors or assigns that result from, relate to, or

arise out of:

(a) any breach of any representation or warranty or nonfulfillment of any agreement or covenant on the part of Advocat under this Agreement; or

(b) any action, suit, claim or proceeding incident to any of the foregoing or to the enforcement of this Section 5.

5.2 (a) If any third party shall notify Omega with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against Advocat (the "Indemnifying Party") under this Section, then Omega shall promptly notify Advocat of such Third Party Claim in writing; provided, however, that no delay on the part of Omega in notifying Advocat shall relieve Advocat from any obligation under this Section unless (and then solely to the extent) Advocat is prejudiced by such delay.

(b) Advocat will have the right to assume the defense of the Third Party Claim with counsel reasonably acceptable to Omega at any time within fifteen (15) days after Omega has given notice of the Third Party Claim; provided, however, that Advocat must conduct the defense

of the Third Party Claim actively and diligently to preserve its rights to assume the defense of the Third Party Claim; and provided further that Omega may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim.

(c) So long as Advocat has assumed and is conducting the defense of the Third Party Claim in accordance with Section 5.2(b) above, Advocat will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of Omega (not to be withheld unreasonably) unless the judgment or proposed settlement involves only the payment of money damages by Advocat and does not impose an injunction or other equitable relief upon Omega.

(d) If Advocat does not assume or conduct the defense of the Third Party Claim in accordance with Section 5.2(b) above, however, (i) Omega may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and Omega need not consult with, or obtain any consent from, Advocat in connection with any such defense, consent or settlement), and (ii) Advocat will remain responsible for any Losses Omega may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Section 5.

6. Financial Statements and Other Information. If, at any time while Omega holds any of the Shares (or any Common Stock of Advocat), Advocat ceases to have registered any of its securities pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "34 Act"), or to timely file all reports required to be filed by Advocat under the 34 Act, Advocat will deliver to Omega, as applicable:

(a) Audited Annual Financial Statements. As soon as practicable after the end of each fiscal year of Advocat, and in any event within ninety (90) days thereafter, a consolidated audited balance sheet of Advocat and its subsidiaries (if any), as of the end of such year, and consolidated audited statements of income, changes in retained earnings and changes in cash flows of Advocat and its subsidiaries (if any), for such fiscal year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and, in the case of the consolidated statements, certified, without qualification or explanation, by independent public accountants selected by Advocat and reasonably acceptable to Omega; and

(b) Unaudited Quarterly Financial Statements. As soon as practicable after the end of each fiscal quarter of each fiscal year and, in any event within forty-five (45) days thereafter, consolidated unaudited balance sheets of Advocat and its subsidiaries (if any) as of the end of such period, and consolidated unaudited statements of income and changes in cash flows of Advocat and its subsidiaries (if any) for such period and for the current fiscal year to date, prepared in

accordance with GAAP and setting forth in comparative form the figures for the corresponding periods of the previous fiscal year, subject to changes resulting from normal year-end audit adjustments and the absence of footnotes, all in reasonable detail and certified by the principal financial officer of the Company.

7. Redemption Right upon Default. Upon the occurrence of an Event of

Default (as defined in Section 10.7 below) and while it continues, Omega shall have the option, in addition to all other rights and remedies available to it, to cause Advocat to redeem all or any part of the Shares pursuant to Section 11 of the Designation.

8. Public Status. So long as any of the Shares shall remain outstanding, Advocat shall cause the Common Stock to remain registered pursuant to Section 12 of the 34 Act and shall use commercially reasonable efforts to timely file all reports required to be filed by the Company under the 34 Act.

9. Further Assurances and Information.

9.1 If, subsequent to the date of this Agreement, the Federal government issues or passes rules, regulations or laws which would cause Omega to lose, or be at a material risk of losing, its status as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended, as a result of Omega holding the Shares, and if Omega's attorneys or accountants recommend a restructuring of the relationship between Omega and Advocat as set forth in the Restructuring Agreement, then so long as the proposed restructuring does not place Advocat in a materially worse position relative to its position under the current structure of the relationship, Advocat shall use its commercially reasonable efforts to promptly take, or promptly cause to be taken, all actions and to execute all documents that are reasonably requested by Omega to restructure the relationship.

9.2 Within ten (10) days of the receipt of a written request from Omega, Advocat shall provide to Omega reasonable access to Advocat's books and records for the purpose of estimating the aggregate fair market value of Advocat's outstanding "securities" (as that term is defined in Investment Company Act of 1940) as of the date of the request.

10. Miscellaneous.

10.1 The representations, warranties and agreements contained herein shall survive the execution and delivery of this Agreement and the purchase of the Shares.

10.2 This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective permitted successors and assigns. This Agreement may not be assigned, by operation of law or otherwise, without the prior written consent of the non-assigning party; provided, however, that Omega and any subsequent holder of the Shares may assign the rights granted pursuant to Sections 5 and 6 of this Agreement to any subsequent holder of the Shares.

10.3 This Agreement, the Restructuring Agreement and the documents which evidence or secure the transactions contemplated by this Agreement and the Restructuring Agreement constitute the entire agreement of the parties relating to the subject matter hereof and there are no terms other than those contained herein. This Agreement may not be modified or amended except in a writing signed by the parties hereto.

10.4 This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflicts of law provisions.

10.5 This Agreement may be executed in counterparts, which together shall constitute one and the same agreement.

10.6 All notices and other communications under this Agreement shall be made in the manner specified in the Restructuring Agreement.

10.7 As used in this Agreement, the following terms shall have the following meanings:

"Event of Default" means (i) if Advocat fails to observe or perform or cause to be observed or performed any term, covenant or condition of this Agreement and such failure is not cured within a period of thirty (30) days after notice thereof from Omega, (ii) a representation or warranty of Advocat made in this Agreement is untrue when made or (iii) an Event of Default under any of the Transaction Documents.

"Governmental Entity" means any Federal, state, local or foreign government or any court of competent jurisdiction, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign.

"Lien" or "Liens" means any pledge, lien (including, without limitation, any tax lien), charge, claim, community property interest, condition, equitable interest, encumbrance, security interest, mortgage, option, restriction on transfer

(including without limitation any buy-sell agreement or right of first refusal or offer), forfeiture, penalty, equity or other right of another Person of every nature and description whatsoever.

"Person" means any individual, legal entity, business enterprise, or government, governmental body or unit, including any corporation, partnership, limited partnership, or limited liability company.

"Transaction Documents" means this Agreement, the Restructuring Agreement, the Amended and Restated Master Lease (as defined in the Restructuring Agreement), the Subordinated Note, all documents which evidence or secure the transactions contemplated by this Agreement, the Restructuring Agreement, the Amended and Restated Master Lease, the Subordinated Note and all guaranties, security agreements, cross default agreements and other documents granted concurrently herewith, and granted previously or from time to time hereafter by Advocat to Omega, or any of Omega's affiliates..

Signatures on following page.

In witness whereof the parties have executed this Agreement as of the date first set forth above.

ADVOCAT INC.

By:

Title:

OMEGA HEALTHCARE INVESTORS, INC.

By:

Title:

Exhibits and Schedules:

Exhibit A	Form of Designation
Exhibit B	Form of Registration Rights Agreement
Schedule 3.7	Options, Warrants, Etc.

EXHIBIT A

FORM OF
CERTIFICATE OF DESIGNATION
OF
ADVOCAT INC.
Pursuant to the Provisions of the
Delaware General Corporation Law

- ---

To the Secretary of State of the State of Delaware:

Pursuant to the provisions of Section 151 of the Delaware General Corporation Law (the "Delaware Act"), the undersigned corporation submits this Certificate of Designation for the purpose of designating a series of shares and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is Advocat Inc.

2. The following resolution, designating a series of shares of Advocat Inc. (the "Corporation") and fixing and determining the relative rights and preferences thereof, was duly adopted by the Board of Directors of the Corporation at a duly called meeting held on November 7, 2000.

RESOLVED, that pursuant to the powers expressly delegated to the Board of Directors by Sections 4 and 12 of the Certificate of Incorporation of the Corporation and pursuant to Section 102 of the Delaware Act, the Corporation designates as Series B Convertible Preferred Stock (the "Series B Preferred Stock") that number of shares having the powers, preferences and rights as is set forth below.

RESOLVED, that the President, Chairman of the Board of Directors, Vice President or Secretary of the Corporation, and each of them, be, and hereby are, authorized and directed to execute, file and deliver all such instruments, agreements, applications or other documents or amendments to any thereof that may be required, necessary or desirable to carry fully into effect the foregoing resolution and that the execution, filing or delivery of all of such shall be

deemed conclusive evidence of the approval and authorization by this Corporation of such acts. All terms used herein which are defined in the Charter of the Corporation shall have the same meaning herein, unless defined herein or the context otherwise requires.

Section 1. Designation and Amount. Of the authorized 800,000 shares of undesignated Preferred Stock, 600,000 shall be designated Series B Convertible Preferred Stock. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no resolution shall reduce the number of shares of Series B Preferred Stock to a number less than the number of shares then outstanding.

Section 2. Dividends and Distributions. (a) The holders of Series B Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors of the Corporation (the "Board of Directors"), out of the net profits of the Corporation, dividends per share equal to 7% per annum of the Stated Value (as herein defined) of such Series B Preferred Stock, payable quarterly. No dividend shall be paid in cash prior to the later of (1) October 1, 2002, and (2) the end of the fiscal quarter following the date that certain reimbursement promissory note issued by the Corporation to AmSouth Bank dated November ____, 2000 (the "Reimbursement Note") has been paid in full (the "Dividend Payment Date"). Dividends on the outstanding shares of Series B Preferred shall begin to accrue and accumulate (whether or not declared) from the Issue Date of the Series B Preferred Stock, calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall accrue and accumulate on a daily basis and compound on a quarterly basis (to the extent not otherwise declared and paid as set forth above), in each case whether or not declared. In the event the Series B Preferred Stock is converted as provided in Section 8 below prior to the Dividend Payment Date, accrued but unpaid dividends payable upon such conversion shall be payable by promissory note maturing no later than the Dividend Payment Date in substantially the same form as the Subordinated Note (as defined in Section 11 below) or by conversion as provided in Section 8(e) below, but not in cash. Notwithstanding anything to the contrary in this Section 2, after the Dividend Payment Date, the Board of Directors shall declare dividends on the Series B Preferred Stock to the extent, in its good faith judgment, there are Available Funds (defined in Section 12 below) to pay such quarterly dividends. To the extent there are insufficient Available Funds to pay all holders of the Preferred Stock the full quarterly dividend for any quarter, the Board of Directors shall declare a dividend to all holders of the Preferred Stock on a pro rata basis to the extent of Available Funds, if any. Holders of shares of the Preferred Stock shall be entitled to receive such dividends in preference to and in priority over dividends upon Junior Stock (defined in Section 12 below) . All dividends declared upon the Series B Preferred Stock shall be declared pro rata per share. For purposes hereof, the term "Stated Value" shall mean $8.3829 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, stock distribution or combination with respect to the Series B Preferred Stock.

(b) Dividends on the Series B Preferred Stock shall be cumulative and compounded quarterly and shall continue to accrue whether or not declared and whether or not in any fiscal year there shall be net profits or surplus available for the payment of dividends in such fiscal year.

Section 3. Liquidation, Dissolution or Winding Up. (a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Series B Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for

distribution to its stockholders, before any payment shall be made to the holders of Junior Stock, an amount in cash equal to the Stated Value per share plus any dividends thereon accrued but unpaid. If upon any such liquidation, dissolution or winding up of the Corporation the remaining assets of the Corporation available for the distribution to its stockholders shall be insufficient to pay the holders of shares of Series B Preferred Stock the full amount to which they shall be entitled, the holders of shares of Series B Preferred Stock shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect to the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

(b) If any shares of Series A Preferred Stock are then outstanding based upon a Distribution Date (as defined in the Rights Agreement dated as of March 13, 1995 by and between Advocat and Third National Bank in Nashville - the "Rights Agreement") caused by an Acquiring Person (as defined in the Rights Agreement) other than the holder of the Series B Preferred Stock, then after the payment of all preferential amounts required to be paid to the holders of Series B Preferred Stock pursuant to Section 3(a) above and any other series of Preferred Stock which is senior in priority to the Series A Preferred Stock upon the dissolution, liquidation or winding up of the Corporation, no distribution shall be made (1) as to the holders of shares of stock ranking junior to the Series A Preferred Stock unless prior thereto the holders of Series B Preferred Stock shall have received an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment,

plus an amount equal to the greater of (i) $100.00 per share or (ii) an aggregate amount per share, subject to adjustment, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (2) to the holders of Series A Preferred Stock or any other stock ranking on a parity with the Series A Preferred Stock, except distributions made ratably on the Series B Preferred Stock and all other such parity stock in proportion to the total amount to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. Notwithstanding the foregoing, in the event a holder of Series B Preferred Stock transfers any shares of Series B Preferred Stock to an Acquiring Person, then the rights to distributions subsequent to the date of such transfer provided to such holder pursuant to this Section 3(b) shall be null and void. In the event the Corporation shall at any time after the date hereof declare or pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to the event described under clause (1) above of the immediately prior sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(c) If no shares of Series A Preferred Stock are then outstanding, then after the payment of all preferential amounts required to be paid to the holders of Series B Preferred Stock and any other series of Preferred Stock upon the dissolution, liquidation or winding up of the Corporation, the holders of shares of Common Stock then outstanding shall be entitled to receive the remaining assets and funds of the Corporation available for distribution to stockholders.

(d) The Corporation will mail written notice of any distribution upon liquidation, dissolution or winding up, not less than 30 days prior to the payment date stated therein, to each record holder of Series B Preferred Stock.

Section 4.Certain Restrictions.(a) At any time when there are accrued and unpaid dividends and distributions, whether or not declared and whether before or after the Dividend Payment Date, on shares of Series B Preferred Stock outstanding, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of Junior Stock (provided that the Corporation may redeem shares of Common Stock from employees pursuant to rights of the Corporation under employment agreements or employee benefit plans);

(ii) except as permitted in subparagraph 4(a)(iii) below, redeem, purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preferred Stock; or

(iii) purchase or otherwise acquire for consideration any shares of Series B Preferred Stock, except in accordance with a pro rata purchase offer for all or any portion of the shares of Series B Preferred Stock made in writing to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under subparagraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

(c) So long as any shares of Series B Preferred Stock remain outstanding, the Corporation shall not, without the vote or written consent by the holders of at least a majority of the then outstanding shares of Series B Preferred Stock, voting together as a single class:

(i) authorize or issue, or obligate itself to issue, any other equity security (including any security convertible into or exercisable for any equity security) senior to or on a parity with the Series B Preferred Stock as to dividend rights or redemption rights or liquidation preferences;

(ii) permit any subsidiary to issue or sell, or obligate itself to issue or sell, except to the Corporation or any wholly owned subsidiary, any stock or other equity interest of such subsidiary;

(iii) increase or decrease (other than by redemption or conversion) the total number of authorized shares of Preferred Stock.

Section 5. Voting Rights. Except as otherwise provided by law and Sections 4 and 14 of this Designation, the holders of shares of Series B Preferred Stock shall have no voting rights and their consent shall not be required for taking corporation action.

Section 6. Reacquired Shares. Any shares of Series B Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock that may be reissued as a part of a new series of Preferred Stock, subject to the restrictions set forth in other Certificates of Designation, or to Certificates of Amendment, creating a series of Preferred Stock or any other similar stock or is otherwise required by law.

Section 7. Consolidation, Merger, Etc. If the Corporation shall enter into any consolidation, merger, share exchange, combination or other transaction in which all or substantially all of the shares of the Corporation are exchanged for or changed into other stock or securities, cash, and/or any other property, and if any shares of Series A Preferred Stock are then outstanding based upon a Distribution Date caused by an Acquiring Person other than the holder of the Series B Preferred Stock, then in any such case, at the option of the holders of Series B Preferred Stock, each share of Series B Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provisions hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. If the Corporation shall at any time declare or pay any dividend on the Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying

such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. Notwithstanding the foregoing, in the event a holder of Series B Preferred Stock transfers any shares of Series B Preferred Stock to an Acquiring Person, then the rights to distributions subsequent to the date of such transfer provided to such holder pursuant to this Section 7 shall be null and void.

Section 8. Conversion. (a) Each share of Series B Preferred Stock may be converted at any time, at the option of the holder thereof, into the number of fully-paid and nonassessable shares of Common Stock obtained by dividing the Stated Value by the Conversion Price then in effect (the "Conversion Rate"), provided, however, that on any redemption of any Series B Preferred Stock or any liquidation of the Corporation, the right of conversion shall terminate at the close of business on the full business day next preceding the date fixed for such redemption or for the payment of any amounts distributable on liquidation to the holders of Series B Preferred Stock. The initial conversion price, subject to adjustment as provided herein, is equal to $4.6705 (the "Conversion Price"). The initial Conversion Rate for the Series B Preferred Stock shall be 1.7949 shares of Common Stock for each one share of Series B Preferred Stock surrendered for conversion.

(b) The Corporation shall not issue fractions of shares of Common Stock upon conversion of Series B Preferred Stock or scrip in lieu thereof. If any fraction of a share of Common Stock would, except for the provisions of this Section 8(b), be issuable upon conversion of any Series B Preferred Stock, the Corporation shall in lieu thereof pay to the person entitled thereto an amount in cash equal to the Current Value (as defined in Section 12 below) of such fraction of a share of Common Stock, calculated to the nearest one-one hundredth (1/100) of a share.

(c) In order to exercise the conversion privilege, the holder of any Series B Preferred Stock to be converted shall surrender its certificate or certificates therefor to the principal office of the transfer agent for the Series B Preferred Stock (or if no transfer agent be at the time appointed, then the Corporation at its principal office), and shall give written notice to the Corporation at such office that the holder elects to convert the Series B Preferred Stock represented by such certificates, or any number thereof. Such notice shall also state the name or names (with address) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued, subject to any restrictions on transfer

relating to shares of the Series B Preferred Stock or shares of Common Stock upon conversion thereof. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly authorized in writing. The date of receipt by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) of the certificates and notice shall be the conversion date. As soon as practicable after receipt of such notice and the surrender of the certificate or certificates for Series B Preferred Stock as aforesaid, the Corporation shall cause to be issued and delivered at such office to such holder, or on its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion and, if less than all shares of Series B Preferred Stock represented by the certificate or certificates so surrendered are being converted, a residual certificate or certificates representing the shares of Series B Preferred Stock not converted.

(d) The Corporation shall at all times when the Series B Preferred Stock shall be outstanding reserve and keep available out of its authorized but unissued stock, for the purposes of effecting the conversion of the Series B Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series B Preferred Stock.

(e) Upon any such conversion, any accrued but unpaid dividends on the Series B Preferred Stock surrendered for conversion (the "Unpaid Dividends") shall be paid:

(1) to the extent available and subject to the limitations contained in Section 9(c)(1), by conversion into additional shares of Common Stock;

(2) to the extent the Unpaid Dividends can not be converted into Common Stock, if the Reimbursement Note has been paid in full, then in cash; and

(3) any remaining Unpaid Dividends, by promissory note.

A holder of shares of Series B Preferred Stock may waive the payment of accrued but unpaid dividends in its sole discretion. If the holder of shares of the Series B Preferred Stock to be converted accepts a promissory note as payment for any unpaid dividends accrued on the shares to be converted, the promissory note shall be in substantially the same form as the Subordinated Note and will mature on the last day of the quarter following the payment in full of the Reimbursement Note. The number of additional shares of Common Stock to be issued in respect of any Unpaid Dividends shall be equal to the amount of such accrued but unpaid dividends divided by the Current Value of the Common Stock. To the extent that any such dividend would result in the issuance of a fractional share of Common Stock (which shall be determined with respect to the aggregate number of shares of Common Stock held of record by each holder) then the Current Value of such fraction of a Share shall be paid in cash (unless there are no legally available funds with which to make such cash payment, in which event such cash payment shall be made as soon as possible).

(f) All shares of Series B Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease and terminate except only the right to the holder thereof to receive shares of Common Stock in exchange therefor and payment of any accrued and unpaid dividends thereon.

Section 9. Mandatory Conversion. (a) Subject to the limitations set forth in Section 9(c) below, the Corporation shall have the right to cause the conversion of Series B Preferred Stock into shares of Common Stock at its then effective Conversion Price at any time, provided that the Current Value of the Corporation's Common Stock on the date of the notice described in Section 9(b) below and on the Conversion Date (as defined in Section 9(b) below) is equal to or greater than 150% of the Conversion Price. In such a mandatory conversion, the Corporation will pay accrued and unpaid dividends as provided in Section 8(e).

(b) All holders of record of shares of Series B Preferred Stock will be given at least 30 days' prior written notice (the "Conversion Notice") of the date fixed (the "Conversion Date") and the place designated for mandatory conversion of all (or if limited pursuant to Section 9(c)(1), such portion) of such shares of Series B Preferred Stock pursuant to this Section 9. The Conversion Notice will be sent by mail, first class, postage prepaid, to each record holder of shares of Series B Preferred Stock at such holder's address appearing on the stock register. On or before the date fixed for conversion each holder of shares of Series B Preferred Stock shall surrender its certificate or certificates for all such shares to the Corporation at the place designated in the Conversion Notice, and shall thereafter receive certificates for the number of shares of Common Stock to which such holder is entitled pursuant to this Section 9. Subject to Section 9(c), on the date fixed for conversion, all rights with respect to the Series B Preferred Stock so converted will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Common Stock into which such Series B Preferred Stock has been converted and

payment of any accrued and unpaid dividends thereon. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his attorneys duly authorized in writing. Subject to Section 9(c), all certificates evidencing shares of Series B Preferred Stock which are required to be surrendered for conversion in accordance with the provisions of Section 9(a) shall, from and after the date such certificates are so required to be surrendered, be deemed to have been retired and canceled and the shares of Series B Preferred Stock represented thereby converted into Common Stock for all purposes, notwithstanding the failure of the holder or holders thereof to surrender such certificates on or prior to such date. As soon as practicable after the date of such mandatory conversion and the surrender of the certificate or certificates for Series B Preferred Stock as aforesaid, the Corporation shall cause to be issued and delivered to such holder, or on its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof and cash as provided in Section 8(b) hereof in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion.

(c) Notwithstanding anything in this Designation to the contrary, the Corporation may not require conversion of the shares of Series B Preferred Stock into shares of Common Stock pursuant to this Designation and the holders of the Series B Preferred Stock shall continue to hold shares of Series B Preferred Stock after delivery of a Conversion Notice, unless, as of the date of the proposed conversion:

(1) the accountants or legal counsel of the holders of such Series B Preferred Stock to be converted render a written opinion (the "Conversion Opinion") to such holders prior to conversion that such conversion will not result in, cause or create a material risk of, the holders losing its or their status as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended; provided, however, that the Corporation may convert a portion of the Series B Preferred Stock to Common Stock pursuant to Section 9(a) if the accountants or legal counsel of the holders of such Series B Preferred Stock to be converted render a Conversion Opinion with respect to such portion and if subparagraphs (2) thru (5) of this Section 9(c) are satisfied as of the date of the proposed conversion;

(2) the Common Stock is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "34 Act") and the Corporation has timely filed all reports required to be filed by the Corporation under the 34 Act within the previous two years;

(3) no Event of Default (as defined in Section 12 below) has occurred and is continuing;

(4) the Common Stock is listed for trading on the Nasdaq National Market, the New York Stock Exchange or upon a comparable national stock exchange; And

(5) the average weekly trading volume of the Common Stock over the prior four weeks was at least 500,000 shares traded (as adjusted for stock splits, stock dividends or similar transactions).

All costs associated with the Conversion Opinion shall be paid by the Corporation.

(d) If the Corporation may not convert all or any portion of the shares of Series B Preferred Stock (the "Unconverted Shares") to the Corporation's Common Stock pursuant to Section 9(a) solely because of the limitation set forth in Section 9(c)(1), then, provided that the Reimbursement Note has been paid in full, on the Conversion Date, the Corporation may redeem all of the Unconverted Shares at a per share price in cash equal to the greater of (1) the Current Value on the date of the Conversion Notice and (2) the closing price on the last Trading Day (as defined in Section 12) immediately prior to the Conversion Date, plus an amount equal to any dividends accrued but unpaid thereon (such amount is hereinafter referred to as the "Corporation's Redemption Price").

(e) On or prior to the Conversion Date, each holder of Series B Preferred Stock to be redeemed shall surrender its certificate or certificates representing such shares to the Corporation, and thereupon the Corporation's Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall

be issued representing the unredeemed shares. From and after the Conversion Date, unless there shall have been a default in payment of the Corporation's Redemption Price, all rights of the holders of the Series B Preferred Stock redeemed (except the right to receive the Redemption Price upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever.

Section 10. Conversion Price. The Conversion Price per share for the Series B Preferred Stock shall be subject to adjustment from time to time as provided below.

(a) Adjustments to Conversion Price Based on Changes in Capitalization. If outstanding shares of the Junior Stock of the Corporation shall be subdivided into a greater number of shares, or a dividend in Junior Stock or other securities of the Corporation convertible into or exchangeable for Junior Stock (in which latter event the number of shares of Junior Stock issuable upon the conversion or exchange of such securities shall be deemed to have been distributed) shall be paid in respect to the Junior Stock of the Corporation, or upon any other event which would reasonably require equitable adjustment for the benefit of the holders of Series B Preferred Stock, the Conversion Price in effect immediately prior to such subdivision or at the record date of such dividend or at the date of such other event shall, simultaneously with the effectiveness of such subdivision or other event or immediately after the record date of such dividend, be proportionately reduced, and conversely, if outstanding shares of the Common Stock of the Corporation shall be combined into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. Any adjustment to the Conversion Price under this subsection (a) shall become effective at the close of business on the date the subdivision or combination or other event referred to herein becomes effective.

(b) Adjustments to Conversion Price Based on Future Issuances. If at any time or from time to time the Corporation shall issue or sell Additional Shares of Junior Stock (as hereinafter defined) other than in a transaction which falls within subsection (a), for a consideration per share less than the then existing Conversion Price, then, and thereafter successively upon each such issuance or sale, the Conversion Price shall, pursuant to the following formula (the "Conversion Formula"), be adjusted to a Conversion Price (calculated to the nearest cent) determined by dividing:

(i) an amount equal to the sum of (A) the Conversion Price immediately prior to such issue or sale, multiplied by the number of shares of Junior Stock outstanding at the close of business on the day next preceding the date of such issue or sale, plus (B) the aggregate consideration, if any, received or to be received by the Corporation upon such issue or sale, by

(ii) the number of shares of Junior Stock outstanding at the close of business on the date of such issue or sale after giving effect to the issuance of such Additional Shares of Junior Stock.

(c) Definitions for Purposes of this Section 10. Notwithstanding any contrary definitions in these Articles, for purposes of this Section 10, the following definitions shall apply:

(1) Consideration. For the purpose of making any adjustment in the Conversion Price or number of shares of Common Stock acquired upon conversion of the Series B Preferred Stock, as provided above, the consideration received by the Corporation for any issue or sale of securities shall:

(i) to the extent it consists of cash, be deemed to be the amount of cash received by the Corporation for such shares (or, if such shares are offered by the Corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith;

(ii) to the extent it consists of property other than cash, be computed at the fair market value thereof as determined in good faith by the Board of Directors of the Corporation, at or about, but as of, the date of the adoption of the resolution specifically authorizing such issuance or sale, irrespective of any accounting treatment thereof; provided, however, that such fair market value as determined by the Board of Directors of the Corporation, when added to any cash consideration

received in connection with such issuance or sale, shall not exceed the aggregate market price of the Additional Shares of Junior Stock being issued, as of the date of the adoption of such resolution; and

(iii) Additional Shares

(A) if Additional Shares of Junior Stock or Convertible Securities (as hereinafter defined) or rights or options to purchase either Additional Shares of Junior Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for consideration which covers both, the consideration received for the Additional Shares of Junior Stock, Convertible Securities or rights or options shall be computed as that portion of the consideration so received which is reasonably determined in good faith

by the Board of Directors of the Corporation to be allocable to such Additional Shares of Junior Stock, Convertible Securities or rights or options. For the purpose of making any adjustment in the Conversion Price provided in this Section 10, if at any time, or from time to time, the Corporation issues any stock or other securities convertible into Additional Shares of Junior Stock (such stock or other securities being hereinafter referred to as "Convertible Securities") or issues any rights or options to purchase Additional Shares of Junior Stock or Convertible Securities (such rights or options being hereinafter referred to as "Rights"), then, and in each such case, the Corporation shall be deemed to have issued at the time of the issuance of such Rights or Convertible Securities the maximum number of Additional Shares of Junior Stock issuable upon exercise or conversion thereof and to have received in consideration for the issuance of such shares an amount equal to the aggregate Effective Conversion Price of such Rights or Convertible Securities. For the purposes of this Section 10, "Effective Conversion Price" shall mean an amount equal to the sum of the lowest amount of consideration, if any, received or receivable by the Corporation with respect to any one Additional Share of Junior Stock upon issuance of the Rights or Convertible Securities and upon their exercise or conversion, respectively. No further adjustment of the Conversion Price shall be made as a result of the actual issuance of Additional Shares of Junior Stock on the exercise of any such Rights or the conversion of any such Convertible Securities;

(B) if the purchase price or rate at which any Rights or Convertible Securities are convertible into or exchangeable for Additional Shares of Junior Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Conversion Price then in effect shall forthwith be readjusted as otherwise provided herein to the Conversion Price that would have been in effect at such time had such Rights or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion right, as the case may be, at the time initially issued, granted or sold. If the purchase price, or the rate or the additional consideration (if any) payable upon the exercise, conversion or exchange of any Rights or Convertible Securities shall be changed at any time or by reason of provisions with respect thereto designed to protect against dilution, then in the case of the delivery of shares of Junior Stock upon exercise, conversion or exchange of any such Rights or Convertible Security, the Conversion Price then in effect hereunder shall, upon issuance of such shares of Junior Stock, be adjusted to such amount as would have obtained had

such Right or Convertible Security never been issued and had adjustments been made only upon the issuance of the shares of Junior Stock delivered as aforesaid and for the consideration actually received for such Convertible Security and the Junior Stock;

(C) in the event of the termination or expiration of any right to exercise, convert or exchange Rights or Convertible Securities, the Conversion Price then in effect shall, upon such termination, be changed to the Conversion Price that would have been in effect at the time of such expiration or termination had such Right or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of Junior Stock issuable thereunder shall no longer be deemed to be outstanding Junior Stock.

(2) Outstanding Junior Stock. For purposes of this Section 10, in determining the number of shares of the Junior Stock of this Corporation outstanding at any time, there shall be included, in addition to the Junior Stock then issued and outstanding, all Junior Stock then issuable upon exercise of all outstanding Rights and conversion of all outstanding Convertible Securities.

(3) Additional Shares of Junior Stock. "Additional Shares of Junior Stock" as used in this Section 10 shall mean all shares of Junior Stock or Convertible Securities and Rights issued by the Corporation subsequent to the date of these Designation, other than (i) shares of Common Stock issued pursuant to the conversion of Series B Preferred Stock, and (ii) the issuance and sale of, or the grant of options to purchase Common Stock, to employees, directors or officers of, or bona fide consultants to, the Corporation and its subsidiaries pursuant to stock plans or options or agreements adopted or approved by the Corporation's Board of Directors (including shares issued or sold pursuant to the exercise of any stock option or purchased pursuant to a grant under the Corporation's stock option plans or stock purchase plans or pursuant to agreements entered into for employee compensation purposes prior to the date of this Designation).

(d) Certification of Adjustments. In each case of an adjustment or readjustment of the Conversion Price or the number of shares of Common Stock or other securities issuable upon conversion of the Series B Preferred Stock, if the change is greater than 1% from the previous change the Corporation, at its expense, shall cause independent public accountants selected by the Corporation to compute such adjustment or readjustment in accordance with this Certificate and to prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first-class mail, postage prepaid, to each registered holder of the Series B Preferred Stock at the holder's address as shown on the Corporation's stock transfer books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the Conversion

Price at the time in effect for the Series B Preferred Stock, and (ii) the number of shares of Common Stock and the type and amount, if any, of other property which at the time would be received upon conversion of the Series B Preferred Stock. The form of such certificate shall be reasonably acceptable to the holders of record of a majority of the shares of Series B Preferred Stock then outstanding.

Section 11. Mandatory Redemption.

(a) At any time on or after the earlier to occur of (1) an Event of Default and (2) September 30, 2007, holders of the Series B Preferred Stock may require the Corporation to redeem all or a portion of the shares of Series B Preferred Stock held by such holders (to the extent that such redemption shall not violate any applicable provisions of the laws of the State of Delaware) at a price in cash equal to the Stated Value per share, plus an amount equal to any dividends accrued but unpaid thereon (such amount is hereinafter referred to as the "Redemption Price"); provided, however, that if the Reimbursement Note has not been paid in full as of the date the holders of the Series B Preferred Stock require the Corporation to redeem such shares of Series B Preferred Stock (the "Redemption Date"), the Corporation may pay the Redemption Price by delivery of a promissory note in the amount of the Redemption Price to the holder of the Series B Preferred Stock to be redeemed. If the holder of shares of the Series B Preferred Stock to be redeemed is to receive a promissory note as payment of the Redemption Price, the promissory note shall be in substantially the same form as the Subordinated Note and will mature on the last day of the quarter following the payment in full of the Reimbursement Note. If the Corporation is unable on the Redemption Date to redeem any shares of Preferred Stock then to be redeemed because such redemption would violate the applicable laws of the State of Delaware, then the Corporation shall redeem such shares as soon thereafter as redemption would not violate such laws.

(b) On or prior to the Redemption Date, each holder of Series B Preferred Stock to be redeemed shall surrender its certificate or certificates representing such shares to the Corporation, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented

by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of the Series B Preferred Stock redeemed (except the right to receive the Redemption Price upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever.

Section 12. Certain Definitions. As used in this Certificate, the following terms shall have the following respective meanings:

"Available Funds" shall mean any funds legally available for the payment of dividends and interest accrued with respect to shares of the Series B Preferred Stock.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which the Rights Agent is authorized or obligated by law or executive order to close.

"Current Value" of any share of Preferred Stock, Common Stock or any other property on any date shall be determined as provided in this Section 12. In the case of publicly traded securities, Current Value on any date shall be deemed to be the average of the daily closing prices per share of such stock for the thirty (30) consecutive Trading Days immediately prior to such date; provided, however, that in the event the Current Value per share of any security is determined during a period which includes any date that is within 30 Trading Days after the announcement by the issuer of such security of a dividend or distribution payable in shares of such securities or securities convertible into shares of such securities (other than the Rights), or any subdivision, combination or reclassification of such securities, then, and in each such case, the Current Value shall be properly adjusted to take into account ex-dividend or post-effective date trading. The closing price for each day shall be the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. , Automated Quotation System or such other system then in use, or, if on any such date such securities are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such securities selected by the Board or, if the securities are listed or admitted to trading on the New York Stock Exchange, the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system or, if such securities are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such securities are listed or admitted to trading. If the security is not publicly held or not so listed or traded, "Current Value" means the fair value of a share of Preferred Stock, Common Stock or other property, as determined by a "Big Five" or other nationally recognized accounting firm (jointly selected by the Corporation and holders of Series B Preferred Stock), which shall be determined based on the fair market value of the Corporation and the number of outstanding shares of stock of the Corporation (assuming full conversion of all convertible shares of stock of the Corporation) and without any discount relating to minority ownership, lack of liquidity or similar factors. If the holders of Series B Preferred Stock (voting as a class) and the Corporation are unable to agree on the accounting firm, then each shall choose an accounting firm, and those accounting firms shall jointly select another nationally recognized accounting firm to perform the value determination.

"Event of Default" shall have such meaning as is ascribed to it in the Stock Issuance and Subscription Agreement between the Corporation and Omega Healthcare Investors, Inc., a Maryland corporation.

"Issue Date" means the date on which the shares of Series B Preferred are issued.

"Junior Stock" shall mean any shares of any series or class of capital stock of the Corporation, other than the Series B Preferred Stock.

"Subordinated Note" means the Subordinated Note in the original principal amount of $1,700,000 from the Corporation in favor of Omega Healthcare Investors, Inc., a Maryland corporation.

"Trading Day" shall mean a day on which the principal national securities exchange on which the shares of such security are listed or admitted to trading is open for the transaction of business or, if the shares of such security are not listed or admitted to trading on any national securities exchange, a Business Day.

Section 13. Costs. The Corporation shall pay all taxes and other governmental charges (other than any income or other taxes imposed upon the profits realized by the recipient) that may be imposed in respect of the issue or delivery of shares of Common Stock or other securities or property upon conversion of shares

of Series B Preferred Stock, including without limitation, any tax or other charge (other than any transfer tax) imposed in connection with the issue and delivery of shares of Common Stock or other securities at the time of such conversion in a name other than that in which the shares of Series B Preferred Stock so converted were registered.

Section 14. Amendment. The Corporation shall not amend, alter or repeal its Certificate of Incorporation, its Bylaws or this Certificate of Designation in any manner which would materially alter or change the powers, preferences or rights of the Series B Preferred Stock so as to effect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series B Preferred Stock, voting together as a class.

This Certificate of Designation to the Charter of the Corporation shall be effective immediately upon filing thereof with the Secretary of the State of Delaware.

ADVOCAT INC.
By:
Title:
Dated: November ____, 2000

EXHIBIT B

FORM OF REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made as of November __, 2000 by and among ADVOCAT INC., a Delaware corporation (the "Company"), and OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Preferred Stockholder").

RECITALS

A. The Company, the Preferred Stockholder and certain others are parties to a Settlement and Restructuring Agreement dated as of the same date as this Agreement (the "Restructuring Agreement").

B. Pursuant to the Restructuring Agreement, the Preferred Stockholder has agreed to acquire shares of the Company's Series B Convertible Preferred Stock (the "Preferred Stock") pursuant to that certain Stock Issuance and Subscription Agreement dated the same date as this Agreement (the "Stock Issuance Agreement") provided that the Company enters into this Agreement.

C. Also pursuant to the Restructuring Agreement, the Company has issued to the Preferred Stockholder a Subordinated Note in the stated principal amount of $1,700,000 dated the same date as this Agreement, which is convertible into Common Stock of the Company (the "Subordinated Note").

AGREEMENTS

In consideration of the foregoing and the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties hereto agree as follows:

1. Definitions. In addition to terms defined elsewhere herein, as used in this Agreement, the terms:

"Approved Registration Rights Agreement"means a written agreement between the Company and a holder of Common Stock or capital stock convertible into Common Stock which grants such holder registration rights with respect to Common Stock and (1) has been consented to in writing by the Preferred Stockholder or (2) such holder has paid to the Company an amount in the aggregate in excess of $5,000,000 for such stock at a per share purchase price (assuming the conversion of any convertible securities into Common Stock) equal to or greater than the Current Value as of the date of such transaction.

"Commission" means the Securities and Exchange Commission.

"Current Value" shall have the meaning assigned to such term in the Certificate of Designation of Advocat Inc. pursuant to which the Company designated the Preferred Stock.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Public Offering" means any offering by the Company of its equity securities to the public pursuant to an effective registration statement under the Securities Act or any comparable statement under any comparable federal statute then in effect.

"Registrable Shares" means at any time (i) any shares of Common Stock then outstanding and beneficially held, directly or indirectly, by a Preferred Stockholder; (ii) any shares of Common Stock then issuable upon exercise or conversion of any Preferred Stock, or upon conversion of any accrued, but unpaid, dividends on the Preferred Stock, held by a Preferred Stockholder (including any shares of Common Stock issuable upon exercise or conversion of

any Preferred Stock issuable upon exercise or conversion of the Subordinated Note); (iii) any shares of Common Stock then issuable upon exercise or conversion of the Subordinated Note; and (iv) any shares of Common Stock then issuable directly or indirectly upon the conversion or exercise of other securities which were issued as a dividend or other distribution with respect to or in replacement of any shares referred to in (i), (ii) or (iii); provided, however, that Registrable Shares shall not include any shares which have been registered pursuant to the Securities Act or which have been sold to the public pursuant to Rule 144 under the Securities Act. For purposes of this Agreement, a person will be deemed to be a holder of Registrable Shares whenever such person has the then-existing right to acquire such Registrable Shares (by conversion or otherwise), whether or not such acquisition actually has been effected. A security shall cease to be a Registrable Share when (i) it has been effectively registered under the Securities Act and disposed of in accordance with the registration statement covering it or (ii) it is distributed to the public pursuant to Rule 144 (or any similar provision then in effect under the Securities Act).

"Securities Act" means the Securities Act of 1933, as amended.

2. Demand Registration.

2.1 Requests for Registration. Subject to the terms of this Agreement, the Preferred Stockholder may, at any time, request registration under the Securities Act of all or part of its Registrable Shares (provided that if the request is for less than all of the Registrable Shares then held, the request must be for at least 25% of the number of shares of Common Stock which the Preferred Stockholder would hold upon conversion of all shares of Preferred Stock held by the Preferred Stockholder as of the date of this Agreement), on Form S-1 or any similar long-form registration ("Long-Form Registration") or, if available, on Form S-2 or S-3 or any similar short-form registration (a "Short-Form Registration" - a Long Form Registration and Short Form Registration are defined as a "Demand Registration"). Within thirty (30) days after receipt

of any request pursuant to this Section 2.1, the Company will, subject to Section 2.2 below, give written notice of such request to all other parties hereto and will include in such registration all Registrable Shares with respect to which the Company has received written requests for inclusion within thirty (30) days after delivery of the Company's notice. The Preferred Stockholder will be entitled to request two (2) Demand Registrations in which the Company will pay all Registration Expenses (as defined in Section 6 below). A registration will not constitute one of the permitted Demand Registrations until it has become effective. The Company shall be entitled to include in any Demand Registration shares to be sold by the Company for its own account, provided that in the event that the number of shares included by the Company exceeds fifty percent (50%) of the shares registered in such registration, such registration will not count as a Demand Registration hereunder.

2.2 Priority. The Company will include in any Demand Registration any Registrable Shares; provided, however, if the Demand Registration is an underwritten offering and the managing underwriter(s) advise the Company in writing that in their opinion the number of securities requested to be included exceeds the number of securities which can reasonably be sold in such offering, the Company will include in such registration, first, the Registrable Shares requested to be included in such registration or any previous registration by the Preferred Stockholder, second, the securities that the Company will include in such registration, and third, other securities requested to be included in such registration.

2.3 Restrictions. The Company will not be obligated to effect any Demand Registration within nine months after the effective date of a previous Demand Registration. The Company may postpone for up to six (6) months the filing or the effectiveness of a registration statement for a Demand Registration if the Company's Board of Directors determines in good faith that the offering would have a harmful effect on the Company; provided, however, that the Company shall not be entitled to delay the effectiveness of any Demand Registration for a period in excess of nine (9) months in any twelve (12) month period pursuant to this and the preceding sentence.

2.4 Selection of Underwriters. The Company shall have the right to select the managing underwriter(s) to administer the offering anticipated by any Demand Registration, provided that such managing underwriters shall be qualified nationally recognized underwriters and subject to the Preferred Stockholder's approval which will not be unreasonably withheld or delayed.

3. Piggyback Registration.

3.1 Right to Piggyback. Whenever the Company proposes to register any of its securities under the Securities Act (other than on a registration on Forms S-8 and S-4 (or comparable forms) or a registration of non-convertible debt securities) on a registration form which may be used for the registration of any Registrable Shares (a "Piggyback Registration"), the Company will give prompt written notice to all holders of the Registrable Shares of its intention to

effect such a registration and will include in such registration all Registrable Shares (in accordance with the priorities set forth in Sections 3.2 and 3.3 below) with respect to which the Company has received written requests for inclusion within fifteen (15) days after the delivery of the Company's notice. The Company may withdraw its proposal at any time prior to the effective date of the offering.

3.2 Priority on Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can reasonably be sold in such offering, the Company will include in such registration first, the securities that the Company proposes to sell; second, on a pro rata basis (a) the Registrable Shares requested to be included in such registration or any previous registration by the Preferred Stockholder and (b) other securities required to be included in such Piggyback Registration pursuant to an Approved Registration Rights Agreement (provided that in any event the Preferred Stockholder shall be entitled to include not less than 50% of the number of such shares); and third, other securities requested to be included in such registration.

3.3 Priority on Secondary Registrations. If one or more stockholders other than a Preferred Stockholder requests that the Company make an underwritten secondary registration on its or their behalf and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can reasonably be sold in such offering, the Company will include in such registration first, on a pro rata basis (a) the Registrable Shares, if any, requested to be included therein by the Preferred Stockholder and (b) other securities required to be included in such Piggyback Registration pursuant to the Approved Registration Rights Agreements (provided that in any event the Preferred Stockholder shall be entitled to include in the Piggyback Registration not less than 50% of the number of such shares), and, second, other securities requested to be included in such registration.

3.4 Other Registrations. If the Company has previously filed a registration statement with respect to Registrable Shares pursuant to Section 2 or pursuant to this Section 3, and if such previous registration has not been withdrawn or abandoned, the Company will not file or cause to be effected any other registration of any of its equity securities or securities convertible or exchangeable into or exercisable for its equity securities under the Securities Act (except on Forms S-8 or S-4 or any successor form), whether on its own behalf or at the request of any holder or holders of such securities, until a period of at least six months has elapsed from the effective date of such previous registration.

3.5 Selection of Underwriters. In connection with any Piggyback Registration in which the Purchaser has elected to include Registrable Shares, the Company shall have the right to select the managing underwriters to administer any offering of the Company's securities in which the Company participates provided that such managing underwriters shall be qualified nationally recognized underwriters.

4. Holdback Agreements.

4.1 Holders' Agreements. Each holder of Registrable Shares agrees not to effect any public sale or distribution of equity securities of the Company (including pursuant to Rule 144 under the Securities Act), or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to, and during the one hundred eighty (180) days following, the effective date of any underwritten registration of the Company's securities (except as part of such underwritten registration), or such other period as the underwriters managing the registered public offering otherwise reasonably determine or reasonably require.

4.2 Company's Agreements. The Company agrees (i) not to effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to, and during the one hundred eighty (180) days following, the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration (except as part of such underwritten registration or pursuant to registrations on Form S-8 or any successor form), unless the underwriters managing the registered public offering otherwise agree, and (ii) use its reasonable efforts to cause each holder of at least five percent (5%) (on a fully diluted basis) of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities who has acquired such securities directly from the Company to agree not to effect any public sale or distribution of any such securities during such period (except as part of such underwritten registration, if otherwise permitted), unless the underwriters managing the registered public offering otherwise agree.

5. Registration Procedures. Whenever the holders of Registrable Shares have requested that any Registrable Shares be registered pursuant to this Agreement, the Company will use commercially reasonable efforts to effect the registration and sale of such Registrable Shares in accordance with the intended method of

disposition thereof and, pursuant thereto, the Company will as expeditiously as possible:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Shares and use commercially reasonable efforts to cause such registration statement to become effective (provided that before filing a registration statement or prospectus, or any amendments or supplements thereto, the Company will furnish copies of all such documents proposed to be filed to the counsel or counsels for the holders of the Registrable Shares covered by such registration statement);

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus(es) used in connection therewith as may be necessary to keep such registration statement effective for a period of four months or until distribution is complete and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish to each seller of Registrable Shares such number of copies of such registration statement, each amendment and supplement thereto, the prospectus(es) included in such registration statement (including each preliminary prospectus) and such other documents as such seller may reasonably request in order to facilitate the disposition of the Registrable Shares owned by such seller;

(d) use commercially reasonable efforts to register or qualify such Registrable Shares under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Shares owned by such seller (provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(e) notify each seller of such Registrable Shares, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading, and, at the request of any such seller, the Company will prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus will not contain any untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading;

(f) cause all such Registrable Shares to be listed on each securities exchange or national quotation system on which similar securities issued by the Company are then listed or quoted;

(g) provide a transfer agent and registrar for all such Registrable Shares not later than the effective date of such registration statement;

(h) enter into such customary agreements (including underwriting agreements in customary form) and take all such other actions as the holders of a majority of the Registrable Shares being sold or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Shares (including, without limitation, effecting a stock split or a combination of shares), subject to any necessary shareholder approvals;

(i) upon prior notice and during normal business hours, make reasonably available for inspection by any seller of Registrable Shares, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

(j) advise each seller of such Registrable Shares, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for such purpose and promptly use all reasonable efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(k) as long as practicable prior to the filing of any registration statement or prospectus, or any amendment or supplement to such registration statement or prospectus, furnish a copy thereof to each seller of such Registrable Shares and refrain from filing any such registration statement, prospectus, amendment or supplement to which counsel selected by the Preferred

Stockholder shall have reasonably objected on the grounds that such document does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, unless, in the case of an amendment or supplement, in the opinion of counsel for the Company the filing of such amendment or supplement is reasonably necessary to comply with any applicable federal or state law and such filing will not violate applicable laws; and

(l) at the request of any seller of such Registrable Shares in connection with an underwritten offering, furnish on the date or dates provided for in the underwriting agreement: (i) an opinion of counsel, addressed to the underwriters and the sellers of Registrable Shares, covering such matters as such underwriters and sellers may reasonably request, including such matters as are customarily furnished in connection with an underwritten offering; and (ii) a letter or letters from the independent certified public accountants of the Company addressed to the underwriters and the sellers of Registrable Shares, covering such matters as such underwriters and sellers may reasonably request, in which letter(s) such accountants shall state, without limiting the generality of the foregoing, that they are independent certified public accountants within the meaning of the Securities Act and that in their opinion the financial statements and other financial data of the Company included in the registration statement, the prospectus(es), or any amendment or supplement thereto, comply in all material respects with the applicable accounting requirements of the Securities Act. In the case of an underwritten offering where the Company has elected not to conduct a "road show", the Company will, on no more than two separate occasions, provide for a reasonable period of time officers or employees reasonably selected by the underwriters to assist the underwriters in their sales efforts on behalf of the sellers of Registrable Shares. In the event that the requested assistance involves travel, costs incidental thereto shall be for the account of such sellers.

Each Holder agrees that upon receipt of any notice from the Company of the happening of any event of the kind set forth in Sections 5(e) and (j) above, such Holder will discontinue its disposition of Registrable Shares pursuant to the registration statement relating thereto until such Holder receives copies of the supplement or amendment contemplated by Section 5(e) or the withdrawal of the stop order contemplated by Section 5(j).

6. Registration Expenses.

6.1 Company's Expenses. All expenses incident to the Company's performance of or compliance with this Agreement, including without limitation all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, messenger and delivery expenses, and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters (excluding discounts and commissions) and other persons retained by the Company (all such expenses being herein called "Registration Expenses"), will be borne by the Company. The Company shall not, however, be required to pay for expenses of any registration proceeding begun hereunder, the request for which has been subsequently withdrawn by the initiating holder unless (a) such withdrawal was at the Company's request; (b) the withdrawal is based upon material adverse information concerning the Company of which the initiating holder was not aware at the time of such request; or (c) the requesting holder agrees to forfeit its right to one requested Demand Registration hereunder.

6.2 Holder's Expenses. Notwithstanding anything to the contrary contained herein, each holder of Registrable Shares will pay all discounts and commissions attributable to their respective shares and all attorney fees and disbursements for counsel they retain in connection with the registration of Registrable Shares, except that the Company will reimburse the party initiating a Demand Registration (unless such demand is withdrawn in the manner described in the last sentence of Section 6.1) for the reasonable fees and disbursements of one counsel (subject to the approval of the Company which shall not be unreasonably withheld or delayed) chosen by the party initiating such Demand Registration in connection with such Demand Registrations.

7. Indemnification.

7.1 By the Company. The Company agrees to indemnify, to the extent permitted by law, each holder of Registrable Shares, its officers and directors and each person who controls such holder (within the meaning of the Securities Act) against all losses, claims, damages, liabilities and expenses (including without limitation, attorney's fees) caused by any untrue or alleged untrue statement of material fact contained in any registration statement, prospectus or preliminary prospectus, or any amendment thereof or supplement thereto, or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same are

caused by or contained in any information furnished in writing to the Company by such holder expressly for use therein or by such holder's failure to deliver a copy of the registration statement or prospectus or any amendments or supplements thereto after the Company has furnished such holder with the number of copies of the same requested pursuant to Section 5(c). In connection with an underwritten offering, the Company will indemnify such underwriters, their

officers and directors and each person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the holders of Registrable Shares. The payments required by this Section 7.1 will be made periodically during the course of the investigation or defense, as and when bills are received or expenses incurred.

7.2 By Each Holder. In connection with any registration statement in which a holder of Registrable Shares is participating, each such holder will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any such registration statement or prospectus and, to the extent permitted by law, will indemnify the Company, its directors and officers and each person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses (i) resulting from any untrue or alleged untrue statement of material fact contained in the registration statement, prospectus or preliminary prospectus, or any amendment thereof or supplement thereto, or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or omission is contained in any information or affidavit so furnished in writing by such holder and (ii) for such holder's failure to deliver to any transferee a prospectus or and amendment or supplement previously provided to the holder by the Company; provided that the obligation to indemnify will be several, not joint and several, among such holders of Registrable Shares.

7.3 Procedure. Any person entitled to indemnification hereunder will (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party will not be subject to any liability for any settlement made by the indemnified party without its consent (but such consent will not be unreasonably withheld). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party, a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

7.4 Survival. The indemnification provided for under this Agreement will remain in full force and effect regardless of any investigation made by or on behalf of the indemnified party or any officer, director or controlling person of such indemnified party and will survive the transfer of securities, but shall be

subject to and subordinated to any contrary indemnification provision contained in any underwriting agreement entered into in connection with an underwritten public offering. The Company also agrees to make such provisions as are reasonably requested by any indemnified party for contribution to such party in the event the Company's indemnification is unavailable for any reason.

8. Compliance with Rule 144. At the request of any holder who proposes to sell securities in compliance with Rule 144 of the Commission, the Company will use its commercially reasonable efforts to (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the Commission as set forth in Rule 144, as such rule may be amended from time to time and (ii) make available to the public and such holders such information as will enable the holders to make sales pursuant to Rule 144.

9. Participation in Underwritten Registrations. To the extent such requirements are consistent with the terms hereof, no person may participate in any registration hereunder which is underwritten unless such person (a) agrees to sell its securities on the basis provided in any underwriting arrangements approved by such person or persons entitled hereunder to approve such arrangements, (b) completes and executes all questionnaires, powers of attorney, custody agreements, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, (c) provides all information reasonably requested by the Company in connection with such registration, including copies of documents, instruments and agreements and (d) complies with all applicable federal and state securities laws in connection with such registration.

10. Miscellaneous.

10.1 No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with the rights granted to the holders of Registrable Shares in this Agreement.

10.2 Public Status. The Company shall use its commercially reasonable efforts to cause the Common Stock to remain registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "34 Act") and shall use

commercially reasonable efforts to timely file all reports required to be filed by the Company under the 34 Act.

10.3 Adjustments Affecting Registrable Shares. The Company will not take any action, or permit any change to occur, with respect to its securities which would adversely affect the ability of the holders of Registrable Shares to include such Registrable Shares in a registration undertaken pursuant to this Agreement or which would adversely affect the marketability of such Registrable Shares in any such registration, including, without limitation, effecting a stock split or combination of shares.

10.4 Other Registration Rights. Except as provided in this Agreement or pursuant to an Approved Registration Rights Agreement, the Company will not hereafter grant to any person or persons the right to request the Company to register any equity securities of the Company, or any securities convertible or exchangeable into or exercisable for such securities, without the prior written consent of the Preferred Stockholder.

10.5 Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors and assigns of the parties hereto, whether so expressed or not. In addition, and whether or not any express assignment has been made, the provisions of this Agreement which are for the benefit of the Preferred Stockholder or holders of shares of stock hereunder are also for the benefit of, and enforceable by, any subsequent holders of such shares of stock.

10.6 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

10.7 Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience of reference only and do not constitute a part of and shall not be utilized in interpreting this Agreement.

10.8 Notices. Any notices required or permitted to be sent hereunder shall be made in the manner provided for in the Restructuring Agreement.

10.9 Governing Law. All questions concerning the construction, validity and interpretation of this Agreement, and the performance of the obligations imposed by this Agreement, hall be governed by the laws of the State of Delaware applicable to contracts made and wholly to be performed in that state.

10.10 Final Agreement. This Agreement, together with the Restructuring Agreement, the Stock Issuance Agreement and all other agreements entered into by the parties hereto pursuant to the Restructuring Agreement, constitutes the complete and final agreement of the parties concerning the matters referred to herein, and supersedes all prior agreements and understandings.

10.11 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one instrument. 10.12 No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be used against any party.

Signatures on following page.

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement on the date first set forth above.

THE COMPANY:
ADVOCAT INC.
By: _____
Name: _____
Title: _____

PREFERRED STOCKHOLDER:
OMEGA HEALTHCARE INVESTORS, INC.
By: _____
Name: _____
Title: _____

EXHIBIT J

FORM OF GUARANTY
(SUBLEASE)

This GUARANTY ("Guaranty") is given as of _____, 2000 ("Effective Date"), by _____, ("Guarantor"), in favor of STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor") whose address is 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108, with reference to the following facts:

RECITALS

A. Diversicare Leasing Corp., a Tennessee corporation (the "Lessee"), executed and delivered to Lessor a Consolidated Amended and Restated Master Lease dated _____, 2000 (the "Master Lease") pursuant to which the Lessee is leasing from Lessor certain healthcare facilities identified therein (the "Facilities").

B. Guarantor, subject to the consent of Lessor, intends to sublease certain Facilities from the Lessee pursuant to a sublease dated _____, 20___ (the "Sublease") by and between Lessee, as sublessor and Guarantor, as sublessee.

C. Guarantor is a wholly owned subsidiary of the Lessee and maintains a direct financial interest in the Lessee. It is to the advantage of Guarantor that Lessor consent to the Sublease and continue to lease the Facilities to Lessee pursuant to the Master Lease.

D. As a material inducement for Lessor to consent to the Sublease and to continue to lease the Facilities to Lessee pursuant to the Master Lease, Guarantor has agreed to guarantee the payment of all amounts due from, and the performance of all obligations undertaken by the Lessee under the Master Lease and any security agreements, promissory notes, letter of credit agreements, guarantees or other documents which evidence, secure or otherwise relate to the Master Lease (the Master Lease and all such documents, and any and all amendments, modifications, extensions and renewals thereof, are hereinafter referred to collectively as the "Sterling Transaction Documents"), all as hereinafter set forth.

WHEREFORE, the parties hereby agree as follows:

1. Defined Terms. All capitalized terms used herein and not defined herein shall have the meaning for such terms set forth in the Master Lease.

2. Guaranty. Guarantor hereby unconditionally and irrevocably, guarantees to Lessor (i) the payment when due of all Rent and all other sums payable by the Lessee under the Master Lease, and (ii) the faithful and prompt performance when due of each and every one of the terms, conditions and covenants to be kept and performed by the Lessee under the Sterling Transaction Documents, any and all amendments, modifications, extensions and renewals of the

Sterling Transaction Documents, including without limitation all indemnification obligations, insurance obligations, and all obligations to operate, rebuild, restore or replace any facilities or improvements now or hereafter located on the real estate covered by the Master Lease. In the event of the failure of the Lessee to pay any such amounts owed, or to render any other performance required of the Lessee under the Sterling Transaction Documents, when due, Guarantor shall forthwith perform or cause to be performed all provisions of the Sterling Transaction Documents to be performed by the Lessee thereunder, and pay all damages that may result from the non-performance thereof to the full extent provided under the Sterling Transaction Documents (collectively, the "Obligations"). As to the Obligations, Guarantor's liability under this Guaranty is without limit.

3. Survival of Obligations. The obligations of Guarantor under this Guaranty with respect to the Sterling Transaction Documents shall survive and continue in full force and effect (until and unless all Obligations, the payment and performance of which are hereby guaranteed, have been fully paid and performed) notwithstanding:

(a) any amendment, modification, or extension of any Sterling Transaction Document;

(b) any compromise, release, consent, extension, indulgence or other action or inaction in respect of any terms of any Sterling Transaction Document or any other guarantor;

(c) any substitution or release, in whole or in part, of any security for this Guaranty which Lessor may hold at any time;

(d) any exercise or non-exercise by Lessor of any right, power or remedy under or in respect of any Sterling Transaction Document or any security held by Lessor with respect thereto, or any waiver of any such right, power or remedy;

(e) any bankruptcy, insolvency, reorganization, arrangement,

adjustment, composition, liquidation, or the like of Lessee or any other guarantor;

(f) any limitation of the Lessee's liability under any Sterling Transaction Document or any limitation of the Lessee's liability thereunder which may now or hereafter be imposed by any statute, regulation or rule of law, or any illegality, irregularity, invalidity or unenforceability, in whole or in part, of any Sterling Transaction Document or any term thereof;

(g) any sale, lease, or transfer of all or any part of any interest in any Facility to any other person, firm or entity other than to Lessor;

(h) any act or omission by Lessor with respect to any of the security instruments given or made as a part of the Sterling Transaction Documents or any failure to file, record or otherwise perfect any of the same;

(i) any extensions of time for performance under the Sterling Transaction Documents, whether prior to or after maturity;

(j) the release of any collateral from any lien in favor of Lessor, or the release of the Lessee from performance or observation of any of the agreements, covenants, terms or conditions contained in any Sterling Transaction Document by operation of law or otherwise;

(k) the fact that the Lessee may or may not be personally liable, in whole or in part, under the terms of any Sterling Transaction Document to pay any money judgment;

(l) the failure to give Guarantor any notice of acceptance, default or otherwise;

(m) any other guaranty now or hereafter executed by Guarantor or anyone else in connection with any Sterling Transaction Document;

(n) any rights, powers or privileges Lessor may now or hereafter have against any other person, entity or collateral; or

(o) any other circumstances, whether or not Guarantor had notice or knowledge thereof, other than the payment or performance of all of the Obligations.

4. Primary Liability. The liability of Guarantor with respect to the Sterling Transaction Documents shall be joint and several, primary, direct and immediate, and Lessor may proceed against the Guarantor: (i) prior to or in lieu of proceeding against the Lessee, its assets, any security deposit, or any other guarantor; and (ii) prior to or in lieu of pursuing any other rights or remedies available to Lessor. All rights and remedies afforded to Lessor by reason of this Guaranty or by law are separate, independent and cumulative, and the exercise of any rights or remedies shall not in any way limit, restrict or prejudice the exercise of any other rights or remedies.

In the event of any default under any Sterling Transaction Document, a separate action or actions may be brought and prosecuted against the Guarantor, or any one of them, whether or not the Lessee is joined therein or a separate action or actions are brought against the Lessee. Lessor may maintain successive actions for other defaults. Lessor's rights hereunder shall not be exhausted by its exercise of any of its rights or remedies or by any such action or by any number of successive actions until and unless all indebtedness and obligations the payment and performance of which are hereby guaranteed have been paid and fully performed.

5. Obligations Not Affected. In such manner, upon such terms and at such times as Lessor in its sole discretion deems necessary or expedient, and without notice to Guarantor, Lessor may: (a) amend, alter, compromise, accelerate, extend or change the time or manner for the payment or the performance of any obligation hereby guaranteed; (b) extend, amend or terminate any of the Sterling Transaction Documents; or (c) release the Lessee by consent to any assignment (or otherwise) as to all or any portion of the obligations

hereby guaranteed. Any exercise or non-exercise by Lessor of any right hereby given Lessor, dealing by Lessor with Guarantor or any other guarantor, the Lessee or any other person, or change, impairment, release or suspension of any right or remedy of Lessor against any person including the Lessee and any other guarantor will not affect any of the obligations of Guarantor hereunder or give Guarantor any recourse or offset against Lessor.

6. Waiver. With respect to the Sterling Transaction Documents, Guarantor hereby waives and relinquishes all rights and remedies accorded by

applicable law to sureties and/or guarantors or any other accommodation parties, under any statutory provisions, common law or any other provision of law, custom or practice, and agrees not to assert or take advantage of any such rights or remedies including, but not limited to:

(a) any right to require Lessor to proceed against the Lessee or any other person or to proceed against or exhaust any security held by Lessor at any time or to pursue any other remedy in Lessor's power before proceeding against Guarantor or to require that Lessor cause a marshaling of the Lessee's assets or the assets, if any, given as collateral for this Guaranty or to proceed against the Lessee and/or any collateral, including collateral, if any, given to secure Guarantor's obligation under this Guaranty, held by Lessor at any time or in any particular order;

(b) any defense that may arise by reason of the incapacity or lack of authority of any other person or persons;

(c) notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of the Lessee, Lessor, any creditor of the Lessee or the Guarantor or on the part of any other person whomsoever under this or any other instrument in connection with any obligation or evidence of indebtedness held by Lessor or in connection with any obligation hereby guaranteed;

(d) any defense based upon an election of remedies by Lessor which destroys or otherwise impairs the subrogation rights of Guarantor or the right of Guarantor to proceed against the Lessee for reimbursement, or both;

(e) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(f) any duty on the part of Lessor to disclose to Guarantor any facts Lessor may now or hereafter know about the Lessee, regardless of whether Lessor has reason to believe that any such facts materially increase the risk beyond that which Guarantor intends to assume or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and

keeping informed of the financial condition of the Lessee and of all circumstances bearing on the risk of non-payment or non-performance of any obligations or indebtedness hereby guaranteed;

(g) any defense arising because of Lessor's election, in any proceeding instituted under the federal Bankruptcy Code, of the application of Section 1111 (b)(2) of the federal Bankruptcy Code; and

(h) any defense based on any borrowing or grant of a security interest under Section 364 of the federal Bankruptcy Code.

(i) any extension of time conferred by any law now or hereafter in effect and any requirement or notice of acceptance of this Guaranty or any other notice to which the undersigned may now or hereafter be entitled to the extent such waiver of notice is permitted by applicable law.

7. Warranties. With respect to the Sterling Transaction Documents, Guarantor warrants that: (a) this Guaranty is executed at the Lessee's request; and (b) Guarantor has established adequate means of obtaining from the Lessee on a continuing basis financial and other information pertaining to the Lessee's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lessor shall have no obligation to disclose to Guarantor information or material acquired in the course of Lessor's relationship with Lessee.

8. No-Subrogation. Guarantor shall have no right of subrogation and waive any right to enforce any remedy which Lessor now has or may hereafter have against Lessee and any benefit of, and any right to participate in, any security now or hereafter held by Lessor with respect to the Master Lease.

9. Subordination. Upon the occurrence of an Event of Default under any Sterling Transaction Document, which is not cured by Guarantor, the indebtedness or obligations of Lessee to Guarantor shall not be paid in whole or in part nor will Guarantor accept any payment of or on account of any amounts owing, without

the prior written consent of Lessor and at Lessor's request, Guarantor shall cause the Lessee to pay to Lessor all or any part of the subordinated indebtedness until the obligations under the Sterling Transaction Documents have been paid in full. Any payment by the Lessee in violation of this Guaranty shall be received by Guarantor in trust for Lessor, and Guarantor shall cause the same to be paid to Lessor immediately on account of the amounts owing from the Lessee to Lessor. No such payment will reduce or affect in any manner the liability of Guarantor under this Guaranty.

10. No Delay. Any payments required to be made by Guarantor hereunder shall become due on demand in accordance with the terms hereof immediately upon the happening of an Event of Default under any Sterling Transaction Document.

11. Application of Payments. With respect to the Sterling Transaction Documents, and with or without notice to Guarantor, Lessor, in Lessor's sole discretion and at any time and from time to time and in such manner and upon such terms as Lessor deems appropriate, may (a) apply any or all payments or recoveries from Lessee or from any other guarantor under any other instrument or realized from any security, in such manner and order of priority as Lessor may determine, to any indebtedness or other obligation of Lessee with respect to the Sterling Transaction Documents and whether or not such indebtedness or other obligation is guaranteed hereby or is otherwise secured or is due at the time of such application, and (b) refund to Lessee any payment received by Lessor under the Sterling Transaction Documents.

12. Guaranty Default.

(a) As used herein, the term Guaranty Default shall mean one or more of the following events (subject to applicable cure periods):

(i) the failure of Guarantor to pay the amounts required to be paid hereunder at the times specified herein;

(ii) the failure of Guarantor to observe and perform any covenants, conditions or agreement on its part to be observed or performed, other than as referred to in Subsection (i) above, for a period of thirty (30) days after written notice of such failure has been given to Guarantor by Lessor, unless Lessor agrees in writing to an extension of such time prior to its expiration;

(iii) the occurrence of a default under any other guaranty between Lessor and Guarantor.

(b) Upon the occurrence of a Guaranty Default, Lessor shall have the right to bring such actions at law or in equity, including appropriate injunctive relief, as it deems appropriate to compel compliance, payment or deposit, and among other remedies to recover its attorneys' fees in any proceeding, including any appeal therefrom and any post-judgement proceedings.

13. Financial Statements. Guarantor shall deliver those Consolidated Financial Statements and other certificates as required by Article XXIII of the Master Lease in the form and at the times set forth therein.

14. Miscellaneous.

(a) No term, condition or provision of this Guaranty may be waived except by an express written instrument to that effect signed by Lessor. No waiver of any term, condition or provision of this Guaranty will be deemed a waiver of any other term, condition or provision, irrespective of similarity, or constitute a continuing waiver of the same term, condition or provision, unless otherwise expressly provided.

(b) If any one or more of the terms, conditions or provisions contained in this Guaranty is found in a final award or judgment rendered by any court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining terms, conditions and provisions of this Guaranty shall not in any way be affected or impaired thereby, and this Guaranty shall be interpreted and construed as if the invalid, illegal, or unenforceable term, condition or provision had never been contained in this Guaranty.

(c) THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MICHIGAN, EXCEPT THAT THE LAWS OF THE STATE IN WHICH A FACILITY IS LOCATED SHALL GOVERN THIS AGREEMENT TO THE EXTENT NECESSARY (i) TO OBTAIN THE BENEFIT OF THE- RIGHTS AND REMEDIES SET FORTH HEREIN WITH RESPECT TO SUCH FACILITY, AND (ii) FOR PROCEDURAL REQUIREMENTS WHICH MUST BE GOVERNED BY THE LAWS OF THE STATE IN WHICH SUCH FACILITY IS LOCATED. GUARANTOR CONSENTS TO IN PERSONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF MICHIGAN AND AGREES THAT ALL DISPUTES CONCERNING THIS GUARANTY BE HEARD IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED OR IN MICHIGAN. GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED UPON IT UNDER ANY METHOD PERMISSIBLE UNDER THE LAWS OF THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED OR MICHIGAN AND

IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN THE STATE AND FEDERAL COURTS OF THE STATE OR STATES IN WHICH THE FACILITY OR FACILITIES ARE LOCATED AND OF MICHIGAN.

(d) GUARANTOR AND LESSOR HEREBY WAIVE TRIAL BY JURY AND THE RIGHT THERETO IN ANY ACTION OR PROCEEDING OF ANY KIND ARISING ON, UNDER, OUT OF, BY REASON OF OR RELATING IN ANY WAY TO THIS GUARANTY OR THE INTERPRETATION, BREACH OR ENFORCEMENT THEREOF.

(e) In the event of any suit, action, arbitration or other proceeding to interpret this Guaranty, or to determine or enforce any right or obligation created hereby, the prevailing party in the action shall recover such party's actual costs and expenses reasonably incurred in connection therewith, including, but not limited to, attorneys' fees and costs of appeal, post judgment enforcement proceedings (if any) and bankruptcy proceedings (if any). Any court, arbitrator or panel of arbitrators shall, in entering any judgment or making any award in any such suit, action, arbitration or other proceeding, in addition to any and all other relief awarded to such prevailing party, include in such-judgment or award such party's costs and expenses as provided in this paragraph.

(f) Guarantor (i) represents that it has been represented and advised by counsel in connection with the execution of this Guaranty; (ii) acknowledges receipt of a copy of the Sterling Transaction Documents; and (iii) further represents that Guarantor has been advised by counsel with respect thereto. This Guaranty shall be construed and interpreted in accordance with the plain meaning of its language, and not for or against Guarantor or Lessor, and as a whole, giving effect to all of the terms, conditions and provisions hereof.

(g) Except as provided in any other written agreement now or at any time hereafter in force between Lessor and Guarantor, this Guaranty shall constitute the entire agreement of Guarantor with Lessor with respect to the subject matter hereof, and no representation, understanding, promise or condition concerning the subject matter hereof will be binding upon Lessor or Guarantor unless expressed herein.

(h) All stipulations, obligations, liabilities and undertakings under this Guaranty shall be binding upon Guarantor and their respective successors and assigns and shall inure to the benefit of Lessor and to the benefit of Lessor's successors and assigns.

(i) Whenever the singular shall be used hereunder, it shall be deemed to include the plural (and vice-versa) and reference to one gender shall be construed to include all other genders, including neuter, whenever the context

of this Guaranty so requires. Section captions or headings used in the Guaranty are for convenience and reference only, and shall not affect the construction thereof.

IN WITNESS WHEREOF, the undersigned has executed this Guaranty as of the date first written above.

GUARANTOR:

By: _____
Name:_____
Its: _____

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2000, by , the _____ of _____ known to me to be the person who executed this Guaranty.

EXHIBIT K

FORM OF PLEDGE AGREEMENT
(Sterling Health Care Management, Inc.)

This Pledge Agreement (this "Agreement") is made as of November ____, 2000, between DIVERSICARE LEASING CORP., a Tennessee corporation ("Pledgor"), and STERLING ACQUISITION CORP., a Kentucky corporation ("Creditor").

STATEMENT OF FACTS

A. Pledgor is the owner of 100% of the outstanding equity interest in Sterling Health Care Management, Inc., a Kentucky corporation (the "Pledged Company").

B. Pledgor and Creditor are parties to a certain Consolidated, Amended and Restated Master Lease dated November ___, 2000 (the "Master Lease"), pursuant to which Creditor leased certain skilled nursing facilities (the "Facilities") to Pledgor.

C. Pledgor, subject to the consent of Creditor, intends to sublease certain Facilities to the Pledged Company pursuant to a sublease dated November ___, 2000 (the "Sublease") by and between Pledgor, as sublessor and Pledged Company, as sublessee.

D. As an inducement for Creditor to consent to the Sublease and to continue to lease the Facilities to Pledgor pursuant to the Master Lease, Pledgor has agreed that the due performance and observance of Pledgor's obligations under the Master Lease and security agreements, letter of credit agreements, guarantees or other documents which evidence, secure or otherwise relate to the Master Lease (collectively, the "Lease Documents") will be secured by a lien on the Pledged Collateral (as that term is defined below) granted pursuant to this Agreement.

The parties therefore agree as follows:

1. Intercreditor Agreement. Creditor, Omega Healthcare Investors, Inc., a Maryland corporation and AmSouth Bank, successor in interest by merger to First American National Bank ("AmSouth") are parties to a certain Intercreditor Agreement dated October 1, 2000 (the "Intercreditor Agreement"). The Intercreditor Agreement governs the priority of AmSouth and Creditor with respect to their security interests in the Pledged Collateral (as hereinafter defined). Pursuant to the terms of the Intercreditor Agreement, AmSouth is acting as collateral agent for AmSouth and Creditor with respect to the Pledged Collateral during the term of the Intercreditor Agreement.

2. Pledge; Grant of Security Interest. Subject to the terms of the Intercreditor Agreement, Pledgor hereby grants to Creditor a security interest, on the following terms and subject to the following conditions, in:

(a) all Pledgor's right, title and interest in the Pledged Company (the "Pledged Securities");

(b) any equity securities issued by the Pledged Company and any options, warrants or rights to acquire such securities, owned or acquired by Pledgor, directly or indirectly, now or at any time in the future;

(c) any securities or other property issued or distributed to Pledgor with respect to any securities described in clauses (a) or (b) above as a dividend or distribution or as a result of any amendment of the certificate of incorporation or other charter documents, merger, consolidation, redesignation, reclassification, purchase or sale of assets, dissolution, or plan of arrangement, compromise or reorganization of the issuer thereof;

(d) any rights incidental to the ownership of any of the securities described in clauses (a), (b) or (c) above, such as voting, conversion and registration rights and rights of recovery for violations of applicable securities laws; and,

(e) the proceeds of the exercise, redemption, sale or exchange of any of the foregoing, or any dividend, interest payment or other distribution of cash or property in respect thereof.

All of the foregoing may be referred to herein as the "Pledged Collateral".

3. Secured Obligations. The security interest described in Section 2 of this Agreement secures the prompt and full payment when due (and not merely the ultimate collectibility) of all Rent and all other sums payable by the Pledgor under (i) the Master Lease and the full performance of all obligations of Pledgor under the Lease Documents, (ii) any leases of the Facilities made by Creditor after the filing of a petition for relief pursuant to Section 364 of the Bankruptcy Code (11 U.S.C. ss.364) by Pledgor, and (iii) the obligations of the mortgagors of the Florida Mortgaged Facilities (as defined in that certain Settlement and Restructuring Agreement by and among Advocat, Inc., a Delaware corporation, Pledgor, Pledged Company, Diversicare Management Services Co., a Tennessee corporation, Omega Healthcare Investors, Inc., a Maryland corporation, and Creditor of even date herewith (collectively the "Secured Obligations").

4. Delivery.

(a) Before, or at the same time as the Pledgor has executed and delivered this Agreement to Creditor, Pledgor has delivered to AmSouth, as collateral agent, a fully executed Assignment in Blank (substantially in the form of Exhibit A

hereto) and with all necessary transfer tax stamps affixed.

(b) If, at any time, Pledgor obtains possession of any certificate or instrument constituting or representing any of the Pledged Collateral (other than interest and cash dividends), Pledgor shall deliver such certificate or instrument to AmSouth, as collateral agent, forthwith duly endorsed in blank without restriction or with a fully executed Assignment in Blank (substantially in the form of Exhibit A hereto) and with all necessary transfer tax stamps affixed.

(c) If no Event of Default (as defined in Section 11 below) hasoccurred and is continuing, Pledgor may retain for its own use and shall not be required to deliver to Creditor any interest payments on or any cash dividends or other cash distributions; if an Event of Default has occurred and is continuing, then all such interest, dividends and cash distributions shall be delivered to AmSouth, as collateral agent, for application by AmSouth, as collateral agent, toward payment of the Secured Obligations in compliance with the Intercreditor Agreement.

(d) If any of the Pledged Collateral is uncertificated securities, the Pledgor shall either (a) procure the issuance of security certificates to represent such Pledged Collateral and endorse and deliver such certificates as required by paragraph (b) of this Section 4, or (b) cause the issuer thereof to register AmSouth, as collateral agent, as the registered owner of such securities, or (c) cause the issuer thereof to enter into an agreement, in form and substance satisfactory to Creditor, among Creditor and/or AmSouth, the registered owner of such security, and the issuer to the effect that the issuer will comply with instructions originated by Creditor and/or AmSouth without further consent by the registered owner.

(e) At Pledgor's expense, Pledgor shall deliver to Creditor and/or AmSouth, as collateral agent, such financing statements, continuation statements, conveyances, certificates, legal opinions or other instruments as Creditor may at any time reasonably request or require to protect, assure or enforce its interests, rights and remedies under this agreement. The form of description of the Pledged Collateral to be attached to financing statements to be executed by Debtor is attached hereto as Schedule 1.

(f) If AmSouth's security interest in the Pledged Collateral is terminated, all deliveries required by this Section 4 shall be made directly to Creditor.

5. Voting Rights. If no Event of Default has occurred or is continuing, the Pledged Collateral will be registered in the name of Pledgor, and Pledgor may exercise any voting or consensual rights that Pledgor may have as the owner of the Pledged Collateral for any purpose which is not inconsistent with this Agreement. Pledgor shall deliver to Creditor copies of all notices, proxy statements, proxies and other information or instruments in its possession concerning such exercise and shall not exercise any such right if, in the judgment of Creditor, such exercise would have a material adverse effect on the value of the Pledged Collateral or would result in a violation of any of the terms of the Lease Documents. If an Event of Default has occurred and is continuing, Creditor, subject to the terms of the Intercreditor Agreement, may exercise all voting or consensual rights of the owners of any of the Pledged

Collateral and Pledgor shall deliver to Creditor all notices, proxy statements, proxies and other information and instruments relating to the exercise of such rights received by Pledgor from the issuers of any of the Pledged Collateral promptly upon receipt thereof and shall at the request of Creditor execute and deliver to Creditor any proxies or other instruments which are, in the judgment of Creditor, necessary for Creditor to validly exercise such voting and consensual rights.

6. Duty of Creditor. The duty of the Creditor and AmSouth, as collateral agent, with respect to the Pledged Collateral shall be solely to use reasonable care in the physical custody thereof, and the Creditor shall not be under any obligation to take any action with respect to any of the Pledged Collateral or to preserve rights against prior parties. The powers conferred on Creditor hereunder are solely to protect its interest in the Pledged Collateral and do not impose any duty upon it to exercise any such powers. Pledgor is not looking to the Creditor to provide it with investment advice. Creditor shall have no duty to ascertain or take any action with respect to calls, conversions, exchanges, maturities, tenders or other matters concerning any Pledged

Collateral, whether or not Creditor has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve any rights pertaining to any Pledged Collateral.

7. Subsequent Changes Affecting Pledged Collateral. Pledgor acknowledges that it has made its own arrangements for keeping informed of changes or potential changes affecting the Pledged Collateral (including, but not limited to, conversions, subscriptions, exchanges, reorganizations, dividends, tender offers, mergers, consolidations and shareholder or other meetings) and Pledgor agrees that Creditor has no responsibility to inform Pledgor of such matters or to take any action with respect thereto even if any of the Pledged Collateral has been registered in the name of Creditor or its agent or nominee.

8. Return of Pledged Collateral. The security interest granted to Creditor hereunder shall not terminate and Creditor shall not be required to return the Pledged Collateral to Pledgor unless and until (a) the Secured Obligations have been fully paid or performed, (b) all of Pledgor's obligations hereunder have been fully paid or performed, and (c) Pledgor has reimbursed Creditor for any expenses of returning the Pledged Collateral and filing such termination statements and other instruments as are required to be filed in public offices under applicable laws.

9. Representations and Warranties. Pledgor hereby represents and warrants to Creditor as follows:

(a) Enforceability. This Agreement has been duly executed and delivered by Pledgor, constitutes its valid and legally binding obligation and is enforceable against Pledgor in accordance with its terms. Pledgor has the legal capacity to enter into and perform all of its obligations and agreements under this Agreement. No consent or approval for the entry into and performance by Pledgor of its obligations and agreements under this Agreement is necessary other than the consent of AmSouth.

(b) No Conflict. The execution, delivery and performance of this Agreement, the grant of the security interest in the Pledged Collateral hereunder and the consummation of the transactions contemplated hereby will not, with or without the giving of notice or the lapse of time, (a) violate any material law applicable to Pledgor; (b) violate any judgment, writ, injunction or order of any court or governmental body or officer applicable to Pledgor; (c) violate or result in the breach of any material agreement to which Pledgor is a party or by which any of its properties, including the Pledged Collateral, is bound; (d) violate Pledgor's articles of incorporation or organization, bylaws, partnership, shareholder or operating agreement; nor (e) violate any restriction on the transfer of any of the Pledged Collateral. Pledgor has the full and unrestricted right to pledge, assign and create a security interest in the Pledged Collateral as described in and contemplated by this Agreement. The execution, delivery and performance of this Agreement by Pledgor will not affect or in any way impair the Pledged Collateral or Pledgor's or Creditor's rights or interests therein.

(c) No Consents. No consent, approval, license, permit or other authorization of any third party or any governmental body or officer is required for the valid and lawful execution and delivery of this Agreement, the valid and lawful creation and perfection of the Creditor's security interest in the Pledged Collateral or the valid and lawful exercise by Creditor of remedies available to it under this Agreement or applicable law or of the voting and other rights granted to it in this Agreement except for the consent of AmSouth as provided in the Intercreditor Agreement and as may be required for the offer or sale of those items of Pledged Collateral which are securities under applicable securities laws.

(d) Organization. Pledgor is duly organized, validly existing and in good standing under the laws of the State of Tennessee. Pledged Company is duly organized, validly existing and in good standing under the laws of its State of Kentucky. The Pledged Securities are all of the issued and outstanding securities issued by Pledge Company. The Pledged Securities have been duly authorized and validly issued by Pledge Company and are fully paid and non-assessable. The certificates which represent the Pledged Securities are valid and genuine and have not been altered and Pledgor is the appropriate person to endorse them. Except for this Agreement, the Intercreditor Agreement, and other agreements

with AmSouth, neither Pledgor nor Pledge Company is bound by any certificate of incorporation or organization, bylaw, agreement or instrument (including options, warrants, and convertible securities) which relates to the voting of; restricts the transfer of; requires Pledgor or Pledge Company to issue or sell; or creates rights in any person (other than the record owner) with respect to; any securities issued by Pledge Company.

(e) Security Interest. Subject to the rights of AmSouth pursuant to Section 6 of the Intercreditor Agreement, Pledgor is the sole record and beneficial owner of the Pledged Securities, subject to the security interest of AmSouth, free and clear of all other liens, encumbrances and adverse claims, and Pledgor has the unrestricted right to grant the security interest provided for herein to the Creditor. Pledgor has duly endorsed and delivered to AmSouth, as collateral agent, all of the certificates representing the Pledged Securities and has granted to Creditor a valid and perfected first priority security interest in the Pledged Securities, subject to the security interest of AmSouth, free of all other liens, encumbrances, transfer restrictions and adverse claims. The certificates, instruments and other writings delivered by Pledgor to AmSouth, as collateral agent, pursuant to this Agreement are all of the certificates, instruments and other writings representing the Pledged Collateral and all rights and interests with respect thereto. The security interest granted hereby to Creditor does now and shall at all times during the term of this Agreement continue to constitute a first and prior lien on the Pledged Collateral, subject only to the security interest of AmSouth and such matters as may be specifically agreed to in writing by Creditor. This representation shall be deemed made with respect to each item of property that becomes Pledged Collateral after the date hereof.

(f) Name and Address. Pledgor's principal place of business is correctly set forth under its signature at the end of this Agreement.

10. Agreements. So long as this Agreement is in effect, Pledgor shall:

(a) Subject to the rights of AmSouth as pledgee, maintain the Pledged Collateral free from all pledges, liens, encumbrances and security interests or other claims in favor of others, other than the security interests in favor of AmSouth and Creditor, and Pledgor will defend the Pledged Collateral against all claims and demands of all persons.

(b) Comply with the requirements of all applicable state, local and federal laws necessary to grant to Creditor a valid lien upon, and a duly perfected security interest in, the Pledged Collateral in compliance with the requirements of this Agreement.

(c) Appear in and defend any action or proceeding arising out of or connected with this Agreement, and pay all reasonable costs and expenses of Creditor (including, without limitation, reasonable attorneys' fees) in any such action or proceeding in which Creditor appears or determines to become involved.

(d) Not, without the prior written consent of Creditor, sell, assign, encumber, pledge, hypothecate, transfer or otherwise dispose of the Pledged Collateral or any part thereof or any interest therein.

(e) Provide Creditor, and Creditor's agents and attorneys, reasonable access to the books and records of Pledgor for inspection purposes and permit Creditor and Creditor's agents and attorneys to make copies hereof.

(f) Notify the Creditor at least thirty (30) days before Pledgor changes its name or the address of its principal place of business.

11. Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) If the Pledgor or the Pledged Company fail to pay or perform, as the case may be, any of the Secured Obligations when the same become due and payable or performable, as the

case may be; or

(b) If an Event of Default occurs under a Lease Document or any guaranty, promissory note, security agreement, loan agreement or other agreement between Creditor and Pledgor or Pledged Company; or

(c) If there is a breach of any representation or warranty made by Pledgor in this Agreement; or

(d) If Pledgor:

(i) makes an assignment for the benefit of, or enters into any composition or arrangement with, creditors; or

(ii) generally does not pay its debts as such debts become due; or

(iii) conceals, removes, or permits to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them, or makes or suffers a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law, or makes any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or

(e) The filing (i) of a involuntary petition under Section 303 of the Bankruptcy Code (11 U.S.C. ss.303) against Pledgor which is not dismissed within thirty (30) days of being filed, or (ii) of a voluntary petition for relief under any chapter of the Bankruptcy Code (11 U.S.C. ss.101 et seq.)

(f) The commencement of a proceeding by or against Pledgor under any statute or other law providing for an assignment for the benefit of creditors, the appointment of a receiver, or any other similar law or regulation, whether federal, state or local, not dismissed within 30 days.

(g) The garnishment, attachment, levy or other similar action taken by or on behalf of any creditor of the Pledgor, or any of its properties which could have a material adverse effect on the Pledgor.

12. Remedies. Subject to the terms of the Intercreditor Agreement: Upon and at any time after an Event of Default under this Agreement, Creditor shall, at its option and without further notice to Pledgor (except for such further notices, if any, that may be required by law) be entitled to exercise any or all rights and remedies provided hereunder or by law, including without limitation the rights and remedies of a secured party under the Michigan Uniform Commercial Code. Any requirement under the Michigan Uniform Commercial Code or otherwise of reasonable notice shall be met if Creditor sends Pledgor notice of sale and other notices required by law at least ten (10) days prior to the date of sale, disposition or other event giving rise to the required notice. Any sale held pursuant to the exercise of Creditor's rights hereunder may be public or private, and at such sale Creditor shall have the right, at any time and from time to time, to the extent permitted by law, to sell, assign and deliver all or any part of the Pledged Collateral, at Creditor's office or elsewhere, without demand of performance, advertisement of notice of intention to sell or of the time or place of sale or adjournment thereof or any other notice (all of which are hereby waived by Pledgor to the extent permitted by law), except such notice as is required by applicable law and cannot be waived, for cash, on credit or for other property, for immediate or future delivery, without any assumption or credit risk, and, provided that such is not in violation of applicable law, for such terms as Creditor in its absolute and uncontrolled discretion may determine. In furtherance of Creditor's rights hereunder, Creditor or AmSouth, as collateral agent, shall have the right, for and in the name, place and stead of Pledgor, to execute endorsements, assignments or other instruments of conveyance or transfer with respect to all or any of the Pledged Collateral. All amounts collected by Creditor as the result of any action taken pursuant to this Section 12, and the liquidation value of any other property received as a result of such action, shall, subject to the Intercreditor Agreement, be applied by Creditor as follows:

(i) First, to the payment of all fees and costs including, without limitation, reasonable attorneys' fees, incurred in connection with the collection of the Secured Obligations or in connection with the exercise or enforcement of Creditor's rights, powers or remedies under this Agreement.

(ii) Second, to the payment and satisfaction of all of the

Secured Obligations.

(b) Creditor shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. Creditor may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. If, under the Michigan Uniform Commercial Code, the Creditor may purchase any part of the Pledged Collateral, it may, in payment of any part of the purchase price thereof cancel any part of the Secured Obligations.

(c) Pledgor shall execute and deliver to the purchasers of the Pledged Collateral all instruments and other documents necessary or proper to sell, convey, and transfer title to such Pledged Collateral and, if approval of any sale of Pledged Collateral by any governmental body or officer is required, Pledgor shall prepare or cooperate fully in the preparation of and cause to be filed with such governmental body or officer all necessary or proper applications, reports, and forms and do all other things necessary or proper to expeditiously obtain such approval.

(d) The remedies provided in this Agreement in favor of Creditor shall not be deemed exclusive, but shall be cumulative, and shall be in addition to all other remedies in favor of Creditor existing at law or in equity.

13. Appointment of Creditor as Agent. Pledgor hereby appoints and constitutes Creditor, its successors and assigns, as its agent and attorney-in-fact for the purpose of carrying out the provisions of this Agreement and taking any action or executing any instrument that Creditor considers necessary for such purpose, including the power to endorse and deliver in the name of and on behalf of Pledgor securities certificates and execute and deliver in the name of and on behalf of Pledgor instructions to the issuers of uncertificated securities, and to execute and file in the name of and on behalf of Pledgor financing statements (which may be photocopies of this Agreement) and continuations and amendments to financing statements in the State of Tennessee or elsewhere and Forms 144 with the United States Securities and Exchange Commission. This appointment is coupled with an interest and is irrevocable and will not be affected by the dissolution or bankruptcy of Pledgor nor by the lapse of time. If Pledgor fails to perform any act required by this Agreement, Creditor may perform such act in the name of and on behalf of Pledgor and at its expense which shall be chargeable to Pledgor under this Agreement. Pledgor hereby consents and agrees that the issuers of or obligors of the Pledged Collateral or any registrar or transfer agent or trustee for any of the Pledged Collateral shall be entitled to accept the provisions hereof as conclusive evidence of the rights of Creditor to effect any transfer pursuant to this Agreement and the authority granted to Creditor herein, notwithstanding any other notice or direction to the contrary heretofore or hereafter given by Pledgor, or any other person, to any of such issuers, obligors, registrars, transfer agents, or trustees. Notwithstanding the foregoing, the terms of this Section 13 shall not apply so long as AmSouth is acting as collateral agent pursuant to the terms of the Intercreditor Agreement.

14. Impact of Regulations. Pledgor acknowledges that compliance with the Securities Act of 1933 and the rules and regulations thereunder and any relevant state securities laws and other applicable laws may impose limitations on the right of Creditor to sell or otherwise dispose of securities included in the Pledged Collateral. For this reason, Pledgor hereby authorizes Creditor to sell any securities included in the Pledged Collateral in such manner and to such persons as would, in the judgment of Creditor, help to ensure that the transfer of such securities will be given prompt and effective approval by any relevant regulatory authorities and will not require any of the securities to be registered or qualified under any applicable securities laws. Pledgor understands that a sale under the foregoing circumstances may yield a substantially lower price for such Pledged Collateral than would otherwise be obtainable if the same were registered and sold in the open market, and Pledgor shall not attempt to hold Creditor responsible for selling any of the Pledged Collateral at an inadequate price even if Creditor accepts the first offer received or if only one possible purchaser appears or bids at any such sale. If Creditor shall sell any securities included in the Pledged Collateral at such sale, Creditor shall have the right to rely upon the advice and opinion of any qualified appraiser or investment banker as to the commercially reasonable price obtainable on the sale thereof but shall not be obligated to obtain such advice or opinion.

15. Expenses. Pledgor will forthwith upon demand pay to Creditor:

(i) the amount of any taxes which Creditor may have been required to pay by reason of holding the Pledged Collateral or to free

any of the Pledged Collateral from any lien encumbrance or adverse claim thereon other than liens in favor of AmSouth, and

(ii) the amount of any and all reasonable out-of-pocket expenses, including the fees and disbursements of counsel and of any brokers, investment brokers, appraisers or other experts, that Creditor may incur in connection with (A) the administration or enforcement of this Agreement, including such expenses as are incurred to preserve the value of the Pledged Collateral and the validity, perfection, rank and value of Creditor's security interest therein, (B) the collection, sale or other disposition of any of the Pledged Collateral, (C) the exercise by Creditor of any of the rights conferred upon it hereunder, or (D) any action or proceeding to enforce its rights under this Agreement or in pursuit of any non-judicial remedy hereunder including the sale of the Pledged Collateral.

Any such amount not paid within thirty (30) days of demand shall bear interest (computed on the basis of the number of days elapsed over a year of three hundred sixty-five (365) days) at a rate per annum equal to the Overdue Rate (as defined in the Master Lease).

16. Indemnity. The Pledgor shall indemnify the Creditor and its directors, officers, employees, agents and attorneys against, and hold them harmless from, any liability, cost or expense, including the fees and disbursements of their legal counsel, incurred by any of them under the corporate or securities laws applicable to holding or selling any of the Pledged Collateral, except for liability, cost or expense arising out of the recklessness or willful misconduct of the indemnified parties.

17. Performance by Creditor. Subject to the Intercreditor Agreement, if Pledgor fails to duly and punctually perform, observe or comply with any condition, term or covenant contained in this Agreement, Creditor, upon fifteen (15) days prior written notice (provided, however, no notice shall be required

if an Event of Default exists under the Master Lease) and without waiving or releasing any of the Secured Obligations, may at any time thereafter perform such condition, term or covenant for the account and at the expense of Pledgor. All sums paid or advanced in connection with the foregoing and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in connection therewith shall be paid by Pledgor to Creditor on demand, and shall constitute and become a part of the Secured Obligations and Pledgor agrees to reimburse Creditor for any payment made or any expense incurred (including reasonable attorneys' fees to the extent permitted by law) by Creditor pursuant to this Agreement.

18. Waivers. Pledgor hereby waives presentment, demand, protest, notice of any default under the Lease Documents (except as otherwise provided herein or therein). Neither the failure of nor any delay by any party to this Agreement to enforce any right hereunder or to demand compliance with its terms is a waiver of any right hereunder. No action taken pursuant to this Agreement on one or more occasions is a waiver of any right hereunder or constitutes a course of dealing that modifies this Agreement. No waiver of any right or remedy under this Agreement shall be binding on any party unless it is in writing and is signed by the party to be charged. No such waiver of any right or remedy under any term of this Agreement shall in any event be deemed to apply to any subsequent default under the same or any other term contained herein.

19. Entire Agreement. This Agreement, the schedules and exhibits hereto and the agreements and instruments required to be executed and delivered hereunder set forth the entire agreement of the parties with respect to the subject matter hereof and supersede and discharge all prior agreements (written or oral) and negotiations and all contemporaneous oral agreements concerning such subject matter and negotiations. There are no oral conditions precedent to the effectiveness of this Agreement.

20. Amendments. No amendment, modification or termination of this Agreement shall be binding on any party hereto unless it is in writing and is signed by the party to be charged.

21. Severability. If any term or provision set forth in this Agreement shall be invalid or unenforceable, the remainder of this Agreement, or the application of such terms or provisions to persons or circumstances, other than those to which it is held invalid or unenforceable, shall be construed in all respects as if such invalid or unenforceable term or provision were omitted.

22. Successors. The terms of this Agreement shall be binding upon the Pledgor, its heirs and personal representatives, and shall inure to the benefit of Creditor, its corporate successors and any holder, owner or assignee of any rights in the Lease Documents and will be enforceable by them as their interest may appear.

23. Third Parties. Nothing herein expressed or implied is intended or shall be construed to give any person other than the parties hereto any rights or remedies under this Agreement.

24. Saturdays, Sundays and Holidays. Where this Agreement authorizes or requires a payment or performance on a Saturday, Sunday or public holiday, such payment or performance shall be deemed to be timely if made on the next succeeding business day.

25. Joint Preparation. This Agreement shall be deemed to have been prepared jointly by the parties hereto. Any ambiguity herein shall not be interpreted against any party hereto and shall be interpreted as if each of the parties hereto had prepared this Agreement.

26. Rules of Construction. In this Agreement, words in the singular number include the plural, and in the plural include the singular; words of the masculine gender include the feminine and the neuter, and when the sense so indicates words of the neuter gender may refer to any gender and the word "or" is disjunctive but not exclusive. The captions and section numbers appearing in this Agreement are inserted only as a matter of convenience. They do not define, limit or describe the scope or intent of the provisions of this Agreement.

27. Notices. All notices, demands or requests required or permitted to be given to either party hereto shall be in writing and shall be deemed given if delivered personally, sent by reputable overnight courier, with acknowledgment of receipt requested, or mailed by registered, overnight or certified mail, with full postage paid thereon, return receipt requested (such notice to be effective on the date such receipt is acknowledged), as follows:

Pledgor:
Diversicare Leasing Corp.
277 Mallory Station Road, Suite 130
Franklin, Tennessee 37067
Telephone No.: (615) 256-0500
Facsimile No.: (615) 771-7409

Creditor:
Sterling Acquisition Corp.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attn: Susan Allene Kovach, General Counsel
Telephone No.: (734) 887-0200
Facsimile No.: (734) 887-0201

or to such place and with such other copies as Pledgor or Creditor may designate for itself by written notice to the other.

28. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing and delivering one or more counterparts.

29. Choice of Law; Jurisdiction; Venue. This Agreement shall be construed, and the rights and obligations of the Pledgor and Creditor shall be determined, in accordance with the laws of the State of Michigan, except that the laws of the state where the Pledged Collateral is located shall govern this Agreement (a) to the extent necessary to perfect and/or enforce the liens created by this Agreement and to the extent necessary to obtain the benefit of the rights and remedies set forth herein with respect to the Pledged Collateral, and (b) for procedural requirements that must be governed by the laws of the state in which the Pledged Collateral is located. Pledgor consents to in personam jurisdiction before the state and Federal courts of the state in which the Pledged Collateral is located and Michigan and agrees that all disputes concerning this Agreement be heard in the state and federal courts located in the state in which the collateral is located or in Michigan. Pledgor agrees that service of process may be effected upon it under any method permissible under the laws of the state in which the collateral is located or Michigan, and Pledgor irrevocably waives any objection to venue in the state and Federal courts of the state in which the collateral is located and Michigan.

30. Waiver of Jury Trial. The Pledgor hereby voluntarily, knowingly, irrevocably and unconditionally waives and relinquishes its Right to Trial by Jury under the Constitution of the United States of America or of the State of Michigan or any other constitution, statute or law in any civil legal action, suit or proceeding arising out of or related to the negotiation, execution, delivery, performance, breach or enforcement of this Agreement or any other agreement, document or instrument negotiated, executed, delivered, entered into or performed in connection with this Agreement or any of the transactions contemplated hereby or thereby; any waiver, modification, amendment or termination hereof or thereof or any action taken or omission made by the Pledgor or the Creditor or any of their respective directors, officers, employees, agents or attorneys in connection with the payment, performance, exercise or enforcement of any right, duty or obligation created or implied hereby or thereby or arising hereunder or thereunder; regardless of whether any claim, counterclaim or defense in any such action, suit or proceeding is characterized as arising out of fraud, negligence, recklessness, intentional

misconduct, a breach of contract or fiduciary duty, or violation of a statute, law, ordinance, rule or regulation.

[signatures on next page]

IN WITNESS WHEREOF, the parties have executed this Pledge Agreement as of the date first above stated.

PLEDGOR:

DIVERSICARE LEASING CORP.,
a Tennessee corporation

Address of
Place of Business:

277 Mallory Station Road, Suite 130
Fra

By: _____
Its: Senior Vice President

CREDITOR:

Sterling Acquisition Corp.,
a Kentucky corporation

By: _____
Its:

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ___ day of November, 2000 by James F. Mills, Jr. who is the Senior Vice President of DIVERSICARE LEASING CORP., a Tennessee corporation, on behalf of the corporation.

Notary Public,
_____ County,
My commission expires:

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ___ day of November, 2000 by Susan A. Kovach, who is the Vice President of STERLING ACQUISITION CORP, a Kentucky corporation, on behalf of the corporation.

Notary Public,
_____ County,
My commission expires:

EXHIBIT A

ASSIGNMENT IN BLANK

DIVERSICARE LEASING CORP.

For value received, DIVERSICARE LEASING CORP., a Tennessee corporation ("Assignor"), sells, assigns and transfers to _____ ("Assignee"), _____ (_____) shares of common stock in _____, a _____ corporation (the "Company"), represented by Stock Certificate Number __ in the amount of _____ shares dated _____ (the "Shares"), and further irrevocably appoints AMSOUTH BANK, successor in interest by merger to First American National Bank, as attorney in fact to transfer the Shares on the books of the Company, with full power of substitution and resubstitution

(which power shall survive the dissolution of Assignor).

DIVERSICARE LEASING CORP.

Dated: November ___, 2000

By: _____
Its:

Signature Guaranteed:

By: _____

SCHEDULE 1

FORM OF SCHEDULE TO FINANCING STATEMENT

Debtor: DIVERSICARE LEASING CORP., a Tennessee corporation

Secured Party: STERLING ACQUISITION CORP., a Kentucky corporation

Description of Collateral

The personal property of Debtor described below, which it now owns or shall hereafter acquire or create, immediately upon the acquisition or creation thereof and wherever located, consisting of the following:

(a) all Debtor's right, title and interest in Sterling Health Care Management, Inc., a Kentucky corporation ("Pledge Company");

(b) any equity securities issued by Pledge Company and any options, warrants or rights to acquire such securities, owned or acquired by Debtor, directly or indirectly, now or at any time in the future;

(c) any securities or other property issued or distributed to Debtor with respect to any securities described in clauses (a) or (b) above as a dividend or distribution or as a result of any amendment of the certificate of incorporation or other charter documents, merger, consolidation, redesignation, reclassification, purchase or sale of assets, dissolution, or plan of arrangement, compromise or reorganization of the issuer thereof;

(d) any rights incidental to the ownership of any of the securities described in clauses (a), (b) or (c) above such as voting, conversion and registration rights and rights of recovery for violations of applicable securities laws; and

(e) the proceeds of the exercise, redemption, sale or exchange of any of the foregoing or any dividend, interest payment or other distribution of cash or property in respect thereof.

Notary Public, _____ County,
My Commission Expires: _____

MASTER LEASE

MULTIPLE LESSEE
MULTIPLE FACILITIES

STERLING ACQUISITION CORP., LESSOR

AND

DIVERSICARE LEASING CORPORATION, LESSEE

DATED: November 8, 2000
(effective October 1, 2000)

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CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

THIS CONSOLIDATED AMENDED AND RESTATED MASTER LEASE ("Lease") is executed and delivered as of this 8th day of November, 2000, effective as of October 1, 2000, and is entered into by (i) STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor"), the address of which is 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108, and (ii) DIVERSICARE LEASING CORPORATION, a Tennessee corporation, the address of which is 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067 ("Lessee").

RECITALS

The circumstances underlying the execution and delivery of this Lease are as follows:

A. Capitalized terms used and not otherwise defined herein have the respective meanings given them in Article II, below.

B. The parties hereto are parties to the Existing Leases. Prior hereto, all of the lessor's interests in the Existing Leases have been consolidated into Lessor, and all of the lessee's interests in the Existing Leases have been consolidated into Lessee.

C. The parties hereto wish to amend, restate, and consolidate the Existing Leases on the terms and conditions set forth herein.

NOW THEREFORE Lessor and Lessee agree as follows:

ARTICLE I

1.1 Lease. Upon and subject to the terms and conditions hereinafter set forth, Lessor leases to Lessee the Leased Properties located in Alabama, Arkansas, Florida, Kentucky, Ohio, Tennessee, and West Virginia and comprising the Facilities described on Exhibits A- 1 through A-28 (the "Leased Properties").

The Existing Leases are hereby amended, restated and consolidated in their entirety as set forth in this Lease to provide for the continued leasing of the Leased Properties by Lessee. From and after the Commencement Date, the leasing of the Leased Properties by Lessee from Lessor, and the rights and obligations of the parties with respect thereto, shall be determined as set forth and described in this Lease. However, the lessees and lessors pursuant to the Existing Leases are only released from those obligations under the Existing Leases only to the extent set forth in the Settlement and Restructuring Agreement.

The Leased Properties are leased subject to all covenants, conditions, restrictions, easements and other matters affecting each Leased Property, whether or not of record, including the Permitted Encumbrances and other matters which would be disclosed by an inspection of the Leased Properties or by an accurate survey thereof, provided, however, that the foregoing will not materially interfere with the Primary Intended Use of the Leased Property by Lessee as set forth in this Lease.

This Lease constitutes one indivisible lease of the Leased Properties to multiple tenants, and not separate leases governed by similar terms. The Leased Properties constitute one economic unit, and the Base Rent and all other provisions have been negotiated and agreed to based on a demise of all of the Leased Properties as a single, composite, inseparable transaction and would have been substantially different had separate leases or a divisible lease been intended. Except as expressly provided herein for specific, isolated purposes (and then only to the extent expressly otherwise stated), all provisions of this Lease apply equally and uniformly to all the Leased Properties as one unit. An Event of Default with respect to any Leased Property is an Event of Default as to all of the Leased Properties. The parties intend that the provisions of this Lease shall at all times be construed, interpreted and applied so as to carry out their mutual objective to create an indivisible lease of all the Leased Properties and, in particular but without limitation, that for purposes of any assumption, rejection or assignment of this Lease under 11 U.S.C. 365, this is one indivisible and non-severable lease and executory contract dealing with one legal and economic unit which must be assumed, rejected or assigned as a whole with respect to all (and only all) the Leased Properties covered hereby.

1.2 Term. The initial term of this Lease ("Initial Term") shall be ten (10) Lease Years. The Initial Term shall commence on the Commencement Date and end on the Initial Term Expiration Date, subject to renewal as set forth in Section 1.3, below.

1.3 Option to Renew. Lessee is hereby granted one (1) option to renew this Lease for an additional, successive period of ten (10) Lease Years, for a maximum Term if such option is exercised of twenty (20) Lease Years, on the following terms and conditions: (a) the option to renew is exercisable only by Notice to Lessor at least three hundred sixty-five (365) days prior to the expiration of the Initial Term; (b) the absence of any Event of Default both at the time a renewal option is exercised and at the commencement of a Renewal Term is a condition precedent to any renewal of the Term; and (c) during a Renewal Term, all of the terms and conditions of this Lease shall remain in full force and effect.

1.4 Saving Provisions. If Lessee fails to notify Lessor of the exercise of the extension option which Lessee has the right to exercise hereunder within the required time, its option to extend shall nevertheless remain full force and effect for a period of fifteen (15) days after Notice from Lessor subsequent to the required time setting forth the expiration date of this Lease and advising Lessee that Notice of extension has not been received. The right to renew as thereby extended shall expire on the close of business on the fifteenth day after Notice, and may be thereafter not be exercised by Lessee.

ARTICLE II

2.1 Definitions. For all purposes of this Lease, except as otherwise expressly provided or unless the context otherwise requires, (i) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP as at the time applicable, (iii) all references in this Lease to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Lease, and (iv) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or other subdivision.

Additional Charges: All Impositions and other amounts, liabilities and obligations which Lessee assumes or agrees to pay under this

Lease, including, without limitation, the Annual Site Inspection Fee.

Adjustment Date: October 1, 2003, and each October 1 thereafter throughout the Term of this Lease.

Advocat: Advocat, Inc., a Delaware corporation.

Advocat Concentration Account: As defined in the Settlement and Restructuring Agreement.

Affiliate: Any Person which, directly or indirectly, Controls or is Controlled by or is under common Control with another Person.

AmSouth: AmSouth Bank.

AmSouth Loan Documents: The documents evidencing and securing the indebtedness of Advocat and its Affiliates to AmSouth as of the date of execution and delivery of this Lease.

Annual Site Inspection Fee: An annual fee of One Thousand Dollars ($1,000.00) for each Facility included within the Leased Properties actually inspected by Lessor during each Lease Year throughout the Term beginning with the Second (2nd) Lease Year which shall be paid by Lessee within thirty (30) days after receipt by Lessee of an invoice therefor together with a copy of the complete site inspection report made with respect to each Facility for which payment is requested.

Approval Threshold: One Hundred Fifty Thousand Dollars ($150,000.00).

Assessment: Any governmental assessment on the Leased Properties or any part thereof for public or private improvements or benefits, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term.

Assumed Indebtedness: Any indebtedness or other obligations of third parties from whom Lessor has acquired any Leased Property, expressly assumed in writing by Lessor, and existing at the time of acquisition of the Leased Property secured by a mortgage, deed of trust or other security agreement to which Lessor's title to the Leased Properties is subject.

Award: All compensation, sums or anything of value awarded, paid or received in connection with a total or partial Taking.

Base Rent:

(A) During the Initial Term, the Base Rent shall be:

(1) For the first (1st) Lease Year, Ten Million Eight Hundred Seventy Five Thousand Dollars ($10,875,000.00);

(2) For the second (2nd) Lease Year, Ten Million Eight Hundred Seventy Five Thousand Dollars ($10,875,000.00);

(3) For the third (3rd) Lease Year, Eleven Million Five Hundred Thousand Dollars ($11,500,000.00);

(4) For each of the fourth (4th) through tenth (10th) Lease Years, the lesser of (i) the Base Rent for the third (3rd) Lease Year increased by a percentage equal to two (2) times the percentage increase in the CPI (if positive) from the commencement date of the third (3rd) Lease Year to the Adjustment Date in each of the fourth (4th) through tenth (10th) Lease Years, as applicable and (ii) the following amounts for each Lease Year:

Lease Year	Base Rent
4	$11,845,000
5	$12,200,350
6	$12,566,360
7	$12,943,351
8	$13.331.651
9	$13,731,601
10	$14,143,549

Under no circumstances will the Base Rent in any Lease Year be less than the Base Rent during the preceding Lease Year.

(B) During the Renewal Term, the Base Rent shall be:

(1) For the first Lease Year of the Renewal Term, the greater of (a) the Base Rent during the tenth (10th) Lease Year of the Initial Term and (b) the Fair Market Rent for the Leased Properties on the first day of such Renewal Term as

agreed upon by Lessor and Lessee, or, if prior to the commencement of the Renewal Term they are unable to agree, as determined by an appraisal pursuant to Article XXXII of this Lease; provided, however, that the Base Rent for the first Lease Year of the Renewal Term shall not exceed one hundred ten percent (110%) of the Base Rent for the Lease Year immediately preceding the commencement of the Renewal Term; and

(2) For each of the second (2nd) through the tenth (10th) Lease Years during the Renewal Term, the lesser of (i) the Base Rent for the first (1st) Lease Year of the Renewal Term, increased by a percentage equal to two (2) times the percentage increase in the CPI (if positive) from the commencement date of the Renewal Term to the Adjustment Date in each of the second (2nd) through tenth (10th) Lease Years, as applicable (the "Adjustment Date"), and (ii) the product of the Base Rent during the first (1st) Lease Year of the Renewal Term and the following percentage:

Lease Year During Renewal Term	Applicable Percentage
2	1.03%
3	1.061%
4	1.093%
5	1.126%
6	1.159%
7	1.194%
8	1.23%
9	1.267%
10	1.305%

Under no circumstances will the Base Rent in any Lease Year during the Renewal Term be less than the Base Rent during the preceding Lease Year.

Business Day: Each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which national banks in the City of New York, New York are authorized, or obligated, by law or executive order, to close.

Capital Expenditures Reserve Account: As defined in Section 8.3.1.

Capitalization Rate: Nine percent (9%) (See Section 15.3).

Capitalized Leases: Leases that in accordance with GAAP are required to be capitalized for financial reporting purposes.

Capitalized Lease Obligations: All obligations under Capitalized Leases the amount of the indebtedness for which shall be the capitalized amount of such obligations determined in accordance with GAAP.

Casualty/Condemnation Reduction Percentage: The percentage obtained by dividing the Retained Amount by the Investment Amount.

Citation: Any operational or physical plant deficiency set forth in writing with respect to a Facility by any governmental body or agency, or Medicare intermediary, having regulatory oversight over a Facility, Lessee or Manager, with respect to which the scope and severity of the penalty for such deficiency, if not cured, is one or more of the following: loss of licensure, decertification of a Facility from participation in the Medicare and/or Medicaid programs, appointment of a temporary manager or denial of payment for new admissions.

Clean-Up: The investigation, removal, restoration, remediation and/or elimination of, or other response to, Contamination, in each case to the satisfaction of all governmental agencies having jurisdiction, in compliance with or as may be required by Environmental Laws.

Code: The Internal Revenue Code of 1986, as amended.

Commencement Date: October 1, 2000, even though this Lease has been executed subsequent thereto. Base Rent and other payments made by Lessee under the Existing Leases attributable to the period on and after October 1, 2000 and prior to the date of execution of this Lease shall be applied to Base Rent and other payments due hereunder.

Condemnor: Any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

Consolidated Financial Statement:

(a) For each quarter during Lessee's fiscal year, on a consolidated basis for Lessee, (i) a statement of earnings for the current period and fiscal year to the end of such period, with a comparison to the corresponding figures for the corresponding period in the preceding fiscal year from the beginning of the fiscal year to the end of such period, and (ii) a balance sheet as of the end of the period, with a comparison to the corresponding figures for the corresponding period in the preceding fiscal year from the beginning of the fiscal year to the end of such period.

(b) For Lessee's fiscal year, the Consolidated Financial Statement shall be a financial report for Lessee on a consolidated basis, reviewed by a "big five" accounting firm or any other firm of independent certified public accountants reasonably acceptable to Lessor, containing the Lessee's balance sheet as of the end of that year, its related profit and loss, a statement of shareholder's equity for that year, a statement of cash flows for that year, and such comments and financial details as are customarily included in reports of like character. Lessor shall have the right upon reasonable Notice to Lessee to cause any such Consolidated Financial Statement to be audited at Lessor's expense by certified public accountants selected by Lessor. Lessee

shall cooperate in any such audit and shall provide the auditors selected by Lessor with access to and the opportunity to copy at Lessor's expense such books, records and other materials as such auditors may reasonably request in order to perform their audit.

(c) For Advocat's fiscal year, the Consolidated Financial Statements shall be an audited financial report prepared by a "big five" accounting firm or any other firm of independent certified public accountants reasonably acceptable to Lessor, containing Advocat's balance sheet as of the end of that year, its related profit and loss, a statement of shareholder's equity for that year, a statement of cash flows for that year, and such comments and financial details as are customarily included in reports of like character and the opinion of the certified public accountants as to the fairness of the statements therein.

Construction Funds: The Net Proceeds and such additional funds as may be deposited with Lessor by Lessee pursuant to Section 14.6 for restoration or repair work pursuant to this Lease.

Contamination: The presence, Release or threatened Release of any Hazardous Substance at the Leased Properties in violation of any Environmental Law, or in a quantity that would give rise to any affirmative Clean-Up obligations under an Environmental Law, including, but not limited to, the existence of any injury or potential injury to public health, safety, natural resources or the environment associated therewith, or any other environmental condition at, in, about, under or migrating from or to the Leased Properties.

Control (and its corollaries "Controlled by" and "under common Control with"): Possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, through the ownership of voting securities, partnership interests or other equity interests, or by any other device.

CPI or Consumer Price Index: As of any date, the United States Department of Labor, Bureau of Labor Statistics Revised Consumer Price Index for All Urban Consumers (1982=84=100), U.S. City Average, All Items, or, if that index is not available at the time in question, the index designated by such Department as the successor to such index, and if there is no index so designated, an index for an area in the United States that most closely corresponds to the entire United States, published by such Department, or if none, by any other instrumentality of the United States, calculated in this Lease as the CPI attributable to the month three months prior to the applicable date herein (e.g., the CPI used to calculate the adjustment in Base Rent as of October 1, 2005, shall be the CPI for the month of July, 2005, compared to the CPI for the month of July, 2002).

Coverage Ratio: For any period, the ratio of EBITDARM divided by Debt Service.

Current Ratio: At any period, Lessee's Current Assets divided by Lessee's Current Liabilities.

Date of Taking: The date on which the Condemnor has the right to possession of the Leased Property that is the subject of the Taking or Partial Taking.

Debt: As of any date, all (a) obligations of a Person, whether current or long-term, that in accordance with GAAP should be included as liabilities on such Person's balance sheet; (b) Capitalized Lease Obligations of such Person; (c) obligations of others for which that Person is liable directly or indirectly, by way of guaranty (whether by direct guaranty, suretyship,

discount, endorsement, take-or-pay agreement, agreement to purchase or advance or keep in funds or other agreement having the effect of a guaranty) or otherwise; (d) liabilities and obligations secured by liens of any assets of that Person, whether or not those liabilities or obligations are recourse to that Person; and (e) liabilities of that Person, direct or contingent, with respect to letters of credit issued for the account of that Person or others or with respect to bankers acceptances created for that Person.

Debt Service: With respect to any fiscal period of a Person, the sum of (a) all interest due on Debt during the period (other than interest imputed, pursuant to GAAP, on any Capitalized Lease Obligations and interest on Debt that comprises Purchase Money Financing), (b) all payments of principal of Debt required to be made during the period and (c) all Rent due during the period.

Distribution: Any payment or distribution of cash or any assets of Lessee or a Sublessee to one or more shareholders of Lessee or to any Affiliate of Lessee, whether in the form of a dividend, a fee for management in excess of the fee required by the terms of a Management Agreement, a payment for services rendered (except as provided in the next sentence), a reimbursement for overhead incurred on behalf of Lessee, or a payment on any debt required by this Lease to be subordinated to the rights of Lessee. Notwithstanding the foregoing, none of the following are a Distribution: (i) payment of the fee permitted by the terms of the Management Agreement, (ii) any payment pursuant to a contract with an Affiliate of Lessee or Sublessee which contract is upon terms and conditions that are fair and substantially similar to those that would be available on an arm's length basis, and (iii) reimbursement by Lessee or Sublessee to an Affiliate for third party expenses (but not overhead) paid by the Affiliate on behalf of or which are fairly allocable to Lessee or Sublessee.

DLC: Diversicare Leasing Corporation, a Tennessee corporation and a Lessee herein.

EBITDARM: For any period, the sum of (a) Net Income of Lessee arising solely from the operation of the Facilities during the period, and (b) the amounts deducted in computing the Net Income of Lessee for the period for (i) depreciation. (ii) amortization, (iii) Base Rent, (iv) interest (including payments in the nature of interest under Capitalized Leases and interest on any Purchase Money Financing), (v) income taxes (or, if greater, income taxes actually paid during the period) and (vi) management fees.

Encumbrance: Any mortgage, deed of trust, lien, encumbrance or other matter affecting title to the Leased Properties, or any portion thereof or interest therein, securing any borrowing or other means of financing or refinancing.

Environmental Audit: A written certificate, in form and substance satisfactory to Lessor, from an environmental consulting or engineering firm acceptable to Lessor, which states that there is no Contamination on the Leased Properties and that the Leased Properties are otherwise in strict compliance with Environmental Laws.

Environmental Documents: Each and every (i) document received by Lessee or any Affiliate from, or submitted by Lessee or any Affiliate to, the United States Environmental Protection Agency and/or any other federal, state, county or municipal agency responsible for enforcing or implementing Environmental Laws with respect to the condition of the Leased Properties, or Lessee's operations at the Leased Properties; and (ii) review, audit, report, or other analysis data pertaining to environmental conditions, including, but not limited to, the presence or absence of Hazardous Substances, at, in, or under or with respect to the Leased Properties that have been prepared by, for or on behalf of Lessee.

Environmental Laws: All federal, state and local laws (including, without limitation, common law), statutes, codes, ordinances, regulations, rules, orders, permits or decrees of the United States and the States (or any political subdivision thereof) in which any Leased Property is located relating to the introduction, emission, discharge or Release of Hazardous Substances into the indoor or outdoor environment (including without limitation, air, surface water, groundwater, land or soil) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, transportation, disposal, or Release of Hazardous Substances; or the Clean-Up of Contamination, all as are now or may hereinafter be in effect.

Event of Default: The occurrence of any of the following:

(a) Lessee fails to pay or cause to be paid the Rent when due and payable and such failure is not cured by Lessee within a period of five (5) days after Notice thereof from Lessor, provided that Lessee shall be entitled to such Notice and may avail itself of such cure period no more than two (2) times in any calendar year;

(b) Lessee, on a petition in bankruptcy filed against it, is adjudicated a bankrupt or has an order for relief thereunder entered against it, or a court of competent jurisdiction enters an order or decree appointing a

receiver of Lessee or any Guarantor or of the whole or substantially all of its property, or approving a petition filed against Lessee seeking reorganization or arrangement of Lessee under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, and such judgment, order or decree is not vacated or set aside or stayed within sixty (60) days from the date of the entry thereof, subject to the applicable provisions of the Bankruptcy Code (11 USC ss.101 et. seq.) and to the provisions of Section 16.7, below;

(c) Lessee: (i) Admits in writing its inability to pay its debts generally as they become due, (ii) files a petition in bankruptcy or a petition to take advantage of any insolvency law, (iii) makes a general assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, or

(v) files a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, subject to the applicable provisions of the Bankruptcy Code (11 USC ss.101 et. seq.) and to the provisions of Section 16.7, below;

(d) Lessee is finally liquidated or dissolved, or begins proceedings toward such liquidation or dissolution, or has filed against it a petition or other proceeding to cause it to be liquidated or dissolved and the proceeding is not dismissed within thirty (30) days thereafter, or Lessee in any manner permits the sale or divestiture of substantially all of its assets necessary or related to the use and operation of the Leased Properties;

(e) The estate or interest of Lessee in the Leased Properties or any part thereof is levied upon or attached in any proceeding and the same is not vacated or discharged within thirty (30) days thereafter (unless Lessee is in the process of contesting such lien or attachment in good faith in accordance with Article XII hereof);

(f) Lessee voluntarily ceases operation of any Facility for a period in excess of five (5) Business Days except upon prior Notice to, and with the express prior written consent of Lessor pursuant to the terms of the Settlement and Restructuring Agreement or other written agreement of the Lessor and Lessee, or as the unavoidable consequence of damage or destruction as a result of a casualty, or a Partial or total Taking;

(g) Any representation or warranty made by Lessee in the Settlement and Restructuring Agreement, the Stock Issuance and Subscription Agreement, or in the certificates delivered in connection therewith proves to be untrue when made in any material respect, Lessor is materially and adversely affected thereby, and Lessee fails within thirty (30) days after Notice from Lessor thereof to cure such condition by terminating such adverse effect and making Lessor whole for any damage suffered therefrom, or, if with due diligence such cure cannot be effected within thirty (30) days, if Lessee has failed to commence to cure the same within the thirty (30) days or failed thereafter to proceed promptly and with due diligence to cure such condition and complete such cure prior to the time that such condition causes a default in any Facility Mortgage or any other lease to which Lessee is subject and prior to the time that the same results in civil or criminal penalties to Lessor, Lessee, any Affiliates of either or the Leased Properties;

(h) Lessee (or, if applicable, any Sublessee or Manager):

(i) has its license to operate any Facility as a provider of health care services in accordance with its Primary Intended Use suspended or revoked, or its right to so operate a Facility suspended, and the effect of such suspension or revocation is not stayed or cured within three (3) Business Days of Lessee's first knowledge thereof;

(ii) has its right to accept patients suspended, and the effect is not stayed or cured within thirty (30) days of Lessee's first knowledge thereof;

(iii) receives a Citation with respect to a Facility and fails to cure the condition that is the subject of the Citation within the period of time required for such cure by the issuer of the Citation or, if longer, the period of time set forth in a Plan of Correction accepted by the issuer of the Citation;

Notwithstanding the foregoing, the conditions described in the Subsection (h) shall not be an Event of Default if such conditions at any time are applicable to two (2) or fewer Facilities, and if Lessee complies with the provisions of

Section 39.2 relating to increasing the Security Deposit.

(i) Lessee defaults, or permits a default (which default was not exclusively in Lessor's control) under any Facility Mortgage, related documents or obligations thereunder which default is not cured within any applicable cure period provided for therein;

(j) A default occurs under any Guaranty, which default is not cured within the applicable cure period, if any;

(k) A Transfer occurs without the prior written consent of Lessor;

(l) A default occurs under the Security Agreement, which default is not cured within the applicable cure period, if any;

(m) A default occurs under the Settlement and Restructuring Agreement, which default is not cured within the applicable cure period, if any;

(n) Advocat fails to begin paying interest on the Subordinated Note, fails to begin paying cash dividends on the Preferred Stock (as defined in the Settlement and Restructuring Agreement) or defaults beyond any applicable notice and cure period in its obligations under the Subordinated Note or the instruments governing the Preferred Stock.

(o) A default occurs under the Subordinated Note, which default is not cured within the applicable cure period, if any;

(p) A default occurs under the Stock Issuance and Subscription Agreement, which default is not cured within the applicable cure period, if any;

(q) A default by Lessee occurs under any other contract affecting any Facility or Lessee, which default results in a material adverse affect on any Facility or Lessee, and which default is not cured within the applicable time period, if any;

(r) Any "Triggering Event" occurs under the terms of the Settlement and Restructuring Agreement;

(s) Lessee or an Affiliate of Lessee defaults beyond any applicable grace period in the payment of any material amount or the performance of any material act required of Lessee or such Affiliate by the terms of any other lease or other agreement between Lessee or such Affiliate and Lessor or any Affiliate of Lessor;

(t) Lessee fails to observe or perform any other term, covenant or condition of this Lease and the failure is not cured by Lessee within a period of thirty (30) days after Notice thereof from Lessor, unless the failure cannot with due diligence be cured within a period of thirty (30) days, in which case such failure shall not be deemed an Event of Default if and for so long as Lessee proceeds promptly and with due diligence to cure the failure and completes the cure prior to the time that the same causes a default in any Facility Mortgage and prior to the time that the same results in civil or criminal penalties to Lessor, Lessee, any Affiliates of either or to the Leased Properties; or

(u) Lessee breaches any of the covenants set forth in Article VIII hereof and the breach is not cured within a period of the shorter of (i) thirty (30) days after the Notice thereof from Lessor, and (ii) fifteen (15) days following the date of delivery of a certificate pursuant to Section 23.1 (i) or 23.1 (ii).
Lessor, at Lessor's sole discretion, may deliver Notice to Lessee electing to not treat a default as an Event of Default hereunder.

Executive Officer: The Chairman of the Board of Directors, the Chief Executive Officer, the Chief Operating Officer, the President, any Vice President and the Secretary of any corporation, a general partner of any partnership and a managing member of any limited liability company upon which service of a Notice is to be made.

Existing Leases: (i) That certain Master Lease dated August 14, 1992 by and between Diversicare Corporation of America, Inc., as lessee, and Omega Healthcare Investors, Inc., as lessor covering nineteen (19) of the Facilities located in Tennessee, Arkansas and Alabama, as amended by Consent, Assignment and Amendment Agreement dated May 10, 1994 and First Amendment to Master Lease dated as of March 3,1999, the lessee's interest in which has been assigned to and assumed by Lessee and the lessor's interest in which has been acquired by the lessor herein; and

(ii) That certain Master Lease dated December 1, 1994 by and between Sterling Health Care Management, Inc., a Kentucky corporation, as lessee, and the Lessor herein, as lessor, covering six (6) of the Facilities located in Kentucky and Ohio, as amended by First Amendment to Master Lease dated as of March 3, 1999, the lessee's interest in which has been assigned to and assumed by Lessee; and

(iii) That certain Master Sublease dated December 1, 1994 by and between Sterling Health Care Management, Inc., a Kentucky corporation, as sublessee, and OS Leasing Company, as sublessor and as lessee under an Overlease with Sterling Acquisition Corp. II, as lessor, covering one (1) of the

Facilities located in Ohio, as amended by First Amendment to Master Sublease dated as of March 3, 1999, the Lessee's interest in which has been assigned to and assumed by Lessee and the sublessor's interest in which, as well as the lessor's interest under the Overlease, has been acquired by the Lessor herein; and

(iv) That certain Master Lease dated February 1, 1997 by and between Sterling Health Care Management, Inc., as lessee, and Lessor here, as lessor, covering the two (2) Facilities located in West Virginia, as amended by First Amendment to Master Lease dated as of August 10, 2000.

Expiration Date: The Initial Term Expiration Date or the Renewal Term Expiration Date, as applicable.

Facility(ies): Each health care facility on the Land, including the Leased Property associated with such Facility, and together, all such facilities on the Leased Properties.

Facility Mortgage: Any mortgage, deed of trust or other security agreement placed upon any or all of the Leased Properties and of which Notice together with a copy of such mortgage, deed of trust or other security agreement has been provided to Lessee, which with the express, prior, written consent of Lessor is a lien upon any or all of the Leased Properties, whether such lien secures an Assumed Indebtedness or another obligation or obligations.

Facility Mortgagee: The secured party to a Facility Mortgage.

Facility Trade Names: The name(s) under which the Facilities have done business during the Term. The Facility Trade Names in use by the Facilities on the Commencement Date are set forth on attached Exhibit A.

Fair Market Rent: The rent that, at the relevant time, a Facility would most probably command in the open market, under a lease on substantially the same terms and conditions as are set forth in this Lease with a lessee unrelated to Lessor having experience and a reputation in the health care industry and a credit standing reasonably equivalent to that of Lessee, and, if this Lease is guaranteed, with such lease being guaranteed by guarantors having a net worth at least equal to that of Guarantors, with evidence of such rent being the rent that is being asked and agreed to at such time under any leases of facilities comparable to such Facility being entered into at such time in which the lessees and lease guarantors meet the qualifications set forth in this sentence. Fair Market Rent shall be determined in accordance with the appraisal procedure set forth in Article XXXII or in such other manner as may be mutually acceptable to Lessor and Lessee.

Fair Market Value: The fair market value of a Facility at the relevant time (i) assuming the same is unencumbered by this Lease, and (ii) determined in accordance with the appraisal procedure set forth in Article XXXII or in such other manner as may be mutually acceptable to Lessor and Lessee.

Fixtures: Collectively, all permanently affixed equipment, machinery, fixtures, and other items of real and/or personal property (excluding Lessor's Personal Property), including all components thereof, now and hereafter located in, on or used in connection with, and permanently affixed to or incorporated into the Leased Improvements, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus (other than individual units), sprinkler systems and fire and theft protection equipment, built-in oxygen and vacuum systems, towers and other devices for the transmission of radio, television and other signals, all of which, to the greatest extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto.

Force Majeure: An event or condition beyond the control of a Person, including without limitation a flood, earthquake, or other Act of God; a fire or other casualty resulting in a complete or partial destruction of the Facility in question; a war, revolution, riot, civil insurrection or commotion, terrorism, or vandalism; unusual governmental action, delay, restriction, or regulation not reasonably to be expected; a contractor or supplier delay or failure in performance (not arising from a failure to pay any undisputed amount due), or a delay in the delivery of essential equipment or materials; bankruptcy or other insolvency of a contractor, subcontractor, or construction manager (not an Affiliate of the party claiming Force Majeure); a strike, slowdown, or other similar labor action; or any other similar event or condition beyond the reasonable control of the party claiming that Force Majeure is delaying or preventing such party from timely and fully performing its obligations under

this Lease; provided that in any such event, the party claiming the existence of Force Majeure shall have given the other party Notice of such claim within fifteen (15) days after becoming aware thereof, and if the party claiming Force Majeure shall fail to give such Notice, then the event or condition shall not be considered Force Majeure for any period preceding the date such Notice shall be given. No lack of funds shall be construed as Force Majeure.

GAAP: Generally accepted accounting principles in effect at the time in question.

Gross Revenues: All revenues received or receivable from or by reason of the operation of the Facilities, or any other use of the Leased Properties, including without limitation all patient revenues received or receivable for the use of or otherwise by reason of all rooms, beds, and other facilities provided, meals served, services performed, space or facilities subleased or goods sold on the Leased Properties and, except as provided below, any consideration received for any sublease, license or other arrangement with an unrelated third party in possession, or using, any portion of the Leased Properties. Gross Revenues shall not, however, include:

(i) revenue from professional fees or charges by physicians when and to the extent such charges are paid over to such physicians or are accompanied by separate charges for use of a Facility or any portion thereof,

(ii) non-operating revenues such as interest income or income from the sale of assets not sold in the ordinary course of business,

(iii) contractual allowances and reasonable reserves (relating to any period during the Term) for billings not paid by or received from the appropriate governmental agencies, third party providers or other payors,

(iv) all proper patient billing credits and adjustments according to generally accepted accounting principles relating to health care accounting, and

(v) federal, state or local sales or excise taxes and any tax based upon or measured by said revenues which is added to or made a part of the amount billed to the patient or other recipient of such services or goods, whether included in the billing or stated separately.

If any of the Leased Properties or any part thereof is subleased, or a license permitting the use thereof is granted to an Affiliate of Lessee, Gross Revenues shall include all revenues received or receivable by the sublessee or licensee from its use of the Leased Properties and any rent or equivalent payment by the sublessee or licensee received or receivable by Lessee from such sublease or licensee shall be excluded from Gross Revenues (provided, however, that in the case of a sublease of space for the placement or erection of antennae or similar device, the rent or equivalent payment shall be included in Gross Revenues).

Guarantor(s): Advocat, Diversicare Management Services Co., a Tennessee corporation, and Advocat Finance, Inc., a Delaware corporation.

Guaranty: The Amended and Restated Guaranty of even date herewith executed by the Guarantors.

Hazardous Substance: Any dangerous, toxic or hazardous material, substance, pollutant, contaminant, chemical, or waste (including, without limitation, medical waste) defined, listed or described as such under any Environmental Law, including, without limitation, petroleum products, asbestos and PCBs.

Impositions: Collectively, all taxes (including, without limitation, all capital stock and franchise taxes of Lessor, and all ad valorem, sales and use, single business, gross receipts, transaction privilege, rent or similar taxes to the extent the same are assessed against Lessor on the basis of its interest in the Leased Property), assessments (including Assessments), ground rents, water, sewer or other rents and charges, excises, tax levies, fees (including, without limitation, license, permit, inspection, authorization and similar fees), and all other governmental charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character in respect of the Leased Properties or the businesses conducted thereon by Lessee and/or the Rent (including all interest and penalties thereon), which at any time prior to, during or in respect of the Term may be assessed or imposed on or in respect of or be a lien upon (i) Lessor or Lessor's

interest in the Leased Properties, (ii) the Leased Properties or any part thereof or any rent therefrom or any estate, right, title or interest therein, (iii) any occupancy, operation, use or possession of, or sales from, or activity conducted on, or in connection with the Leased Properties or the leasing or use

of the Leased Properties or any part thereof, or (iv) the Rent; notwithstanding the foregoing, Impositions shall not include: (i) except as provided above, any tax imposed on Lessor's gross and/or net income whether generally or specifically arising in connection with the Leased Properties, or (ii) any transfer or other tax imposed with respect to the sale, exchange or other disposition by Lessor of the Leased Properties or any part thereof or the proceeds thereof. If a tax is assessed against Lessor in part based on Lessor's interest in the Leased Property and in part based on Lessor's gross and/or net income, the portion of the tax which is based on Lessor's interest in the Leased Property shall be treated as an Imposition.

Initial Term: As defined in Section 1.2 hereof.

Initial Term Expiration Date: September 30, 2010

Insurance Requirements: All terms of any insurance policy required by this Lease and all requirements of the issuer of any such policy.

Intercreditor Agreement: Intercreditor Agreement of even date herewith by and between Lessor and AmSouth.

Investigation: Any soil and chemical test or any other environmental investigation, examination or analysis.

Investment Amount: $96,635,048.00, increased by a percentage equal to the percentage increase in the CPI from the Commencement Date through the applicable Proceeds Date.

Judgment Date: The date on which a judgment is entered against Lessee which establishes, without the possibility of appeal, the amount of liquidated damages to which Lessor is entitled hereunder.

Land: The real property described in Exhibits A-1 through A-28 attached hereto.

Lease: As defined in the Preamble.

Lease Year: October 1, 2000 through September 30, 2001, and each twelve month period thereafter.

Leased Improvements: Collectively, all buildings, structures, Fixtures and other improvements of every kind on the Land including, but not limited to, alleyways and connecting tunnels, sidewalks, utility pipes, conduits and lines (on-site and off-site), parking areas and roadways appurtenant to such buildings and structures.

Leased Property: The portion of the Land on which a Facility is located, the legal description of which is set forth beneath the Facility's name on Exhibits A-1 through A-28, the Leased Improvements on such portion of the Land, the Related Rights with respect to such portion of the Land, and Lessor's Personal Property with respect to such Facility.

Leased Properties: All of the Land, Leased Improvements, Related Rights and Lessor's Personal Property.

Legal Requirements: All federal, state, county, municipal and other governmental statutes, laws, rules, orders, waivers, regulations, ordinances, judgments, decrees and injunctions affecting the Leased Properties or any portion thereof, Lessee's Personal Property or the construction, use or alteration thereof, including but not limited to the Americans with Disabilities Act, whether enacted and in force before, after or on the Commencement Date, and including any which may (i) require repairs, modifications, alterations or additions in or to any portion or all of the Facilities, or (ii) in any way adversely affect the use and enjoyment thereof, and all permits, licenses and authorizations and regulations relating thereto including, but not limited to, those relating to existing health care licenses, those authorizing the current number of licensed beds and the level of services delivered from the Leased Properties, and all covenants, agreements, restrictions and encumbrances contained in any instruments, either of record or known to Lessee (other than encumbrances created by Lessor without the consent of Lessee), in force at any time during the Term.

Lessee: The Lessee under this Lease from time to time, subject to Section 22.1.

Lessee's Certificate: A statement in writing in substantially the form of Exhibit C attached hereto (with such changes thereto as may reasonably be requested by the person relying on such certificate).

Lessee's Current Assets: At any date, all assets of Lessee and Sublessees that, on a consolidated basis in conformity with GAAP, should be carried as current assets on the balance sheet of Lessee at such date.

Lessee's Current Liabilities: At any date, all liabilities of Lessee and Sublessees that, on a consolidated basis in conformity with GAAP,

should be carried as current liabilities on the balance sheet of Lessee at such date.

Lessee's Personal Property: Personal Property owned or leased by Lessee that is not included within the definition of Lessor's Personal Property but is used by Lessee in the operation of the Facilities, including Personal Property provided by Lessee in compliance with Section 6.3 hereof.

Lessor's Future Rent Loss: An amount equal to the Rent which would have been payable by Lessee from and after the Liquidated Damages Payment Date through the Expiration Date had the Lease not been terminated.

Lessor's Interim Rent Loss: An amount equal to the Rent which would have been payable by Lessee from the Termination Date through the Judgment Date had the Lease not been terminated (including interest and late charges determined on the basis of the date or dates on which Lessor's Interim Rent Loss is actually paid by Lessee).

Lessor's Monthly Rent Loss: For any month, an amount equal to the installment of Rent which would have been due in such month under the Lease if it had not been terminated, plus, if such amount is not paid on or before the day of the month on which such installment of Rent would have been due, the amount of interest and late charges thereon which would also have been due under the Lease.

Lessor's Personal Property: All Personal Property and intangibles, if any, now or hereafter owned by Lessor, together with any and all replacements thereof, and all Personal Property that pursuant to the terms of the Lease becomes the property of Lessor during the Term.

Liquidated Damages Payment Date: The date on which Lessee pays Lessor all of the liquidated damages for which it is liable under Article XVI.

Management Agreement: Any agreement pursuant to which management of a Facility is delegated by Lessee to any person not an employee of Lessee or to any other related or unrelated party.

Manager: The Person to which management of the operation of a Facility is delegated pursuant to a Management Agreement, which at the Commencement Date is Diversicare Management Services Co., a Tennessee corporation.

Minimum Qualified Capital Expenditures: As defined in Section 8.3.2.

Net Income: For any period, the net income (or loss) of Lessee and its subsidiaries for such period, determined on a consolidated basis and in accordance with GAAP, provided, however, that Lessee's Net Income shall not include:

(a) any after-tax gains or losses attributable to returned surplus assets of any pension-benefit plan;

(b) any extraordinary gains or nonrecurring gains;

(c) any gains or losses realized upon the sale or other disposition of property which is not sold or otherwise disposed of in the ordinary course of business;

(d) any gains or losses realized upon the sale or other disposition of any capital stock of any Person;

(e) any gains from the disposal of a discontinued business;

(f) the cumulative effect on prior years of any change in an accounting principle;

(g) the income or loss of any Person acquired by Lessee or an Affiliate in a pooling of interests transaction for any period prior to the date of such acquisition;

(h) the income from any sale of assets in which the book value of such assets had been the book value of any Person acquired in a pooling-of-interests transaction prior to the date such Person became an Affiliate of Lessee;

(i) the income (or loss) of any Person (other than a subsidiary) in which Lessee has an ownership

interest; provided, however, that (i) Lessee's Net Income shall include amounts in respect of the income of such Person when actually received in cash by Lessee in the form of dividends or similar distributions and (ii) Lessee's Net Income shall be reduced by the aggregate amount of all investments, regardless of the form thereof, made by Lessee in such Person for the purpose of funding any deficit or loss of such Person;

(j) the income of Lessee to the extent the payment of such income is not permitted, whether on account of any law, statute, judgment, decree or governmental order, rule or regulation applicable to such Lessee;

(k) all amounts included in computing such net income (or loss) in respect of the write-up of any asset or the write-down of any Debt at less than face value after the later of the Commencement Date or the date on which such asset or Debt was first properly included on Lessee's balance sheet.

(l) the reduction in income tax expense resulting from an increase in a deferred income tax asset due to the anticipation of future income tax benefits; or

(m) the reduction in income tax expense resulting from an increase in a deferred income tax asset or from a decrease in a deferred income tax liability due to a change in a statutory tax rate.

Net Proceeds: All proceeds, net of any costs incurred by Lessor in obtaining such proceeds, payable by reason of any loss or damage to any Leased Property under any policy of insurance required by Article XIII of this Lease (including any proceeds with respect to Lessee's Personal Property that Lessee is required or elects to restore or replace pursuant to Section 14.3) or paid by a Condemnor for the Taking of any of all or any portion of a Leased Property.

Net Reletting Proceeds: Proceeds of the reletting of any portion of the Leased Property received by Lessor, net of Reletting Costs.

New Sub: As defined in the Settlement and Restructuring Agreement.

Notice: A notice given in accordance with Article XXXI hereof.

Notice of Termination: A Notice from Lessor that it is terminating this Lease by reason of an Event of Default.

Officer's Certificate: If for a corporation, a certificate signed by one or more officers of the corporation authorized to do so by the bylaws of such corporation or a resolution of the Board of Directors thereof; if for a partnership, limited liability company or any other kind of entity, a certificate signed by a Person having the authority to so act on behalf of such entity.

Omega: Omega Healthcare Investors, Inc., a Maryland corporation.

Overdue Rate: On any date, the interest rate that is equal to three and one-half percent (3 1/2%) (three hundred fifty (350) basis points) above the Prime Rate, but in no event greater than the maximum rate then permitted under applicable law.

Partial Taking: A taking of less than the entire fee of a Leased Property that either (i) does not render the Leased Property Unsuitable for its Primary Use, or (ii) renders a Leased Property Unsuitable for its Primary Intended Use, but neither Lessor nor Lessee elects pursuant to Section 15.1 hereof to terminate this Lease.

Payment Date: Any due date for the payment of the installments of Base Rent or for the payment of Additional Charges or any other amount required to be paid by Lessee hereunder.

Permitted Encumbrances: Encumbrances listed on attached Exhibit B.

Person: Any natural person, trust, partnership, corporation, joint venture, limited liability company or other legal entity.

Personal Property: All machinery, equipment, furniture, furnishings, movable walls or partitions, computers (and all associated software), trade fixtures and other personal property (but excluding consumable inventory and supplies owned by Lessee) used in connection with the Leased

Properties, together with all replacements and alterations thereof and additions thereto, except items, if any, included within the definition of Fixtures or Leased Improvements.

Present Value: The value of future payments, determined by discounting each such payment at a rate equal to the yield on the specified date on securities issued by the United States Treasury (bills, notes and bonds) maturing on the date closest to the date such future payment would have been due.

Primary Intended Use: Skilled nursing facilities, except as specifically set forth on Schedule B attached hereto.

Prime Rate: On any date, an interest rate equal to the prime rate published by the Wall Street Journal, but in no event greater than the maximum rate then permitted under applicable law. If the Wall Street Journal ceases to be in existence, or for any reason no longer publishes such prime rate, the Prime Rate shall be the rate announced as its prime rate by Fleet Bank, and if such bank no longer exists or does not announce a prime rate at such time, the Prime Rate shall be the rate of interest announced as its prime rate by a national bank selected by Lessor.

Proceeding: Any action, proposal or investigation by any agency or entity, or any complaint to such agency or entity.

Proceeds Date: Any date upon which Lessor or a Facility Mortgagee receives a Retained Amount.

Purchase Money Financing: Any financing provided by a Person to Lessee in connection with the acquisition of Personal Property used in connection with the operation of a Facility, whether by way of installment sale or otherwise.

Qualified Capital Expenditures: Expenditures capitalized on the books of Lessee for alterations, renovations, repairs and replacements to the Facilities including without limitation any of the following:

> Replacement of furniture, fixtures and equipment, including refrigerators, ranges, major appliances, bathroom fixtures, doors (exterior and interior), central air conditioning and heating systems (including cooling towers, water chilling units, furnaces, boilers and fuel storage tanks) and major replacement of siding; major roof replacements, including major replacements of gutters, down spouts, eaves and soffits; major repairs and replacements of plumbing and sanitary systems; overhaul of elevator systems; major repaving, resurfacing and sealcoating of sidewalks, parking lots and driveways; repainting of entire building exterior; but excluding additions, normal maintenance and repairs. For purposes of this definition, "additions" shall mean any expansion of a Facility, including the construction of a new wing or a new story on an existing Facility.

Regulatory Actions: Any claim, demand, notice, action or proceeding brought, threatened or initiated by any governmental authority in connection with any Environmental Law, including, without limitation, civil, criminal and administrative proceedings, whether or not the remedy sought is costs, damages, equitable remedies, penalties or expenses.

Related Rights: All easements, rights and appurtenances relating to the Land and the Leased Improvements.

Release: The intentional or unintentional spilling, leaking, dumping, pouring, emptying, seeping, disposing, discharging, emitting, depositing, injecting, leaching, escaping, abandoning, or any other release or threatened release, however defined, of any Hazardous Substance.

Reletting Costs: Expenses incurred by Lessor in connection with the reletting of the Leased Properties in whole or in part after an Event of Default, including without limitation attorneys' fees and expenses, brokerage fees and expenses, marketing expenses and the cost of repairs and renovations reasonably required for such reletting.

Renewal Term: A period for which the Term is renewed in accordance with Section 1.3.

Renewal Term Expiration Date: September 30, 2020.

Rent: Collectively, the Base Rent and Additional Charges.

Replacement Cost: As to each Leased Property, the actual replacement cost of such Leased Improvements, Fixtures and Personal Property, including an increased cost of construction endorsement, less exclusions provided in the standard form of fire insurance policy. In all events

Replacement Cost shall be an amount sufficient that neither Lessor nor Lessee is deemed to be a co-insurer of the Leased Property in question. Lessor shall have the right from time to time, but no more frequently than once in any period of three (3) consecutive Lease Years, to have Replacement Cost reasonably redetermined by the fire insurance company which is then carrying the largest amount of fire insurance on the Leased Properties, which determination shall be final and binding on the parties hereto, and upon such determination Lessee shall forthwith increase, but not decrease, the amount of the insurance carried pursuant to Section 13.2.1 to the amount so determined, subject to the approval of any Facility Mortgagee. Lessee shall pay the fee, if any, of the insurer making such determination.

Retained Amount: An amount equal to either (a) Net Proceeds received by Lessor and/or a Facility Mortgagee pursuant to the terms of Article 14 of this Lease, if such Net Proceeds are not made available for the restoration of the Leased Property or (b) an Award received by Lessor and/or a Facility Mortgagee pursuant to Article 15 of this Lease, if such Award is not made available to the Lessee for the restoration of the Leased Property.

SEC: Securities and Exchange Commission.

Security Agreement: The Security Agreement dated as of the date hereof between Lessor as secured party and Lessee as debtor.

Security Deposit: Three Hundred Forty Thousand Three Hundred Four and 35/100 Dollars ($340,304.35), delivered and held in accordance with Article XXXIX hereof.

Settlement and Restructuring Agreement: The Settlement and Restructuring Agreement of even date herewith by and among Lessee, the Guarantors, Sterling Health Care Management, Inc., Lessor, and Omega.

Special Project Capital Expenditures: As defined in Section 8.3.1.

State(s): The State or States in which the Leased Properties are located.

Stock Issuance and Subscription Agreement: The Stock Issuance and Subscription Agreement of even date herewith by and between Advocat and Omega.

Stressed Coverage Ratio: For any period, a fraction, (1) the numerator of which is EBITDARM, less the sum of (a) Minimum Qualified Capital Expenditures and (b) management fees, and (2) the denominator of which is Debt Service.

Subordinated Note: The Subordinated Note of even date herewith from Advocat to Omega in the original principal amount of One Million Seven Hundred Thousand and 00/100 Dollars ($1,700,000.00).

Sublessee: A permitted sublessee of Lessee pursuant to the conditions of Section 22.4

Taken: Conveyed pursuant to a Taking.

Taking: A taking or voluntary conveyance during the Term of all or part of a Leased Property, or any interest therein or right accruing thereto or use thereof, as the result of, or in settlement of any condemnation or other eminent domain proceeding affecting the Leased Property whether or not the same shall have actually been commenced.

Term: Collectively, the Initial Term plus the Renewal Ter1 or Renewal Terms, if any, subject to earlier termination pursuant to the provisions hereof.

Termination Date: The date on which a Notice of Termination is given.

Third Party Claims: Any claims, actions, demands or proceedings (other than Regulatory Actions) howsoever based (including without limitation those based on negligence, trespass, strict liability, nuisance, toxic tort or detriment to health welfare or property) due to Contamination, whether or not the remedy sought is costs, damages, penalties or expenses, brought by any person or entity other than a governmental agency.

Transfer: The (a) assignment, mortgaging or other encumbering of all or any part of Lessee's interest in this Lease or in the Leased Properties, or (b) subletting of the whole or any part of any Leased Property, or (c) entering into of any Management Agreement or other arrangement under which any Facility is operated by or licensed to be operated by an entity other

than Lessee, or (d) merger, consolidation or reorganization of a corporate Lessee or Manager (except, for Manager only, to an Affiliate), or the sale,

issuance, or transfer, cumulatively or in one transaction, of any voting stock of Lessee or Manager (except, for Manager only, to an Affiliate) by Persons who are stockholders of record of Lessee, which results in a change of Control of Lessee or Manager (except, for Manager only, to an Affiliate), or (e) sale, issuance or transfer, cumulatively or in one transaction, of any interest, or the termination of any interest, in Lessee or Manager (except, for Manager only, to an Affiliate), if Lessee or such Manager, is a joint venture, partnership, limited liability company or other association, which results in a change of Control of such joint venture, partnership or other association.

Transferee: An assignee, subtenant or other occupant of a Leased Property pursuant to a Transfer.

Triggering Event: As defined in the Settlement and Restructuring Agreement.

Unsuitable for Its Primary Intended Use: A state or condition of a Facility such that by reason of damage or destruction, or a Partial Taking, the Facility cannot be operated on a commercially practicable basis for its Primary Intended Use, taking into account, among other relevant factors, the number of usable beds permitted by applicable law and regulation in the Facility after the damage or destruction or Partial Taking, the square footage damaged or Taken and the estimated revenue impact of such damage or destruction or Partial Taking.

ARTICLE III

3.1 Base Rent; Monthly Installments. In addition to all other payments to be made by Lessee under this Lease, Lessee shall pay Lessor the Base Rent in lawful money of the United States of America which is legal tender for the payment of public and private debts, in advance, in equal, consecutive monthly installments, each of which shall be in an amount equal to one-twelfth (1/12) of the Base Rent payable for the Lease Year in which such installment is payable. The first installment of Base Rent shall be payable on the Commencement Date, together with a prorated amount of Base Rent for the period from November 1, 2000 until the fifteenth (15th) day of November, 2000. Thereafter, installments of Base Rent shall be payable on the fifteenth (15th) day of each calendar month during the Term. Base Rent shall be paid to Lessor, or to such other Person as Lessor from time to time may designate by Notice to Lessee, by wire transfer of immediately available federal funds to the bank account designated in writing by Lessor. If Lessor directs Lessee to pay any Base Rent or Additional Charges to any Person other than Lessor, Lessee shall send to Lessor simultaneously with such payment a copy of the transmittal letter or invoice and check whereby such payment is made, or such other evidence of such payment as Lessor may require.

3.2 Additional Charges. In addition to the Base Rent, Lessee will also pay as and when due (a) the Annual Site Inspection Fee and (b) all Additional Charges.

3.3 Late Charge. If any Rent payable to Lessor is not paid when due and such failure is not cured by Lessee within a period of five (5) days after Notice thereof from Lessor, provided that Lessee shall be entitled to such Notice and may avail itself of such cure period no more than two (2) times in any calendar year, Lessee shall pay Lessor on demand, as an Additional Charge, a late charge equal to the greater of (i) two percent (2%) of the amount not paid when due and (ii) any and all charges, expenses, fees or penalties imposed on Lessor by a Facility Mortgagee for late payment, and in addition, if such Rent (including the late charge) is not paid within thirty (30) days of the date on which such Rent was due, interest thereon at the Overdue Rate from such thirtieth (30th) day until such Rent (including the late charge and interest) is paid in full.

3.4 Net Lease.

3.4.1 The Rent shall be paid absolutely net to Lessor, so that this Lease shall yield to Lessor the full amount of the Rent payable to Lessor hereunder throughout the Term, subject only to any provisions of the Lease which expressly provide for adjustment or abatement of Rent or other charges.

3.4.2 If Lessor commences any proceedings for non-payment of Rent, Lessee will not interpose any counterclaim or cross complaint or similar pleading of any nature or description in such proceedings unless Lessee would lose or waive such claim by the failure to assert it, but Lessee does not waive any rights to assert such claim in a separate action brought by Lessee. The covenants to pay Rent are independent covenants, and Lessee shall have no right to hold back, offset or fail to pay any Rent because of any alleged default by Lessor or for any other reason whatsoever.

3.5 Payments In The Event of a Rent Adjustment. In the event this Lease provides for adjustment of the Base Rent on any basis that requires a determination of Base Rent which cannot be made on or before the due date of the first installment of Base Rent following the Adjustment Date, Lessee shall continue to pay the Base Rent at the rate previously in effect until Lessor

gives Lessee Notice of its determination of the adjusted Base Rent. Upon such determination, the Base Rent shall be retroactively adjusted as of the Adjustment Date. On or before the second (2nd) Payment Date for Base Rent following receipt by Lessee of Lessor's Notice of the adjustment, Lessee shall make an additional payment of Base Rent in such amount as will bring the Base Rent, as adjusted, current on or before such second (2nd) Payment Date, plus interest on the amount of such additional payment (i.e. the difference between the monthly installment of Base Rent before and after the increase as of the Adjustment Date, divided by thirty (30) and multiplied by the number of days between the Adjustment Date and the date of payment by Lessee) at the Prime Rate from the Adjustment Date through the date of such additional payment, and thereafter Lessee shall pay the adjusted Base Rent in correspondingly adjusted monthly installments until the Base Rent is next adjusted as required herein. This Section 3.5 shall survive the expiration or termination of this Lease with respect to any adjustment which is not known or fully paid as of the date of expiration or termination.

ARTICLE IV

4.1 Payment of Impositions. Subject to Article XII relating to permitted contests, Lessee will pay all Impositions before any fine, penalty, interest or cost is added for non-payment, such payments to be made directly to the taxing authorities where feasible, and will promptly, upon request, furnish to Lessor copies of official receipts or other satisfactory proof evidencing such payments. If at the option of the taxpayer any Imposition may lawfully be paid in installments, Lessee may pay the same in the required installments provided it also pays any and all interest due thereon as and when due.

Lessor shall, to the extent required or permitted by applicable law, prepare and file all tax returns and reports as may be required by governmental authorities in respect of Lessor's net income, gross receipts, sale and use, single business, transaction privilege, rent, ad valorem, franchise taxes and taxes on its capital stock. Lessee shall, to the extent required or permitted by applicable law, prepare and file as and when required all other tax returns and reports required by governmental authorities with respect to all Impositions. Lessor and Lessee shall each, upon request, provide the other with such data, including without limitation cost and depreciation records, as is maintained by the party to whom the request is made as is necessary to prepare any required returns and reports. If any provision of any Facility Mortgage requires deposits for payment of Impositions, Lessee shall either pay the required deposits to Lessor monthly and Lessor shall make the required deposits, or, if directed in writing to do so by Lessor, Lessee shall make such deposits directly.

Lessee shall be entitled to receive and retain any refund from a taxing authority in respect of an Imposition paid by Lessee if at the time of the refund no Event of Default has occurred and is continuing, but if an Event of Default has occurred and is continuing at the time of the refund, Lessee shall not be entitled to receive or retain such refund and if and when received by Lessor such refund shall be applied as provided in Article XVI.

In the event governmental authorities classify any property covered by this Lease as personal property, Lessee shall file all personal property tax returns in such jurisdictions where it may legally so file. Where Lessor is legally required to file personal property tax returns, Lessee will be provided with copies of assessment notices in sufficient time for Lessee to file a protest. Billings for reimbursement by Lessee to Lessor of personal property taxes shall be accompanied by copies of a bill therefor and payments thereof which identify the personal property with respect to which such payments are made.

Lessee may, upon Notice to and with the prior written consent of Lessor, which consent shall not be unreasonably withheld, at Lessee's sole cost and expense, protest, appeal, or institute such other proceedings as Lessee may deem appropriate to effect a reduction of real estate or personal property assessments and Lessor, at Lessee's expense as aforesaid, shall cooperate with Lessee in such protest, appeal, or other action. In any such proceeding brought by Lessor, Lessee shall cooperate with Lessor at Lessee's sole cost and expense. Lessee shall reimburse Lessor for Lessor's direct costs of cooperating with Lessee for such protest, appeal or other action.

4.2 Notice of Impositions. Lessor shall give prompt Notice to Lessee of all Impositions payable by Lessee hereunder of which Lessor at any time has knowledge, but Lessor's failure to give any such Notice shall in no way diminish Lessee's obligations hereunder to pay such Impositions, but such failure shall obviate any default hereunder for a reasonable time after Lessee receives Notice of any Imposition which it is obligated to pay.

4.3 Adjustment of Impositions. Impositions imposed in respect of the tax-fiscal period during which the Term ends shall be adjusted and prorated between Lessor and Lessee, whether or not imposed before or after the expiration of the Term or the earlier termination thereof, and Lessee's obligation to pay its prorated share thereof shall survive such expiration or earlier termination.

4.4 Utility Charges. Lessee will pay or cause to be paid when due all

charges for electricity, power, gas, oil, water and other utilities used in each Leased Property during the Term and imposed upon the Leased Properties or upon Lessor or Lessee with respect to the Leased Properties.

4.5 Insurance Premiums. Lessee shall pay or cause to be paid when due all premiums for the insurance coverage required to be maintained pursuant to Article XIII during the Term.

ARTICLE V

5.1 No Termination, Abatement, etc. Except as otherwise specifically provided in this Lease, Lessee shall not take any action without the consent of Lessor to modify, surrender or terminate this Lease, and shall not seek or be entitled to any abatement, deduction, deferment or reduction of Rent, or setoff against Rent. Except as otherwise specifically provided in this Lease, the respective obligations of Lessor and Lessee shall not be affected by reason of (i) any damage to, or destruction of, the Leased Properties or any portion thereof from whatever cause or any Taking of the Leased Properties or any portion thereof, other than any damage to or destruction of a Leased Property that Lessee conclusively establishes was caused solely by Lessor; (ii) the lawful or unlawful prohibition of, or restriction upon, Lessee's use of the Leased Properties, or any portion thereof, or the interference with such use by any Person or by reason of eviction by paramount title, other than any prohibition or restriction of use of a Leased Property that Lessee conclusively establishes was solely caused by Lessor; (iii) any claim which Lessee has or might have against Lessor or by reason of any default or breach of any warranty by Lessor under this Lease or any other agreement between Lessor and Lessee, or to which Lessor and Lessee are parties, except where such claims result in a termination of this Lease, (iv) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceedings affecting Lessor or any assignee or transferee of Lessor, or (v) any other cause whether similar or dissimilar to any of the foregoing other than a discharge of Lessee from any such obligations as a matter of law. For purposes of this Section 5.1, a matter shall be deemed to be conclusively established by Lessee if (a) Lessor agrees in writing or (b) (i) Lessee shall have given Lessor Notice thereof and a time reasonable under the circumstances to cure any claimed default of Lessor and (ii) Lessee thereafter establishes such contention in an arbitration proceeding as provided for in Article XXXV of this Lease. Lessee hereby specifically waives all rights, arising from any occurrence whatsoever, which may now or hereafter be conferred upon it by law to (i) modify, surrender or terminate this Lease or quit or surrender the Leased Properties or any portion thereof, or (ii) entitle Lessee to any abatement, reduction, suspension or deferment of the Rent or other sums payable by Lessee hereunder except as otherwise specifically provided in this Lease.

ARTICLE VI

6.1 Ownership of the Leased Properties. Lessee acknowledges that the Leased Properties are the property of Lessor and that Lessee has only the right to the possession and use of the Leased Properties upon the terms and conditions of this Lease. Lessee will not (i) file any income tax return or other associated documents; (ii) file any other document with or submit any document to any governmental body or authority; (iii) enter into any written contractual arrangement with any Person; or (iv) release any Financial Statements or other financial statements of Lessee, in any case that take any position other than that throughout the Term Lessor is the owner of the Leased Properties for federal, state and local income tax purposes and this Lease is a "true lease," and an "operating lease" and not a "capital lease".

6.2 Lessor's Personal Property. Lessee shall, during the entire Term, maintain all of Lessor's Personal Property in good order, condition and repair as shall be necessary in order to operate the Facilities for the Primary Intended Use in compliance with all applicable licensure and certification requirements, all applicable Legal Requirements and Insurance Requirements, and customary industry practice for the Primary Intended Use. Lessee shall not permit or suffer Lessor's Personal Property to be subject to any lien, charge, encumbrance, financing statement, contract of sale, equipment lessor's interest or the like, except for any purchase money security interest or equipment lessor's interest expressly approved in advance, in writing, by Lessor. At the expiration or earlier termination of this Lease, all of Lessor's Personal Property shall be surrendered to Lessor with the Leased Properties at or before the time of the surrender of the Leased Property in at least as good a condition as at the Commencement Date (or, as to replacements, in at least as good a condition as when placed in service at the Facilities) except for ordinary wear and tear.

6.3 Lessee's Personal Property. Lessee shall provide and maintain during the Term such Personal Property, in addition to Lessor's Personal Property, as shall be necessary and appropriate in order to operate the Facilities for the Primary Intended Use in compliance with all licensure and certification requirements, in compliance with all applicable Legal Requirements and Insurance Requirements and otherwise in accordance with customary practice

in the industry for the Primary Intended Use ("Lessee's Personal Property"). Except to the extent specifically allowed under Section 8.2.1.4, without the prior written consent of Lessor, which consent shall not be unreasonably withheld, Lessee shall not permit or suffer Lessee's Personal Property to be subject to any lien, charge, encumbrance, financing statement or contract of sale or the like other than that provided for in Section 6.4 below. Except for those items of Personal Property listed on Schedule A attached hereto, upon the expiration of the Term or the earlier termination of this Lease, without the payment of any additional consideration by Lessor, Lessee shall be deemed to have sold, assigned, transferred and conveyed to Lessor all of Lessee's right, title and interest in and to any of Lessee's Personal Property that, in Lessor's reasonable judgment, is necessary or integral to the Primary Intended Use of the Facilities (or if some other use thereof has been approved by Lessor as required herein, such other use as is then being made by Lessee) and, as provided in Section 34.1 hereof, Lessor shall have the option to purchase any of Lessee's Personal Property that is not then necessary or integral to such use ("Lessee's Incidental Personal Property"). In connection with any Personal Property sold, assigned, transferred or conveyed to Lessor pursuant to the preceding sentence, Lessor shall assume any lease or equipment financing obligations of Lessee permitted under Section 8.2.1.4 hereof. Without Lessor's prior written consent, Lessee shall not remove Lessee's Personal Property that is in use at the expiration or earlier termination of the Term from the Leased Properties until such option to purchase has expired or been sooner waived in writing by Lessor. Any of Lessee's Incidental Personal Property that is not purchased by Lessor pursuant to Section 34.1, together with the Personal Property listed on Schedule A attached hereto, may be removed by Lessee upon the expiration or earlier termination of this Lease, and, if not removed within twenty (20) days following the expiration or earlier termination of this Lease, shall be considered abandoned by Lessee and may be appropriated, sold, destroyed or otherwise disposed of by Lessor without giving notice thereof to Lessee and without any

payment to Lessee or any obligation to account therefor. Lessee shall reimburse Lessor for any and all expense incurred by Lessor in disposing of any of Lessee's Personal Property that Lessee may remove but within such twenty (20) day period fails to remove, and shall either at its own expense restore the Leased Properties to the condition required by Section 9.1.5, including repair of all damage to the Leased Properties caused by the removal of any of Lessee's Personal Property, or reimburse Lessor for any and all expense incurred by Lessor for such restoration and repair. Lessor claims to own all of the Personal Property (other than the items listed on Schedule A) now used in connection with the operation of the Facilities. Lessee claims to own certain of the Personal Property which it has purchased as replacement of certain Personal Property owned by Lessor at the commencement of the Existing Leases and certain additional non-replacement Personal Property placed at the Facilities since the commencement of the Existing Leases. Both parties agree that Lessor owned all of the Personal Property at the Facilities at the time of commencement of the Existing Leases, and that Lessee may use all of the Personal Property during the Term. Both parties acknowledge and agree that neither (i) the entry into this Lease and related documents, nor (ii) their failure during the Term to insist on resolution of their disagreement as to whether Lessee now owns certain of the Personal Property shall prejudice their respective claims to ownership of the Personal Property at the end of the Term and that the continuance of this disagreement shall not be an Event of Default under this Lease.

6.4 Grant of Security Interest in Lessee's Personal Property and Accounts. Lessee has concurrently granted to Lessor a security interest in the Collateral as defined in the Security Agreement, which includes, without limitation, Lessee's Personal Property as defined herein and Lessee's Accounts as defined in the Security Agreement.

ARTICLE VII

7.1 Condition of the Leased Properties. Lessee acknowledges that prior to the execution of this Lease, Lessee has been operating the Leased Properties pursuant to the Existing Leases, and that as a consequence, Lessee has knowledge of the condition of the Leased Properties and has found the same to be in good order and repair and satisfactory for its purposes hereunder. Lessee is leasing the Leased Properties "as is" in their condition on the Commencement Date. Lessee waives any claim or action against Lessor in respect of the condition of the Leased Properties. LESSOR MAKES NO WARRANTY OR REPRESENTATION EXPRESS OR IMPLIED, IN RESPECT OF ANY LEASED PROPERTY OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE AS TO THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY LESSEE. Lessee further acknowledges that throughout the Term Lessee is solely responsible for the condition of the Leased Properties.

7.2 Use of the Leased Properties. Throughout the Term Lessee shall, except if otherwise agreed to in writing by Lessor, continuously use the Leased Properties for the Primary Intended Use and such other uses as may be necessary or incidental thereto. Lessee shall not use the Leased Properties or any portion thereof for any other use without the prior written consent of Lessor. No use

shall be made or permitted to be made of, or allowed in, the Leased Properties, and no acts shall be done, which will cause the cancellation of, or be prohibited by, any insurance policy covering the Leased Properties or any part thereof, nor shall the Leased Properties or Lessee's Personal Property be used for any unlawful purpose. Lessee shall not commit or suffer to be committed any waste on the Leased Properties, or cause or permit any nuisance thereon, or suffer or permit the Leased Properties or any portion thereof, or Lessee's Personal Property, to be used in such a manner as (i) might reasonably tend to impair Lessor's (or Lessee's, as the case may be) title thereto or to any portion thereof, or (ii) may reasonably make possible a claim or claims of adverse usage or adverse possession by the public, as such, or of implied dedication of the Leased Properties or any portion thereof. Lessor covenants that during the Term of this Lease it will cooperate with Lessee and use commercially reasonable efforts, where necessary or required from Lessor as the owner of the Leased Properties, to enable Lessee to obtain and maintain in force and effect and good standing any licenses, permits, certifications, or approvals needed by Lessee to use and operate each Leased Property for its Primary Intended Use and will obtain and maintain in force and effect and good standing any licenses, permits, certificates, or approvals, including certificates of need, necessary or required to be owned and maintained by the owner of each Leased Property in order to use and operate the Leased Property for its Primary Intended Use.

7.3 Certain Environmental Matters.

(a) Prohibition Against Use of Hazardous Substances. Lessee shall not permit, conduct or allow on the Leased Properties, the generation, introduction, presence, maintenance, use, receipt, acceptance, treatment, manufacture, production, installation, management, storage, disposal or release of any Hazardous Substance except for those types and quantities of Hazardous Substances necessary for and ordinarily associated with the conduct of Lessee's business which are used in full compliance with all Environmental Laws.

(b) Notice of Environmental Claims, Actions or Contaminations. Lessee shall notify Lessor, in writing, immediately upon learning of any existing, pending or threatened: (a) investigation, inquiry, claim or action by any governmental authority in connection with any Environmental Laws, (b) Third Party Claims, (c) Regulatory Actions, and/or (id) Contamination of any portion of the Leased Properties

(c) Costs of Remedial Actions with Respect to Environmental Matters. If any investigation and/or Clean-Up of Contamination or any other violation of Environmental Law with respect to a Leased Property is required by any Environmental Law, Lessee shall complete, at its own expense, such investigation and/or Clean-Up or cause any other Person that may be legally responsible therefore to complete such investigation and/or Clean-Up.

(d) Delivery of Environmental Documents. Lessee shall deliver to Lessor complete copies of any and all Environmental Documents that may now be in or at any time hereafter come into the possession of Lessee.

(e) Environmental Audit. At Lessee's expense, Lessee shall from time to time, upon and within thirty (30) days of Lessor's request therefor, deliver an Environmental Audit to Lessor. All tests and samplings shall be conducted using generally accepted and scientifically valid technology and methodologies. Lessee shall give the engineer or environmental consultant conducting the Environmental Audit reasonable and complete access to the Leased Properties and to all records in the possession of Lessee that may indicate the presence (whether current or past) of a Release or threatened Release of any Hazardous Substances on, in, under, about and adjacent to any Leased Property. Lessee shall also provide the engineer or environmental consultant full access to and the opportunity to interview such persons as may be employed in connection with the Leased Properties as the engineer or consultant deems appropriate. However, Lessor shall not be entitled to request an Environmental Audit from Lessee unless (i) after the Commencement Date there have been changes, modifications or additions to Environmental Laws as applied to or affecting any of the Leased Properties; (ii) a significant change in the condition of any of the Leased Properties has occurred; (iii) there are fewer than six (6) months remaining in the Term; or (iv) Lessor has another good reason for requesting such certificate or certificates. If the Environmental Audit discloses the presence of Contamination or any noncompliance with Environmental Laws, Lessee shall immediately perform all of Lessee's obligations hereunder with respect to such Hazardous Substances or noncompliance.

(f) Entry onto Leased Properties for Environmental Matters. If Lessee fails to provide an Environmental Audit as and when required by Subparagraph (e) hereof, in addition to Lessor's other remedies Lessee

shall permit Lessor from time to time, by its employees, agents, contractors or representatives, to enter upon the Leased Properties for the purpose of conducting such Investigations as Lessor may desire, the expense of which shall promptly be paid or reimbursed by Lessee as an Additional Charge. Lessor, and its employees, agents, contractors, consultants and/or representatives, shall conduct any such Investigation in a manner which does not unreasonably interfere with Lessee's use of and operations on the Leased Properties (however, reasonable temporary interference with such use and operations is permissible if the investigation cannot otherwise be reasonably and inexpensively conducted). Other than in an emergency, Lessor shall provide Lessee with prior notice before entering any of the Leased Properties to conduct such Investigation, and shall provide copies of any reports or results to Lessor, and Lessee shall cooperate fully in such Investigation.

(g) Environmental Matters Upon Termination of the Lease or Expiration of Term. Upon the expiration or earlier termination of the Term of this Lease, Lessee shall cause the Leased Properties to be delivered free of any and all Regulatory Actions and Third Party Claims and otherwise in compliance with all Environmental Laws with respect thereto, and in a manner and condition that is reasonably required to ensure that the then present use, operation, leasing, development, construction, alteration, refinancing or sale of the Leased Property shall not be restricted by any environmental condition existing as of the date of such expiration or earlier termination of the Term.

(h) Compliance with Environmental Laws. Lessee shall comply with, and cause its agents, servants and employees, to comply with, and shall use reasonable efforts to cause each occupant and user of any of the Leased Properties, and the agents, servants and employees of such occupants and users, to comply with each and every Environmental Law applicable to Lessee, the Leased Properties and each such occupant or user with respect to the Leased Properties. Specifically, but without limitation:

(i) Maintenance of Licenses and Permits. Lessee shall obtain and maintain (and Lessee shall use reasonable efforts to cause each tenant, occupant and user to obtain and maintain) all permits, certificates, licenses and other consents and approvals required by any applicable Environmental Law from time to time with respect to Lessee, each and every part of the Leased Properties and/or the conduct of any business at a Facility or related thereto;

(ii) Contamination. Lessee shall not cause, suffer or permit any Contamination;

(iii) Clean-Up. If a Contamination occurs, the Lessee promptly shall Clean-Up and remove any Hazardous Substance or cause the Clean-Up and the removal of any Hazardous Substance and in any such case such Clean-Up and removal of the Hazardous Substance shall be effected to Lessor's reasonable satisfaction and in any event in strict compliance with and in accordance with the provisions of the applicable Environmental Laws;

(iv) Discharge of Lien. Within twenty (20) days of the date any lien is imposed against the Leased Properties or any part thereof under any Environmental Law, Lessee shall cause such lien to be discharged (by payment, by bond or otherwise to Lessor's absolute satisfaction);

(v) Notification of Lessor. Within five (5) Business Days after receipt by Lessee of notice or discovery by Lessee of any fact or circumstance which might result in a breach or violation of any covenant or agreement, Lessee shall notify Lessor in writing of such fact or circumstance; and

(vi) Requests, Orders and Notices. Within five (5) Business Days after receipt of any request, order or other notice relating to the Leased Properties under any Environmental Law, Lessee shall forward a copy thereof to Lessor.

(i) Environmental Related Remedies. In the event of a breach by Lessee beyond any applicable notice and/or grace period of its covenants with respect to environmental matters, Lessor may, in its sole discretion, do any one or more of the following (the exercise of one right or remedy hereunder not precluding the simultaneous or subsequent exercise of any other right or remedy hereunder):

(i) Cause a Clean-Up. Cause the Clean-Up of any Hazardous Substance or other environmental condition on or under the Leased Properties, or both, at Lessee's

cost and expense; or

(ii) Payment of Regulatory Damages. Pay on behalf of Lessee any damages, costs, fines or penalties imposed on Lessee or Lessor as a result of any Regulatory Actions; or

(iii) Payments to Discharge Liens. On behalf of Lessee, make any payment or perform any other act or cause any act to be performed which will prevent a lien in favor of any federal, state or local governmental authority from attaching to the Leased Properties or which will cause the discharge of any lien then attached to the Leased Properties; or

(iv) Payment of Third Party Damages. Pay, on behalf of Lessee, any damages, cost, fines or penalties imposed on Lessee as a result of any Third Party Claims; or

(v) Demand of Payment. Demand that Lessee make immediate payment of all of the costs of such Clean-Up and/or exercise of the remedies set forth in this Section 7.2 incurred by Lessor and not theretofore paid by Lessee as of the date of such demand.

(j) Environmental Indemnification. Except to the extent caused by Lessor's gross negligence or wilful misconduct, Lessee shall and does hereby indemnify, and shall defend and hold harmless Lessor, its principals, officers, directors, agents and employees from each and every incurred and potential claim, cause of action, damage, demand, obligation, fine, laboratory fee, liability, loss, penalty, imposition settlement, levy, lien removal, litigation, judgment, proceeding, disbursement, expense and/or cost (including without limitation the cost of each and every Clean-Up), however defined and of whatever kind or nature, known or unknown, foreseeable or unforeseeable, contingent, incidental, consequential or otherwise (including, but not limited to, attorneys' fees, consultants' fees, experts' fees and related expenses, capital, operating and maintenance costs, incurred in connection with (i) any Investigation or monitoring of site conditions, and (ii) any Clean-Up required or performed by any federal, state or local governmental entity or performed by any other entity or person because of the presence of any Hazardous Substance, Release, threatened Release or any Contamination on, in, under or about any of the Leased Properties) which may be asserted against, imposed on, suffered or incurred by, each and every indemnitee arising out of or in any way related to, or allegedly arising out of or due to any environmental matter that is created or first occurs during the Term of this Lease or which is caused by or at any time arises from Lessee's and/or Lessee's related or affiliated predecessors-in-interest use and occupancy of the Leased Properties (whether under this Lease, the Existing Leases, or otherwise), including, but not limited to, any one or more of the following:

(i) Release Damage or Liability. The presence of Contamination in, on, at, under, or near a Leased Property or migrating to a Leased Property from another location;

(ii) Injuries. All injuries to health or safety (including wrongful death), or to the environment, by reason of environmental matters relating to the condition of or activities past or present on, at, in, under a Leased Property;

(iii) Violations of Law. All violations, and alleged violations, of any Environmental Law relating to a Leased Property or any activity on, in, at, under or near a Leased Property;

(iv) Misrepresentation. All material misrepresentations relating to environmental matters in any documents or materials furnished by Lessee to Lessor and/or its representatives in connection with the Lease;

(v) Event of Default. Each and every Event of Default relating to environmental matters;

(vi) Lawsuits. Any and all lawsuits brought or threatened, settlements reached and governmental orders relating to any Hazardous Substances at, on, in, under or near a Leased Property, and all demands of governmental authorities, and all policies and requirements of Lessor's, based upon or in any way related to any Hazardous Substances at, on, in, under a Leased Property; and

(vii) Presence of Liens. All liens imposed upon any of the Leased Properties in favor of any governmental entity or any person as a result of the presence, disposal, release

or threat of release of Hazardous Substances at, on, in, from, or under a Leased Property.

(k) Rights Cumulative and Survival. The rights granted Lessor under this Section are in addition to and not in limitation of any other rights or remedies available to Lessor hereunder or allowed at law or in equity or rights of indemnification provided to Lessor in any agreement pursuant to which Lessor purchased any of the Leased Property. The payment and indemnification obligations set forth in this Section 7.3 shall survive the expiration or earlier termination of the Term of this Lease.

ARTICLE VIII

8.1 Compliance with Legal and Insurance Requirements. In its use, maintenance, operation and any alteration of the Leased Properties, Lessee, at its expense, will, subject to the provisions of Article XII relating to permitted contests, promptly (i) comply with all Legal Requirements and Insurance Requirements, whether or not compliance therewith requires structural changes in any of the Leased Improvements (which structural changes shall be subject to Lessor's prior written approval, which approval shall not be unreasonably withheld or delayed) or interferes with or prevents the use and enjoyment of the Leased Properties, and (ii) procure, maintain and comply with all licenses, certificates of need, provider agreements and other authorizations required for the use of the Leased Properties and Lessee's Personal Property then being made, and for the proper erection, installation, operation and maintenance of the Leased Properties or any part thereof. The judgment of any court of competent jurisdiction, or the admission of Lessee in any action or proceeding against Lessee, whether or not Lessor is a party thereto, that Lessee has violated any such Legal Requirements or Insurance Requirements shall be conclusive of that fact as between Lessor and Lessee.

8.2 Certain Covenants.

8.2.1 Certain Financial Covenants.

8.2.1.1 Limitation of Distributions. From and after the transfer of Lessee's interest to New Sub as contemplated by the Settlement and Restructuring Agreement, and in the absence of any Triggering Event, Event of Default, or other event that with notice and/or the passage of time would become an Event of Default, in or with respect to any Lease Year, Lessee shall not make any Distributions, unless all three (3) of the following conditions have been met for the prior four (4) calendar quarters and such conditions will still be met following such payment or distribution: (1) Lessee's Coverage Ratio for the preceding four (4) calendar quarters equals or exceeds 1.7; (2) Lessee's Stressed Coverage Ratio for the preceding four (4) calendar quarters equals or exceeds 1.25; and (3) if such Distribution had been made on the last day of the preceding month, following such Distribution Lessee's Current Ratio would have equaled or exceeded 1.3. From and during a Triggering Event, Event of Default, or other event that with notice and/or the passage of time would become an Event of Default, Lessee shall not make any Distributions. The limitations on Distributions set forth in this Section 8.2.1.1 shall not prevent the deposit of Lessee's funds into the Advocat Concentration Account for the purposes and to the extent contemplated by the Settlement and Restructuring Agreement. This Subsection is a limitation on Distributions, and Lessee's failure to comply with one or more of the three (3) conditions set forth above shall not be a default or Event of Default hereunder, unless a Distribution is made during a period of time when any one or more of such conditions is not satisfied.

8.2.1.2 Accounts Receivable Financing. Except as may be expressly provided in the Settlement and Restructuring Agreement and the Intercreditor Agreement, Lessee and/or Sublessee shall not pledge or otherwise encumber any of the accounts receivable generated through the operation of the Facilities to secure principal and interest on any Debt.

8.2.1.3 Guarantees Prohibited. From and after the transfer of Lessee's interest to New Sub as contemplated by the Settlement and Restructuring Agreement, neither Lessee nor any Sublessee shall guarantee any indebtedness of any Affiliate or other third party, except those guarantees for the benefit of AmSouth in effect as of the date hereof or as may be required under the AmSouth Loan Documents.

8.2.1.4 Equipment Financing. The aggregate amount of principal, interest and lease payments due from Lessee and/or Sublessee with respect to any equipment leases or financing secured by equipment utilized in the operation of the Facilities shall not at any time during the Term exceed $609,000.00 in any one Lease Year.

8.3 Required Capital Expenditures

8.3.1 Special Project Capital Expenditures. Lessee shall at its expense before the end of the second Lease Year complete and pay for "Special Project Capital Expenditures" (as defined

in the Settlement and Restructuring Agreement) in the cumulative amount of not less than One Million and No/100 Dollars ($1,000,000.00). As set forth in the Settlement and Restructuring Agreement, Lessee shall expend an amount not less than Two Hundred Fifty Thousand and No/100 Dollars ($250,000.00) on or before June 30, 2001, and shall expend, unless prevented from doing so by Force Majeure, not less than Two Hundred Fifty Thousand and No/100 Dollars ($250,000.00), on a cumulative basis, during each six-month period thereafter, through the date Lessee satisfies the requirement of this Section 8.3.1 to expend $1,000,000.00 for Special Project Capital Expenditures. To the extent Lessee fails to expend the funds within the time frames required by the immediately preceding sentence, a reserve account ("Capital Expenditures Reserve Account") shall be established to assure the payment thereof, and on or before the fifteenth (15th) day of the month following a six-month period in which the required cumulative amount has not been expended, Lessee shall deposit with Lessor, an amount equal to the unexpended amount, less any funds already deposited in the Capital Expenditures Reserve Account. Lessee hereby grants to Lessor a security interest in such Capital Expenditure Reserve Account, as may from time to time exist, to secure all of Lessee's obligations under this Lease. From and after an Event of Default, Lessor may apply the funds held in the Capital Expenditure Reserve Account in the same manner as Lessor may apply the Security Deposit in accordance with Section 39.2 below. To evidence its compliance with the foregoing obligations, Lessee shall spend, or have plans in place reasonably acceptable to Omega to spend, for Special Project Capital Expenditures at least Five Hundred Thousand Dollars ($500,000.00) (on a cumulative basis) by September 30, 2001 and shall spend, or have plans in place reasonably acceptable to Omega to spend, for Special Project Capital Expenditures the required One Million Dollars ($1,000,000.00) (on a cumulative basis) by May 31, 2002.

8.3.2 Minimum Qualified Capital Expenditures. Each Lease Year Lessee shall expend with respect to each Leased Facility at least Three Hundred Twenty Five Dollars ($325.00) per-licensed-bed for Qualified Capital Expenditures to improve the applicable Facility, which amount shall be increased each Lease Year, beginning with the second Lease Year, in proportion to increases in the CPI from the Commencement Date to the commencement of each such Lease Year ("Minimum Qualified Capital Expenditures"). The parties acknowledge that the amount expended by Lessee in completion of the Special Project Capital Expenditures shall not be offset against Lessee's obligation to fund the Minimum Qualified Capital Expenditures set forth in this Section 8.3.2. If Lessee expends with respect to any Facility more than the Minimum Qualified Capital Expenditures in any Lease Year, the excess Minimum Qualified Capital Expenditures shall be credited against Lessee's Minimum Qualified Capital Expenditures required with respect to such Facility for the next Lease Year, and if the amount of the credit exceeds Lessee's Minimum Qualified Capital Expenditures required with respect to such Facility for the next Lease Year, such excess shall be credited against Lessee's Minimum Qualified Capital Expenditures required with respect to such Facility for the following Lease Years. At least annually, at the request of Lessor, Lessor and Lessee shall review capital expenditures budgets and reasonably agree on modifications, if any, required by changed circumstances and the changed conditions of the Leased Properties.

8.4 Management Agreements. Lessee shall not enter into, amend, modify, renew, replace or otherwise change the terms of any Management Agreement without the prior written consent of Lessor as to the identity of the Manager and the terms of the agreement, which consent Lessor may withhold in its sole discretion, and in no event without the execution by Lessee, Manager and Lessor, of an agreement, satisfactory to Lessor in form and substance, pursuant to which Manager's right to receive its management fee is subordinated to the obligation of Lessee to pay the Rent to Lessor. Lessor hereby consents to the continued management of the Facilities by Diversicare Management Services Co. under its current Management Agreement with Lessee. In addition, prior to the employment of any Manager, such Manager must execute a Consent and Agreement of Manager in the form attached hereto as Exhibit E. Notwithstanding any of the foregoing terms of this Section 8.4, the annual management fee payable to any Manager (other than an Affiliate of Lessee) during the term of this Lease shall not exceed five percent (5%) of Gross Revenues.

8.5 Other Facilities. Neither Lessee nor any Affiliate shall own, operate or manage any nursing home, rest home, assisted living facility, subacute facility, retirement center or similar health care facility within a

ten (10) mile radius of any Facility, other than any Facility which is a Leased Property under this Lease or which Lessee or any Affiliate of Lessee owns or operates as of the Commencement Date and set forth on Schedule C attached hereto.

8.6 Separateness. Lessee (from and after the transfer of Lessee's interest to New Sub as contemplated by the Settlement and Restructuring Agreement) shall:

a. Maintain records and books of account separate fro those of any Affiliate.

b. Conduct its own business in its own names and not in the name of any Affiliate (except to the extent that the business of the Facilities may be conducted in the name of the Manager).

c. Maintain financial statements separate from any Affiliate.

d. Maintain any contractual relationship with any and all Affiliates, except upon terms and conditions that are fair and substantially similar to those that would be available on an arm's length basis.

e. Except for the benefit of AmSouth as set forth in the Intercreditor Agreement or as otherwise required under the AmSouth Loan Documents, not guarantee or become obligated for the debts of any other entity, including any Affiliate, or hold out its credit, jointly or severally, as being available to satisfy the obligations of others, except for obligations which represent Lessee's or Sublessee's trade payables or accrued expenses incurred by Manager in the ordinary course of owning and operating the Facilities.

f. Except for the benefit of AmSouth as set forth in the Intercreditor Agreement, not pledge its assets, jointly or severally, for the benefit of any other entity, including any Affiliate.

g. Hold itself out to the public as a legal entity separate from any Affiliates.

h. At all times cause its Board of Directors to hold appropriate meetings (or act by unanimous consent) to authorize all appropriate corporate actions, and in authorizing such actions, to observe all formalities.

ARTICLE IX

9.1 Maintenance and Repair.

9.1.1 Lessee, at its expense, will keep the Leased Properties, and all landscaping, private roadways, sidewalks and curbs appurtenant thereto which are under Lessee's control and Lessee's Personal Property in good order and repair, whether or not the need for such repairs arises out of Lessee's use, any prior use, the elements or the age of the Leased Property or any portion thereof, or any cause whatsoever except the act or negligence of Lessor, and with reasonable promptness shall make all necessary and appropriate repairs thereto of every kind and nature, whether interior or exterior, structural or non-structural, ordinary or extraordinary, foreseen or unforeseen or arising by

reason of a condition existing prior to the Commencement Date (concealed or otherwise); provided, however, that Lessee shall be permitted to prosecute claims against Lessor's predecessor in title for breach of any representation or warranty made to or on behalf of Lessor, or for latent defects in any Leased Property. Lessee shall at all times maintain, operate and otherwise manage the Leased Properties on a quality basis and in a manner consistent with the standards of the highest quality competing facilities in the market areas served by the Leased Properties. All repairs shall, to the extent reasonably achievable, be at least equivalent in quality to the original work or, subject to the provisions of Paragraph 9.1.4, below, the property to be repaired shall be replaced. Lessee will not take or omit to take any action the taking or omission of which might materially impair the value or the usefulness of the Leased Properties or any parts thereof for the Primary Intended Use.

9.1.2 Lessor shall not under any circumstances be required to maintain, build or rebuild any improvements on the Leased Properties (or any private roadways, sidewalks or curbs appurtenant thereto), or to make any repairs, replacements, alterations, restorations or renewals of any nature or

description to the Leased Properties, whether ordinary or extraordinary, structural or non-structural, foreseen or unforeseen, or upon any adjoining property, whether to provide lateral or other support or abate a nuisance, or otherwise, or to make any expenditure whatsoever with respect thereto, in connection with this Lease. Lessee hereby waives, to the extent permitted by law, the right to make repairs at the expense of Lessor pursuant to any law in effect at the time of the execution of this Lease or hereafter enacted.

9.1.3 Nothing contained in this Lease shall be construed as (i) constituting the consent or request of Lessor, expressed or implied, to any contractor, subcontractor, laborer, materialmen or vendor to or for the performance of any labor or services or the furnishing of any materials or other property for the construction, alteration, addition, repair or demolition of or to any Leased Property or any part thereof, or (ii) giving Lessee any right, power or permission to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such fashion as would permit the making of any claim against Lessor in respect thereof or to make any agreement that may create, or in any way be the basis for any right, title, interest, lien, claim or other encumbrance upon the estate of Lessor in the Leased Properties, or any portion thereof. Lessor shall have the right to give, record and post, as appropriate, notices of non-responsibility under any mechanics' and construction lien laws now or hereafter existing.

9.1.4 Lessee shall, from time to time, promptly replace any of the Leased Improvements or Lessor's Personal Property which (i) become worn out, obsolete or unusable for the purpose for which intended, (ii) have been Taken, or (iii) have been lost, stolen, damaged or destroyed. If any of Lessor's Personal Property requires replacement as a result of damage, theft, loss or destruction or a Taking, then Lessee shall be entitled to that portion of any insurance proceeds payable in respect thereof or any Award made therefore. All replacements shall have a then value (adjusted for inflation) and utility at least equal to the value of the items replaced as of the date hereof in the case of clause (i) above, and immediately prior to the events specified in clauses (ii) and (iii) above. All replacements of Lessor's Personal Property shall be owned by Lessor and become a part of the Leased Properties immediately upon their acquisition. Lessee shall promptly repair all damage to a Leased Property incurred in the course of such replacement.

9.1.5 Lessee will, upon the expiration or prior termination of the Term, vacate and surrender the Leased Properties to Lessor in the condition in which they were originally received from Lessor, in good operating condition, ordinary wear and tear excepted, except as repaired, rebuilt, restored, altered or added to as permitted or required by the provisions of this Lease.

9.2 Encroachments, Restrictions, etc. If any of the Leased Improvements shall, at any time, encroach upon any property, street or right-of-way adjacent to the Leased Property, or shall violate the agreements or conditions contained in any lawful restrictive covenant or other agreement affecting the Leased Property, or any part thereof, or shall impair the rights of others under any easement or right-of-way to which any Leased Property is subject, then promptly upon the request of Lessor or at the behest of any person affected by any such encroachment, violation or impairment, Lessee shall, at its expense, subject to its right to contest the existence of any encroachment, violation or impairment as provided in Article XII and in such case, in the event of an adverse final determination, either (i) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Lessor or Lessee or (ii) make such changes in the Leased Improvements, and take such other actions, as Lessee in the good faith exercise of its judgment deems reasonably practicable, to remove such encroachment, and to end such violation or impairment, including, if necessary, the alteration of any of the Leased Improvements, and in any event take all such actions as may be necessary in order to be able to continue the operation of the Leased Improvements for the Primary Intended Use substantially in the manner and to the extent the Leased Improvements were operated prior to the assertion of such violation, impairment or encroachment.

ARTICLE X

10.1 Construction of Alterations and Additions to the Leased Properties. Lessee shall not (a) make or permit to be made any structural alterations, improvements or additions of or to the Leased Properties or any part thereof, or (b) materially alter the plumbing, HVAC or electrical systems thereon or (c) make any other alterations, improvements or additions to any Leased Property or any part thereof, the cost of which exceeds One Hundred Thousand Dollars ($100,000.00), unless and until Lessee has (a) caused complete plans and specifications therefor to have been prepared by a licensed architect (or licensed plumbing contractor or electrical contractor in the case of alterations to the plumbing, HVAC or electrical systems) and submitted to Lessor at least thirty (30) Business Days before the planned start of construction thereof, (b) obtained Lessor's written approval thereof and the approval of any Facility Mortgagee, which approval shall not be unreasonably withheld, conditioned or delayed, and if no response has been received by Lessee within thirty (30) Business Days after submission of the plans and specifications for approval then such approval shall be deemed to have been given, and (c), if

required to do so by Lessor, provide Lessor with reasonable assurance of the payment of the cost of any such alterations, improvements or additions, in the form of a bond, letter of credit or cash deposit. If Lessor requires a deposit, Lessor shall retain and disburse the amount deposited in the same manner as is provided for insurance proceeds in Section 14.6. If the deposit is reasonably determined by Lessor at any time to be insufficient for the completion of the alteration, improvement or addition, Lessee shall immediately increase the deposit to the amount reasonably required by Lessor. Lessee shall be responsible for the completion of such improvements in accordance with the plans and specifications approved by Lessor, and shall promptly correct any failure with respect thereto.

Alterations and improvements not falling within the categories described in the first sentence of the preceding paragraph may be made by Lessee without the prior approval of Lessor, but Lessee shall give Lessor at least fifteen (15) Business Days prior written Notice of any such alterations and improvements.

All alterations, improvements and additions shall be constructed in a first class, workmanlike, manner, in compliance with all Insurance Requirements and Legal Requirements, be in keeping with the character of the Leased Properties and the area in which the Leased Property in question is located and be designed and constructed so that the value of the Leased Properties will not be diminished or and that the Primary Intended Use of the Leased Properties will not be changed. All improvements, alterations and additions shall immediately become a part of the Leased Properties.

Lessee shall have no claim against Lessor at any time in respect of the cost or value of any such improvement, alteration or addition. There shall be no adjustment in the Rent by reason of any such improvement, alteration or addition. With Lessor's consent, which shall not be unreasonably withheld, expenditures made by Lessee pursuant to this Article X, other than expenditures for additions (as defined in the definition of Qualified Capital Expenditures), may be included as capital expenditures for purposes of inclusion in the capital expenditures budget for the Facilities and for measuring compliance with the obligations of Lessee set forth in Section 8.3 of this Lease.

In connection with any alteration which involves the removal, demolition or disturbance of any asbestos-containing material, Lessee shall cause to be prepared at its expense a full asbestos assessment applicable to such alteration, and shall carry out such asbestos monitoring and maintenance program as shall reasonably be required thereafter in light of the results of such assessment.

ARTICLE XI

11.1 Liens. Subject to the provisions of Article XII relating to permitted contests, without the consent of Lessor or as expressly permitted elsewhere herein, Lessee will not directly or indirectly create or allow to remain and will promptly discharge at its expense any lien, encumbrance, attachment, title retention agreement or claim upon the Leased Properties, and any attachment, levy, claim or encumbrance in respect of the Rent, except for (i) Permitted Encumbrances, (ii) restrictions, liens and other encumbrances which are consented to in writing by Lessor and any Facility Mortgagee, (iii) liens for those taxes of Lessor which Lessee is not required to pay hereunder, (iv) any Facility Mortgage, (v) liens of mechanics, laborers, materialmen, suppliers or vendors for sums either disputed, not yet due, or contested pursuant to Section 12.1 below, and (vi) liens created by the wrongful acts or negligence of Lessor.

ARTICLE XII

12.1 Permitted Contests. Lessee, on its own or on Lessor's behalf (or in Lessor's name), but at Lessee's sole cost and expense, shall have the right to contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity of any real or personal property assessment, Imposition, Legal Requirement or Insurance Requirement, or any lien, attachment, levy, encumbrance, charge or claim or any encroachment or restriction burdening the Leased Property ("Claim"), provided (a) prior Notice of such contest is given to Lessor, (b) the Leased Properties would not be in any danger of being sold, forfeited or attached as a result of such contest, and there is no risk to Lessor of a loss of or interruption in the payment of, Rent, (c) in the case of an unpaid Imposition or Claim, collection thereof is suspended during the pendency of such contest, (d) in the case of a contest of a Legal Requirement, compliance may legally be delayed pending such contest. Upon request of Lessor, Lessee shall provide a bond or letter of credit, deposit funds or assure Lessor in some other manner reasonably satisfactory to Lessor that the amount to be paid by Lessee that is the subject of a contested Imposition, Legal Requirement, Insurance Requirement or Claim, together with interest and penalties, if any, thereon, and any and all costs for which Lessee is responsible will be paid if and when required upon the conclusion of such contest. Lessee shall defend, indemnify and save harmless Lessor from all costs

or expenses arising out of or in connection with any such contest, including but not limited to attorneys' fees. If at any time Lessor reasonably determines that payment of any Imposition or Claim, or compliance with any Legal or Insurance Requirement being contested by Lessee is necessary in order to prevent loss of any of the Leased Properties or Rent or civil or criminal penalties or other damage, upon such prior Notice to Lessee as is reasonable in the circumstances Lessor may pay such amount, require Lessee to comply with such Legal or Insurance Requirement or take such other action as it may deem necessary to

prevent such loss or damage. If reasonably necessary or legally required, upon Lessee's written request Lessor, at Lessee's expense, shall cooperate with Lessee in a permitted contest, provided Lessee upon demand makes arrangements satisfactory to Lessor to assure the reimbursement of any and all Lessor's costs incurred in cooperating with Lessee in such contest. Lessee shall be entitled to any refunds of any claim, and such charges and penalties or interest thereon, which have been paid by Lessee or paid by Lessor and for which Lessor has been fully reimbursed.

12.2 Lessor's Requirement for Deposits. Following an Event of Default, Lessor, in its sole discretion, shall be entitled to require Lessee to deposit with Lessor monthly, at the time of its payments of Base Rent, a pro rata portion of the amounts required to comply with Insurance Requirements, Impositions and Legal Requirements, and when such obligations become due, Lessor shall pay them (to the extent of the deposit) upon Notice from Lessee requesting such payment. In the event that sufficient funds have not been deposited to cover the amount of the obligations due at least thirty (30) days in advance of the due date, Lessee shall forthwith deposit the same with Lessor upon Notice from Lessor. Lessor shall not be obligated to segregate such deposited funds from its other funds, or to pay Lessee any interest on any deposit so held by Lessor. Upon an Event of Default, any of the funds remaining on deposit may be applied under this Lease in any manner and on such priority as may be determined by Lessor.

ARTICLE XIII

13.1 General Insurance Requirements. Lessee shall keep the Leased Properties, and all property located in or on the Leased Properties, including Lessor's Personal Property and Lessee's Personal Property, insured with insurance meeting the following requirements: (a) all insurance shall be written by companies authorized to do insurance business in the applicable States and having a rating classification of not less than A- and a financial size category of "Class VII" or larger, according to the then most recent issue of Best's Key Rating Guide; (b) all policies must name Lessor as an additional insured, and name as an additional insured any Facility Mortgagee by way of a standard form of mortgagee's loss payable endorsement in use in the applicable States and in accordance with any such other requirements as may be established by such Facility Mortgagee; (c) casualty losses must be payable to Lessor or Lessee as provided in Article XIV, and loss adjustments shall require the written consent of Lessor, any Facility Mortgagee and, provided no Event of Default has occurred and is continuing at the time, Lessee, which consent shall not be unreasonably withheld by either Lessor or Lessee; (d) each insurer must agree that it will give Lessor and any Facility Mortgagee at least thirty (30) days' written notice before its policy shall be altered, allowed to expire or canceled; (e) the amount of any deductible or retention must be approved by Lessor prior to the issuance of any policy, which approval will not be unreasonably withheld, conditioned or delayed; and (f) the form of all policies shall be approved by Lessor and any Existing Facility Mortgagee, whose approval shall not unreasonably be withheld, conditioned or delayed, provided that such policies conform to the requirements of this article XIII. Notwithstanding the foregoing, Lessee may obtain so-called "umbrella" policies, comprehensive liability policies and professional liability policies of insurance from non-admitted surplus line carriers acceptable to Lessor.

13.2 Risks to be Insured. The policies covering the Leased Properties and Lessee's Personal Property shall insure against the following risks:

13.2.1 Loss or damage by fire, vandalism and malicious mischief, earthquake, extended coverage perils commonly known as "Special Risk," and all physical loss perils normally included in such Special Risk insurance, including but not limited to sprinkler leakage, in an amount not less than one hundred percent (100%) of Replacement Cost (provided that earthquake coverage may have a sublimit coverage of $5,000,000.00);

13.2.2 Loss or damage by explosion of steam boilers, pressure vessels or similar apparatus in such amounts as may be required by Lessor from time to time;

13.2.3 Business interruption insurance or a blanket earnings and expense coverage endorsement covering risk of loss during reconstruction necessitated by the occurrence of any of the hazards described in Sections 13.2.1 or 13.2.2 (but in no event for a period less than twelve (12) months) in an amount sufficient to prevent Lessor and Lessee from becoming a co-insurer;

13.2.4 Claims for personal injury or property damage under a policy of commercial general public liability insurance with a combined single limit per occurrence in respect of bodily injury and death and property damage of One Million Dollars ($1,000,000.00), and an aggregate limitation of Three Million Dollars ($3,000,000.00), with a minimum One Million Dollar ($1,000,000.00) excess policy, which insurance shall insure Lessee's contractual liability to Lessor under the indemnity provisions of Article XXI of this Lease, and if written on a "claims-made" basis, Lessee shall also provide continuous liability coverage for claims arising during the Term either by obtaining an endorsement providing for an extended reporting period reasonably acceptable to Lessor in the event such policy is canceled or not renewed for any reason whatsoever, or by obtaining "tail" insurance coverage providing coverage for a period of at least three (3) years beyond the expiration of the Term;

13.2.5 Claims arising out of malpractice in an amount not less than Two Million Dollars ($2,000,000.00) for each person and for each occurrence and, if written on a "claims-made" basis, Lessee shall also provide continuous liability coverage for claims arising during the Term either by obtaining an endorsement providing for an extended reporting period reasonably acceptable to Lessor in the event such policy is canceled or not renewed for any reason whatsoever, or by obtaining "tail" insurance coverage providing coverage for a period of at least three (3) years beyond the expiration of the Term;

13.2.6 Flood (with respect to any portions of the Leased Properties located in whole or in part within a designated flood plain area) and such other hazards and in such amounts as may be customary for comparable properties in the area up to the maximum limit that can be obtained under the Federal Flood Insurance Program;

13.2.7 During such time as Lessee is constructing any improvements, (i) worker's compensation insurance and employers' liability insurance covering all persons employed in connection with the improvements in statutory limits, (ii) builder's risk insurance, completed value form, covering all physical loss, in an amount satisfactory to Lessor, and (iii) such other

insurance, in such amounts, as Lessor deems necessary to protect Lessor's interest in the Leased Properties from any act or omission of Lessee's contractors or subcontractors, and certificates of insurance evidencing such coverage, in form satisfactory to Lessor, shall be presented to Lessor prior to the commencement of construction of such improvements;

13.2.8 Primary automobile liability insurance with limits of One Million Dollars ($1,000,000.00) per occurrence each for owned and non-owned and hired vehicles.

13.3 Payment of Premiums; Copies of Policies; Certificates. Lessee shall pay when due all of the premiums for the insurance required by this Lease, and shall deliver to Lessor and to any Facility Mortgagee requesting such evidence, certificates of insurance in form satisfactory to Lessor and such Facility Mortgagee. Satisfactory evidence of insurance required by this Lease or certificates thereof shall be delivered to Lessor prior to their effective date (and, with respect to any renewal policy, Lessee will use commercially reasonable efforts to provide the same within twenty (20) days but in all events not less than five (5) Business Days prior to the expiration of the existing policy) with copies of such policies to be provided as available, and in the event of the failure of Lessee either to carry the required insurance or pay the premiums therefor, or to deliver copies of policies or certificates to Lessor as required, Lessor shall be entitled, but shall have no obligation, to obtain such insurance and pay the premiums therefor when due, which premiums shall be repayable to Lessor upon written demand therefor as Additional Charges.

13.4 Premium Deposits. If any provision of a Facility Mortgage requires deposits of premiums for insurance to be made with the Facility Mortgagee, Lessee shall pay to Lessor monthly the amounts required and Lessor shall transfer such amounts to the Facility Mortgagee, unless, pursuant to written direction by Lessor, Lessee makes such deposits directly with the Facility Mortgagee.

13.5 Umbrella Policies. If Lessee chooses to carry umbrella liability coverage to obtain the limits of liability required under this Lease, the umbrella policies must provide coverage in the same manner as the primary commercial general liability policy and must contain no exclusions in addition to, or limitations materially different than, those of the primary policy.

13.6 Additional Insurance. In addition to the insurance described above, Lessee shall maintain such insurance as may be required from time to time by any Facility Mortgagee, and shall at all times comply with all Legal Requirements with respect to worker's compensation insurance coverage.

13.7 No Liability; Waiver of Subrogation. Lessor shall have no liability to Lessee, and, provided Lessee provides the insurance required of it by this Lease, Lessee shall have no liability to Lessor, regardless of the cause, for any loss or expense resulting from or in connection with damage to or the destruction or other loss of any Leased Property or Lessee's Personal

Property, and neither party will have any right or claim against the other for any such loss or expense by way of subrogation. Each insurance policy carried by either party covering any of the Leased Properties and Lessee's Personal Property, including without limitation, contents, fire and casualty insurance, shall contain an express waiver of any right of subrogation on the part of the insurer against the other party. Lessee shall pay any additional costs or charges for obtaining such waiver.

13.8 Increase in Limits. From time to time, but not more often than once every two (2) years, in the event that Lessor shall reasonably determine that the limits of the commercial general liability insurance then carried are insufficient, Lessor shall give Lessee Notice of acceptable increased limits for such insurance to be carried; and Lessee shall then obtain and maintain such insurance with such increased limits unless and until further increase as permitted under the provisions of this Section. Lessor's determination of increased limits shall be accompanied by a description of the basis for such determination.

13.9 Blanket Policy. Any insurance required by this Lease may be provided by so-called blanket policies of insurance carried by Lessee, provided, however, that the coverage afforded Lessor thereby may not thereby be less than or materially different from that which would be provided by a separate policies meeting the requirements of this Lease, and provided further that such policies meet the requirements of all Facility Mortgages.

13.10 No Separate Insurance.

13.10.1 Lessee shall not on its own initiative or pursuant to the request or requirement of any third party, take out separate insurance concurrent in form or contributing in the event of loss with that required by this Lease, to be furnished by, or which may reasonably be required to be furnished by, Lessee, or increase the amount of any then existing insurance by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of the insurance, including in all cases Lessor and all Facility Mortgagees, are named therein as additional insureds, and losses are payable thereunder in the same manner as losses are payable under this Lease.

13.10.2 Nothing herein shall prohibit Lessee, upon Notice to Lessor, from (i) securing insurance required to be carried hereby with higher limits of liability than required in this Lease, or (ii) securing insurance against risks not required to be insured pursuant to this Lease, and as to such insurance, Lessor and any Facility Mortgagee need not be included therein as additional insureds, nor must losses thereunder be payable in the same manner as losses are payable under this Lease, except to the extent required to avoid a default under a Facility Mortgage or any other encumbrance.

ARTICLE XIV

14.1 Insurance Proceeds. Net Proceeds shall be paid to Lessor and held, disbursed or retained by Lessor as provided herein.

14.1.1 Proceeds of Special Risk Insurance. If the Net Proceeds are less than the Approval Threshold, and no Event of Default has occurred and is continuing, Lessor shall pay the Net Proceeds to Lessee promptly after Lessor receives the Net Proceeds and Lessee shall apply the Net Proceeds solely to the completion of the restoration of the damaged or destroyed Leased Property. If the Net Proceeds equal or exceed the Approval Threshold, and no Event of Default has occurred and is continuing, the Net Proceeds shall be made available for restoration or repair as provided in Section 14.6. Within fifteen (15) days of the receipt of the Net Proceeds of Special Risk Insurance, Lessor and Lessee shall agree as to the portion thereof, if any, attributable to the Lessee's Personal Property that Lessee is not required and does not elect to restore or replace, and if they cannot agree they shall submit the matter to arbitration pursuant to Article XXXV hereof, and the portion of the proceeds of such Special Risk Insurance agreed or determined by arbitration to be attributable to the Lessee's Personal Property that Lessee is not required and does not elect to restore or replace shall be paid to Lessee.

14.2 Restoration in the Event of Damage or Destruction. If all or any portion of a Leased Property is damaged by fire or other casualty, Lessee shall (a) give Lessor Notice of such damage or destruction within five (5) Business Days of the occurrence thereof, (b) within sixty (60) days of the occurrence commence the restoration of such Leased Property and (c) thereafter diligently proceed to complete such restoration to substantially the same (or better) condition as such Leased Property was in immediately prior to the damage or destruction as quickly as is reasonably possible, but subject to Force Majeure, in any event within two hundred forty (240) days of the occurrence. Regardless of the anticipated cost thereof, if the restoration of a Leased Property requires any modification of structural elements, prior to commencing such

modification Lessee shall obtain Lessor's written approval of the plans and specifications therefor. In performing such restoration or repair, and as a condition to Lessee's obligation to restore or repair the Leased Property, the Net Proceeds payable with respect to such damage or destruction shall be paid or disbursed to Lessee as provided in Section 14.1 or Section 14.7 hereof. If there remains any surplus of Net Proceeds after completion of the repair or restoration of the Leased Property, such surplus shall belong and be paid to Lessee.

14.3 Restoration of Lessee's Property. Notwithstanding the foregoing terms of Section 14.1, all insurance proceeds payable by reason of or damage to any of Lessee's Personal Property shall be paid to Lessee and Lessee shall hold such insurance proceeds in trust to pay the cost of repairing or replacing damaged Lessee's Personal Property. If Lessee is required to restore a Leased Property, Lessee shall also concurrently restore any of Lessee's Personal Property that is integral to the Primary Intended Use of such Leased Property at the time of the damage or destruction.

14.4 No Abatement of Rent. Absent termination of this Lease as provided herein, there shall be no abatement of Rent by reason of any damage to or the partial or total destruction of any Leased Property.

14.5 Waiver. Except as provided elsewhere in this Lease, Lessee hereby waives any statutory or common law rights of termination which may arise by reason of any damage to or destruction of a Leased Property.

14.6 Extension of Time Periods. In the event that Lessee is unable to complete any action required by this Article XIV in the time period provided, and Lessee establishes to the reasonable satisfaction of Lessor that Lessee has been acting in good faith and diligently, then Lessor shall grant to Lessee a reasonable extension of time in which to complete the repair or reconstruction of any damaged Facility, prior to the time that Lessee would otherwise be required to repurchase such damaged Facility.

14.7 Disbursement of Insurance Proceeds Equal to or Greater Than The Approval Threshold. If Lessee restores or repairs a Leased Property pursuant to this Article XIV, and if the Net Proceeds equal or exceed the Approval Threshold, the restoration or repair and disbursement of funds to Lessee shall be in accordance with the following procedures:

(i) The restoration or repair work shall be done pursuant to plans and specifications approved by Lessor and a certified construction cost statement, to be obtained by Lessee from a contractor reasonably acceptable to Lessor, showing the total cost of the restoration or repair; to the extent the cost exceeds the Net Proceeds, Lessee shall deposit with Lessor the amount of the excess cost, and Lessor shall disburse the funds so deposited in payment of the costs of restoration or repair before any disbursement of Net Proceeds.

(ii) Construction Funds shall be made available to Lessee upon request, no more frequently than monthly, as the restoration and repair work progresses, pursuant to certificates of an architect selected by Lessee that, in the judgment of Lessor, reasonably exercised, is highly qualified in the design and construction of the type of Facility being repaired and is otherwise reasonably acceptable to Lessor, which certificates must be in form and substance reasonably acceptable to Lessor. Payment of Construction Funds shall be subject to a ten percent (10%) holdback until the architect certifies that the work is fifty percent (50%) complete, after which, so long as there is no Event of Default under this Lease and so long as the architect certifies that work is proceeding in accordance with the schedule and budget, there shall be no further retainage.

(iii) After the first disbursement to Lessee, sworn statements and lien waivers in an amount at least equal to the amount of Construction Funds previously paid to Lessee shall be delivered to Lessor from all contractors, subcontractors and material suppliers covering all labor and materials furnished through the date of the previous disbursement.

(iv) Lessee shall deliver to Lessor such other evidence as Lessor may reasonably request from time to time during the course of the restoration and repair, as to the progress of the work, compliance with the approved plans and specifications, the cost of restoration and repair and the total amount needed to complete the restoration and

repair, and showing that there are no liens against such Leased Property arising in connection with the restoration and repair and that the cost of the restoration and repair at least equals the total amount of Construction Funds then disbursed to Lessee hereunder.

(v) If the Construction Funds are at any time determined by Lessor to be inadequate for payment in full of all labor and materials for the restoration and repair, Lessee shall immediately pay the amount

of the deficiency to Lessor to be held and disbursed as Construction Funds prior to the disbursement of any other Construction Funds then held by Lessor.

(vi) The Construction Funds may be disbursed by Lessor to Lessee or to the persons entitled to receive payment thereof from Lessee, and such disbursement in either case may be made directly or through a third party escrow agent, such as, but not limited to, a title insurance company, or its agent, all as Lessor may determine in its sole discretion. Provided Lessee is not in default hereunder, any excess Construction Funds shall be paid to Lessee upon completion of the restoration or repair.

(vii) If Lessee at any time fails to promptly and fully perform the conditions and covenants set out in subparagraphs (i) through (vi) above, and the failure is not corrected within ten (10) days of written Notice thereof, or if during the restoration or repair an Event of Default occurs hereunder, Lessor may, at its option, immediately cease making any further payments to Lessee for the restoration and repair.

(viii) Lessor may reimburse itself out of the Construction Funds for its reasonable expenses incurred in administering the Construction Funds and inspecting the restoration and repair work, including without limitation attorneys' and other professional fees and escrow fees and expenses.

(ix) If damage or destruction shall occur either (a) during the final Lease Year of the Initial Term and Lessee has not exercised its option to extend the Term of this Lease pursuant to Section 1.3 above or (b) during the final Lease Year of the Renewal Term, then Lessor, at Lessor's sole option, may elect to terminate the Lease as to the affected Facility (in which case Lessee shall surrender possession of the affected Facility and Lessee shall transfer to Lessor all of Lessee's interest in the Facility, including, without limitation, Lessee's interest in the licenses pursuant to which the Facility is then operated) and receive the Net Proceeds in lieu of Lessee restoring or repairing the damage or destruction. The election to terminate the Lease as to the affected Facility and receive the Net Proceeds pursuant to this Section 14.7(ix) must be exercised by Lessor by Notice to Lessee on or prior to the tenth (10th) Business Day following Lessor's receipt of Notice of such event of damage or destruction. If Lessor elects to terminate the Lease as to the affected Facility and receive the Net Proceeds in lieu of Lessee restoring or repairing the damage or destruction, then, as of the Proceeds Date, the annual Base Rent due under this Lease during the remainder of the Term shall be reduced by an amount equal to the product of the annual Base Rent in effect from time to time and the Casualty/Condemnation Reduction Percentage.

14.8 Net Proceeds Paid to Facility Mortgagee. Notwithstanding anything herein to the contrary, if any Facility Mortgagee is entitled to any Net Proceeds, or any portion thereof, under the terms of any Facility Mortgage, the Net Proceeds shall be applied, held and/or disbursed in accordance with the terms of the Facility Mortgage. Lessor shall make commercially reasonable efforts to cause the Net Proceeds to be applied to the restoration of the Leased Property. If the Facility Mortgagee elects to apply the insurance proceeds to the indebtedness secured by the Facility Mortgage, Lessee shall either (i) restore the Facility to substantially the same (or better) condition as existed immediately before the damage or destruction, or (ii) terminate this Lease as to such Leased Property upon Notice to Lessor, such termination to be effective as of the first day of the calendar month following the later of (a) the date Lessee learns of the action of the Facility Mortgagee or (b) fifteen (15) days after the date Lessor learns of the action of the Facility Mortgagee, unless within fifteen (15) days of the notice from the Facility Mortgagee the Lessor agrees to make available to Lessee for restoration to or repair of the Leased Property funds equal to the amount applied by the Facility Mortgagee. Unless the damage or destruction is such as to entitle Lessor or Lessee to otherwise terminate this Lease as to such Facility under this Article XIV and Lessor or Lessee, as the case may be, shall fail to elect to terminate this Lease as to such Facility, in the time and in the manner provided, Lessor shall disburse such funds to Lessee as provided in Section 14.7 of this Master Lease and Lessee shall restore the Leased Property (as nearly as possible under the circumstances) to a complete architectural unit of the same general character and condition as the Leased Property existing immediately prior to such damage or destruction.

In the event this Master Lease is so terminated as to such Facility (in which case Lessee shall surrender possession of the affected Facility and Lessee shall transfer to Lessor all of Lessee's interest in the Facility, including, without limitation, Lessee's interest in the licenses pursuant to which the Facility is then operated), as of the Proceeds Date, the annual Base Rent due under this Lease during the remainder of the Term shall be reduced by an amount equal to the product of the annual Base Rent in effect from time to time and the Casualty/Condemnation Reduction Percentage.

ARTICLE XV

15.1 Total Taking or Other Taking with Leased Property Rendered Unsuitable for Its Primary Intended Use. If title to the fee of the whole of a Leased Property is Taken, this Lease shall cease and terminate as to the Leased Property Taken as of the Date of Taking by the Condemnor and Rent shall be apportioned as of the termination date. If title to the fee of less than the whole of a Leased Property is Taken, but such Leased Property is thereby rendered Unsuitable for Its Primary Intended Use, Lessee and Lessor shall each have the option by written Notice to the other, at any time prior to the taking of possession by, or the date of vesting of title in, the Condemnor, whichever first occurs, to terminate this Lease with respect to such Leased Property as of the date so determined, in which event this Lease shall thereupon so cease and terminate as of the earlier of the date specified in such Notice or the date on which possession is taken by the Condemnor. If this Lease is so terminated as to a Leased Property (in which case Lessee shall surrender possession of the affected Facility and Lessee shall transfer to Lessor all of Lessee's interest in the Facility, including, without limitation, Lessee's interest in the licenses pursuant to which the Facility is then operated), as of the Proceeds Date, the annual Base Rent due under this Lease during the remainder of the Term shall be reduced by an amount equal to the product of the annual Base Rent in effect from time to time and the Casualty/Condemnation Reduction Percentage.

15.2 Allocation of Award. The total Award made with respect to all or any portion of a Leased Property or for loss of Rent, or for loss of business, shall be solely the property of and payable to Lessor. Nothing contained in this lease will be deemed to create any additional interest in Lessee, or entitle Lessee to any payment based on the value of the unexpired term or so-called "bonus value" to Lessee of this Lease. Any Award made for the taking of Lessee's Personal Property, or for removal and relocation expenses of Lessee in any such proceedings shall be payable to Lessee. In any proceedings with respect to an Award, Lessor and Lessee shall each seek its own Award in conformity herewith, at its own expense. Notwithstanding the foregoing, Lessee may pursue a claim for loss of its business, provided that under the laws of the State, such claim will not diminish the Award to Lessor.

15.3 Partial Taking. In the event of a Partial Taking, Lessee, at its own cost and expense, shall within sixty (60) days of the taking of possession by, or the date of vesting of title in, the Condemnor, whichever first occurs, commence the restoration of the affected Leased Property to a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as existed immediately prior to the Partial Taking, and complete such restoration with all reasonable dispatch, but in any event, subject to Force Majeure, within two hundred forty (240) days of the date on which such Notice is given. Lessor shall contribute to the cost of restoration such portion of the Award as is made therefor, together with severance and other damages awarded for Leased Improvements Taken; provided, however, that the amount of such contribution shall not exceed such cost. As long as no Event of Default has occurred and is continuing, if such portion of the Award is in an amount less than the Approval Threshold, Lessor shall pay the same to Lessee upon commencement of such restoration. As long as no Event of Default has occurred and is continuing, if such portion of the Award is in an amount equal to or greater than the Approval Threshold, Lessor shall make such portion of the Award available to Lessee in the manner provided in Section 14.6 with respect to Net Proceeds in excess of the Approval Threshold. Notwithstanding anything to the contrary elsewhere herein, if the Fair Market Rent of the affected Leased Property is reduced by reason of the Partial Taking, from and after the date on which possession is taken by the Condemnor the annualized Base Rent shall be reduced by an amount determined by dividing the portion of the Award made to Lessor expressly for such reduction in Fair Market Rent by the Capitalization Rate.

15.4 Temporary Taking. If there is a Taking of possession or the use of all or part of a Leased Property, but the fee of such Leased Property is not Taken in whole or in part, until such Taking of possession or use continues for more than six (6) months, all the provisions of this Lease shall remain in full force and effect and the entire amount of any Award made for such Taking shall be paid to Lessee provided there is then no Event of Default. Upon the termination of any such period of temporary use or occupancy, Lessee at its sole cost and expense shall restore the affected Leased Property, as nearly as may be reasonably possible, to the condition existing immediately prior to such Taking. If any temporary Taking continues for longer than six (6) months, and fifty percent (50%) or more of the patient capacity of the affected Facility is thereby rendered Unsuitable for Its Primary Use, such Taking shall be considered a Total Taking governed by Section 15.1 and this Lease shall cease and terminate as to the affected Leased Property only as of the last day of the sixth (6th) month, but if less than fifty percent (50%) of the patient capacity of such Facility is thereby rendered Unsuitable for Its Primary Use, Lessee and Lessor shall each have the option by at least sixty (60) day's prior written Notice to

the other, at any time prior to the end of the temporary taking, to terminate this Lease as to the affected Leased Property of the date set forth in such Notice, and Lessee shall be entitled to any Award made for the period of such temporary Taking prior to the date of termination of the Lease. Rent shall not abate during the period of any temporary Taking.

15.5 Awards Paid to Facility Mortgagee. Notwithstanding anything herein to the contrary, if any Facility Mortgagee is entitled to any Award or any portion thereof, under the terms of any Facility Mortgage such Award shall be applied, held and/or disbursed in accordance with the terms of the Facility Mortgage. If the Facility Mortgagee elects to apply the Award to the indebtedness secured by the Facility Mortgage: (i) if the Award represents an Award for Partial Taking as described in Section 15.3 above, Lessee shall restore the affected Facility (as nearly as possible under the circumstances) to a complete architectural unit of the same general character and condition as that of the Facility existing immediately prior to such Taking; or (ii) if the Award represents an Award for a Total Taking as described in Section 15.1 above, Lessee shall transfer to Lessor all of Lessee's interest in the Facility, including, without limitation, Lessee's interest in the licenses pursuant to which the Facility is then operated. In any such restoration or purchase, Lessee shall receive full credit for any portion of any Award retained by Lessor and the Facility Mortgagee, and as of the Proceeds Date, the Base Rent shall be reduced by a percentage equal to the Casualty/Condemnation Reduction Percentage.

15.6 Extension of Time Periods. In the event that Lessee is unable to complete any action required by this Article XV in the time period provided, and Lessee establishes to the reasonable satisfaction of Lessor that Lessee has been acting in good faith and diligently, then Lessor shall grant to Lessee a reasonable extension of time in which to complete the repair or reconstruction of any Facility subject to Taking, prior to the time that Lessee would otherwise be required to repurchase such Facility subject to a Taking.

ARTICLE XVI

16.1 Lessor's Rights Upon an Event of Default. If an Event of Default shall occur Lessor may terminate this Lease by giving Lessee a Notice of Termination in accordance with the laws of the States in which each Facility is located, and in such event, the Term shall end and all rights of Lessee under this Lease shall cease on the Termination Date specified in the Notice of Termination. In addition to Lessor's right to terminate this Lease, Lessor shall have all other rights set forth in this Lease and all remedies available at law and in equity.

Lessee shall, to the extent permitted by law, pay as Additional Charges all costs and expenses incurred by or on behalf of Lessor, including, without limitation, reasonable attorneys' fees and expenses (whether or not litigation is commenced, and if litigation is commenced, including fees and expenses incurred in appeals and post-judgment proceedings) as a result of any default of Lessee hereunder. Lessor shall, to the extent permitted by law, pay Lessee all costs and expenses incurred by or on behalf of Lessee, including, without limitation, reasonable attorneys' fees and expenses (whether or not litigation is commenced, and if litigation is commenced, including fees and expenses incurred in appeals and post-judgment proceedings) as a result of any default of Lessor hereunder.

No Event of Default (other than a failure to make payment of money) shall be deemed to exist if and for so long as Lessee is unable to prevent such Event of Default because of Force Majeure, provided that upon the cessation of such Force Majeure, Lessee shall forthwith proceed to remedy the action or condition giving rise to such Event of Default within the applicable cure period as extended by such Force Majeure.

16.2 Certain Remedies. If an Event of Default shall occur, whether or not this Lease has been terminated pursuant to Section 16.1, if required to do so by Lessor Lessee shall immediately surrender the Leased Properties to Lessor in the condition required by Section 9.1.5 and quit the same, and Lessor may enter upon and repossess the Leased Properties by reasonable force, summary proceedings, ejectment or otherwise, and may remove Lessee and all other persons and any and all personal properties from the Leased Properties, subject to rights of any residents or patients and to any Legal Requirements. In addition to all other remedies set forth or referred to in this Article XVI, Lessor shall have the right to suspend any Management Agreement as to one or more or all Facilities and to retain a manager of the affected Facility or all Facilities at the expense of Lessee, such manager to serve for such term and at such compensation as Lessor reasonably determines is necessary under the circumstances.

16.3 Damages. Neither (i) the termination of this Lease pursuant to Section 16.1, (ii) the repossession of the Leased Properties, (iii) the failure of Lessor to relet the Leased Properties, (iv) the reletting of all or any portion thereof, nor (v) the failure of Lessor to collect or receive any rentals due upon such any reletting, shall relieve Lessee of its liability and obligations hereunder, all of which shall survive any such termination,

repossession or releting. In the event this Lease is terminated by Lessor, Lessee shall forthwith pay to Lessor all Rent due and payable with respect to the Leased Properties to and including the Termination Date, including without limitation all interest and late charges payable under Section 3.3 hereof with respect to any late payment of such Rent. Lessee shall also pay to Lessor, as liquidated damages, at Lessor's option, either:

(A) The sum of:
(i) Lessor's Interim Rent Loss, minus Net Reletting Proceeds for such period, and minus the portion of Lessor's Interim Rent Loss, if any, that Lessee prove could reasonably have been mitigated by Lessor, plus

(ii) the Present Value on the Judgment Date of Lessor's Future Rent Loss, assuming the Cost of Living Index were to increase four (4) percentage points per Lease Year from the Judgment Date through the Expiration Date, minus the Present Value on the Termination Date of the portion of Lessor's Future Rent Loss that Lessee proves could reasonably be mitigated by Lessor;

or

(B) Each month between the Termination Date and the Expiration Date, Lessor's Monthly Rent Loss, minus the Net Reletting Proceeds for such month, and minus the portion, if any, of Lessor's Monthly Rent Loss that Lessee proves could reasonably have been avoided. Any suit brought to recover liquidated damages payable under this subsection "(B)" shall not prejudice Lessor's right to collect liquidated damages for subsequent months in a similar proceeding.

16.4 Intentionally Omitted

16.5 Waiver. If this Lease is terminated pursuant to Section 16.1, Lessee waives, to the extent permitted by applicable law, (i) any right of reentry, repossession or redesignation, (ii) any right to a trial by jury in the event of summary proceedings to enforce the remedies set forth in this Article XVI, and (iii) the benefit of any laws now or hereafter in force exempting property from liability for rent or for debt. Acceptance of Rent at any time does not prejudice or remove any right of Lessor as to any right or remedy. No course of conduct shall be held to bar Lessor from literal enforcement of the terms of this Lease.

16.6 Application of Funds. Any payments received by Lessor under any of the provisions of this Lease during the existence or continuance of any Event of Default shall be applied to Lessee's obligations in the order which Lessor may determine or as may be prescribed by law.

16.7 Bankruptcy.

(a) Neither Lessee's interest in this Lease, nor any estate hereby created in Lessee's interest nor any interest herein or therein, shall pass to any trustee or receiver or assignee for the benefit of creditors or otherwise by operation of law, except as may specifically be provided pursuant to the Bankruptcy Code (11 USC ss.101 et. seq.), as the same may be amended from time to time.

(b) Rights and Obligations Under the Bankruptcy Code.

(1) Upon filing of a petition by or against Lessee under the Bankruptcy Code, Lessee, as debtor and as debtor-in-possession, and any trustee who may be appointed with respect to the assets of or estate in bankruptcy of Lessee, agree to pay monthly in advance on the fifteenth (15th) day of each month, as reasonable compensation for the use and occupancy of the Leased Premises, an amount equal to all Rent due pursuant to this Lease.

(2) Included within and in addition to any other conditions or obligations imposed upon Lessee or its successor in the event of the assumption and/or assignment of the Lease are the following: (i) the cure of any monetary defaults and reimbursement of pecuniary loss within not more than thirty (30) days of assumption and/or assignment; (ii) the deposit of an additional amount equal to not less than three (3) months' Base Rent, which amount is agreed to be a necessary and appropriate deposit to secure the future performance under the Lease of Lessee or its assignee; (iii) the continued use of the Leased Premises for the Primary Intended Use; and (iv) the prior written consent of any Facility Mortgagee.

17.1 Lessor's Right to Cure Lessee's Default. If Lessee fails to make any payment or perform any act required to be made or performed under this Lease, and fails to cure the same within any grace or cure period applicable thereto, upon such Notice as may be expressly required herein (or, if Lessor reasonably determines that the giving of such Notice would risk loss to the Leased Properties or cause damage to Lessor, upon such Notice as is practical under the circumstances), and without waiving or releasing any obligation of Lessee, Lessor may make such payment or perform such act for the account and at the expense of Lessee, and may, to the extent permitted by law, enter upon the Leased Properties for such purpose and take all such action thereon as, in Lessor's sole opinion, may be necessary or appropriate. No such entry shall be deemed an eviction of Lessee. All amounts so paid by Lessor and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) so incurred, together with the late charge and interest provided for in Section 3.3 thereon, shall be paid by Lessee to Lessor on demand. The obligations of Lessee and rights of Lessor contained in this Article shall survive the expiration or earlier termination of this Lease.

ARTICLE XVIII

18.1 Holding Over. If Lessee remains in possession of all or any of the Leased Properties after the expiration of the Term or earlier termination of this Lease, such possession shall be as a month-to-month tenant, and throughout the period of such possession Lessee shall pay as Rent for each month one and one-half (1 1/2) times the sum of:(i) one-twelfth (1/12th) of the Base Rent payable during the Lease Year in which such expiration or termination occurs, plus (ii) all Additional Charges accruing during the month, plus (iii) any and all other sums payable by Lessee pursuant to this Lease. During such period of month-to-month tenancy, Lessee shall be obligated to perform and observe all of the terms, covenants and conditions of this Lease, but shall have no rights hereunder other than the right, to the extent given by applicable law to month-to-month tenancies, to continue its occupancy and use of the Leased Properties until the month-to-month tenancy is terminated. Nothing contained herein shall constitute the consent, express or implied, of Lessor to the holding over of Lessee after the expiration or earlier termination of this Lease.

18.2 Indemnity. If Lessee fails to surrender the Leased Properties in a timely manner and in accordance with the provisions of Section 9.1.5 upon the expiration or termination of this Lease, in addition to any other liabilities to Lessor accruing therefrom, Lessee shall defend, indemnify and hold Lessor, its principals, officers, directors, agents and employees harmless from loss or liability resulting from such failure, including, without limiting the generality of the foregoing, loss of rental with respect to any new lease in which the rental payable thereunder exceeds the Rent paid by Lessee pursuant to this Lease during Lessee's hold-over and any claims by any proposed new tenant founded on such failure. The provisions of this Section 18.2 shall survive the expiration or termination of this Lease.

ARTICLE XIX

19.1 Subordination. Upon written request of Lessor, any Facility Mortgagee, or the beneficiary of any deed of trust of Lessor, Lessee will enter into a written agreement subordinating its rights pursuant to this Lease (i) to the lien of any mortgage, deed of trust or the interest of any lease in which Lessor is the lessee and to all modifications, extensions, substitutions thereof (or, at Lessor's option, agree to the subordination to this Lease of the lien of said mortgage, deed of trust or the interest of any lease in which Lessor is the lessee), and (ii) to all advances made or hereafter to be made thereunder. In connection with any such request, Lessor shall provide Lessee with a "Non-Disturbance Agreement" reasonably acceptable to such mortgagee, beneficiary or lessor providing that if such mortgagee, beneficiary or lessor acquires the Leased Properties by way of foreclosure or deed in lieu of foreclosure, such mortgagee, beneficiary or lessor will not disturb Lessee's possession under this Lease and will recognize Lessee's rights hereunder if and for so long as no Event of Default has occurred and is continuing. Lessee agrees to consent to amend this Lease as reasonably required by any Facility Mortgagee, and shall be deemed to have unreasonably withheld or delayed its consent if the required changes do not materially (i) alter the economic terms of this Lease, (ii) diminish the rights of Lessee, or (iii) increase the obligations of Lessee, provided that Lessee shall also have received the non-disturbance agreement provided for in this Article.

19.2 Attornment. If any proceedings are brought for foreclosure, or if the power of sale is exercised under any mortgage or deed of trust made by Lessor encumbering the Leased Properties, or if a lease in which Lessor is the lessee is terminated, Lessee shall attorn to the purchaser or lessor under such lease upon any foreclosure or deed in lieu thereof, sale or lease termination and recognize the purchaser or lessor as Lessor under this Lease, provided the purchaser or lessor acquires and accepts the Leased Properties subject to this

Lease.

19.3 Lessee's Certificate. Lessee shall, upon not less than ten (10) days prior Notice from Lessor, execute, acknowledge and deliver to Lessor a Lessee's Certificate containing then-current facts. It is intended that any Lessee's Certificate delivered pursuant hereto may be relied upon by Lessor, any prospective tenant or purchaser of the Leased Properties, any mortgagee or prospective mortgagee, and by any other party who may reasonably rely on such statement. Lessee's failure to deliver the Lessee's Certificate within such time shall constitute an Event of Default. In addition, Lessee hereby authorizes Lessor to execute and deliver a certificate to the effect (if true) that Lessee represents and warrants that (i) this Lease is in full force and effect without modification, and (ii) Lessor is not in breach or default of any of its obligations under this Lease.

ARTICLE XX

20.1 Risk of Loss. During the Term, the risk of loss or of decrease in the enjoyment and beneficial use of the Leased Properties in consequence of the damage or destruction thereof by fire, the elements, casualties, thefts, riots, wars or otherwise, or in consequence of foreclosures, attachments, levies or executions (other than those caused by Lessor and those claiming from, through or under Lessor) is assumed by Lessee, and, in the absence of gross negligence, willful misconduct or material breach of this Lease by Lessor, Lessor shall in no event be answerable or accountable therefor nor shall any of the events mentioned in this Section entitle Lessee to any abatement of Rent, except as specifically provided in this Lease.

ARTICLE XXI

21.1 Indemnification. Notwithstanding the existence of any insurance or self-insurance provided for in Article XIII, and without regard to the policy limits of any such insurance or self-insurance, Lessee shall protect, indemnify, save harmless and defend Lessor, its principals, officers, directors and agents and employees from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses), to the extent permitted by law, imposed upon or incurred by or asserted against Lessor by reason of: (i) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Leased Properties or adjoining sidewalks during the Term, including without limitation any claims of malpractice, (ii) any use, misuse, non-use, condition, maintenance or repair by Lessee of the Leased

Properties, (iii) the failure to pay any Impositions as herein provided which are the obligation of Lessee to pay pursuant to this Lease, (iv) any failure on the part of Lessee to perform or comply with any of the terms of this Lease, and (v) the nonperformance of any contractual obligation, express or implied, assumed or undertaken by Lessee or any party in privity with Lessee with respect to the Leased Properties or any business or other activity carried on with respect to the Leased Properties during the Term or thereafter during any time in which Lessee or any such other party is in possession of the Leased Properties or thereafter to the extent that any conduct by Lessee or any such party (or failure of such conduct thereby if the same should have been undertaken during such time of possession and leads to such damage or loss) causes such loss or claim. Any amounts which become payable by Lessee under this Section shall be paid within ten (10) days after liability therefor on the part of Lessee is determined by litigation or otherwise, and if not timely paid, shall bear interest (to the extent permitted by law) at the Overdue Rate from the date of such determination to the date of payment. Nothing herein shall be construed as indemnifying Lessor against its own grossly negligent acts or omissions or willful misconduct.

Lessor shall indemnify, save harmless and defend Lessee from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses imposed upon or incurred by or asserted against Lessee as a result of the gross negligence or willful misconduct of Lessor.

Lessee's or Lessor's liability for a breach of the provisions of this Article arising during the Term hereof shall survive any termination of this Lease for three (3) years following any termination of this Lease, provided that Lessee's obligations to indemnify Lessor with respect to environmental matters shall continue for six (6) years after such termination.

ARTICLE XXII

22.1 General Prohibition against Transfers. Lessee acknowledges that a significant inducement to Lessor to enter into this Lease with Lessee on the terms set forth herein is the combination of financial strength, experience, skill and reputation possessed by the Lessee named herein, the Person or Persons in Control of Lessee, the Guarantor(s) (if any) and the Manager of the

Facilities on the Commencement Date, together with Lessee's assurance that Lessor shall have the unrestricted right to approve or disapprove any proposed Transfer. Therefore, there shall be no Transfer except as specifically permitted by this Lease or consented to in advance by Lessor in writing. Lessor hereby consents to the sublease of the Boone and Laurel facilities to Sterling Health Care Management, Inc., a Kentucky corporation, for the purpose of continuing its lease of those facilities under the Existing Lease applicable to those facilities which are been consolidated, amended and restated as part of this Lease. Lessee agrees that Lessor shall have the right to withhold its consent to any proposed Transfer on the basis of Lessor's judgment as to the effect the proposed Transfer may have on the Facilities and the future performance of the obligations of the Lessee under this Lease, whether or not Lessee agrees with such judgment. Any attempted Transfer which is not specifically permitted by this Lease or consented to by Lessor in advance in writing shall be null and void and of no force and effect whatsoever. In the event of a Transfer, Lessor may collect Rent and other charges from the Transferee and apply the amounts collected to the Rent and other charges herein reserved, but no Transfer or collection of Rent and other charges shall be deemed to be a waiver of Lessor's rights to enforce Lessee's covenants or an acceptance of the Transferee as Lessee, or a release of the Lessee named herein from the performance of its covenants. Notwithstanding any Transfer, Lessee shall remain fully liable for the performance of all terms, covenants and provisions of this Lease. Any violation of this Lease by any Transferee shall be deemed to be a violation of this Lease by Lessee.

22.2 Subordination and Attornment. Lessee shall insert in any sublease permitted by Lessor provisions to the effect that (i) such sublease is subject and subordinate to all of the terms and provisions of this Lease and to the rights of Lessor hereunder, (ii) if this Lease terminates before the expiration of such sublease, the sublessee thereunder will, at Lessor's option, attorn to Lessor and waive any right the sublessee may have to terminate the sublease or to surrender possession thereunder, as a result of the termination of this Lease, and (iii) if the sublessee receives a written Notice from Lessor or Lessor's assignee, if any, stating that Lessee is in default under this Lease, the sublessee shall thereafter be obligated to pay all rentals accruing under the sublease directly to the party giving such Notice, or as such party may direct, which payments shall be credited against the amounts owing by Lessee under this Lease.

22.3 Sublease Limitation. Anything contained in this Lease to the contrary notwithstanding, even if a sublease of a Leased Property is permitted, Lessee shall not sublet such Leased Property on any basis such that the rental to be paid by the sublessee thereunder would be based, in whole or in part, on either (i) the income or profits derived by the business activities of the sublessee, or (ii) any other formula such that any portion of the sublease rental received by Lessor would fail to qualify as "rents from real property"

within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto. The parties agree that this paragraph shall not be deemed waived or modified by implication, but may be waived or modified only by an instrument in writing explicitly referring to this paragraph by number.

22.4 Permitted Sublease. Lessee shall be entitled to sublease any Leased Property in its entirety to an Affiliate of Lessee upon Lessee's written acknowledgment, provided that (i) Lessee submits an original copy of any such sublease to Lessor for its reasonable approval and written acknowledgment prior to the date of commencement of same, which such sublease shall memorialize that the sublessee shall be fully liable for the performance of all of the obligations of Lessee under this Lease with respect to such Leased Property; (ii) subject to the rights and priorities set forth in the Intercreditor Agreement, each sublessee shall jointly and severally guaranty the obligations of Lessee under the Lease; (iii) Lessor shall be provided security for the performance by each sublessee of its obligations reasonably satisfactory to Lessor, which security shall include, without limitation, subject to the rights and priorities set forth in the Intercreditor Agreement, a pledge of the stock of or other membership interest of Lessee in each sublessee, an assignment of the sublease, and a security interest in sublessee `s Personal Property and Accounts as required of Lessee pursuant to Section 6.4 hereof; (iv) the sole asset of any such sublessee shall be its interest in the contemplated sublease and Lessee's Personal Property relating to such Facility(ies); and (v) the sublessee shall be a wholly-owned subsidiary of Lessee. Lessee shall notify Lessor at least thirty (30) days in advance of the date on which Lessee desires to make such sublease. Lessee shall reimburse Lessor for the actual and reasonable legal fees actually incurred by Lessor in connection with Lessee's request. Lessee shall provide Lessor with a copy of the proposed sublease and such information as Lessor reasonably requests concerning the proposed sublessee to allow Lessor to make an informed judgment as to whether the sublease satisfies the provisions of this Section 22.5 and to obtain the security provided for herein.

ARTICLE XXIII

23.1 Officer's Certificates and Financial Statements. Lessee shall

furnish (or as appropriate cause each Guarantor to furnish) to Lessor:

(i) Within ninety (90) days after the end of each of Advocat's fiscal years: (a) Consolidated Financial Statements for the Lessee (from and after the transfer of Lessee's interest to New Sub as contemplated by the Settlement and Restructuring Agreement) and Advocat, (b) separate financial statements for each of the Facilities, in each case certified by an financial officer of Lessee; and (c) an Officer's Certificate stating that to the best knowledge and belief of such officer after making due inquiry, Lessee is not in default in the performance or observance of any of the terms of this Lease, or if Lessee is in default, specifying all such defaults, the nature thereof, and the steps being taken to remedy the same.

(ii) Within forty-five (45) days after the end of each of Advocat's quarters, quarterly consolidated financial reports of Advocat, together with an Officer's Certificate that Lessee is not in default of any covenant set forth in Section 8 of this Lease and Guarantor is not in default of any covenant under the Guaranty, or if Lessee or Guarantor is in default, specifying all such defaults, the nature thereof, and the steps being taken to remedy the same;

(iii) Within forty-five (45) days after the end of each of Advocat's quarters, a quarterly Financial Statement from Advocat (provided, however, that such quarterly Financial Statements need not be certified by a certified public accountant, but shall be certified by Advocat to be complete and accurate);

(iv) Within thirty-five (35) days after the end of each month, monthly financial reports for each Facility with detailed statements of income and expense and detailed operational statistics regarding occupancy rates, patient mix and patient rates by type for the Facility;

(v) A copy of each cost report filed with a governmental agency for any Facility;

(vi) Within fifteen (15) days after they are required to be filed with the SEC, copies of any annual or quarterly report and of information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which Advocat is required to file with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934;

(vii) Within thirty (30) days of Lessee's or Manager's receipt thereof, copies of surveys performed by the appropriate governmental agencies for licensing or certification purposes, and any plan of correction thereto as approved by the appropriate governmental agency for any Facility.

(viii) Immediate Notice to Lessor of any action, proposal or investigation by any agency or entity, or complaint to such agency or entity, known to Lessee, the result of which could be to (i) modify in a way adverse to Lessee or revoke or suspend or terminate, or fail to renew or fully continue in effect, any license or certificate or operating authority pursuant to which Lessee carries on any part of the Primary Intended Use of any Facility, or (ii) suspend, terminate, adversely modify, or fail to renew or fully continue in effect any cost reimbursement or cost sharing program by any state or federal governmental agency, including but not limited to Medicaid or Medicare or any successor or substitute therefor, or seek return of or reimbursement for any funds previously advanced or paid pursuant to any such program, or (iii) impose any bed hold, limitation on patient admission or similar restriction on any Leased Property, or (iv) prosecute any party with respect to the operation of any activity on any Leased Property or enjoin any party or seek any civil penalty in excess of Ten Thousand Dollars ($10,000.00) in respect thereof;

(ix) As soon as it is prepared in each Lease Year, a capital and operating budget for the Facilities for that and the following Lease Year;

(x) With reasonable promptness, such other information respecting the financial condition and affairs of Lessee and the Facilities as Lessor may reasonably request from time to time including, without limitation, any such other information as may be available to the administration of the Leased Properties; and

(xi) At times reasonably required by Lessor, and upon request as appropriate, such additional information and unaudited quarterly financial information concerning the Leased Properties and Lessee as Lessor may require for its on-going filings with the Securities and Exchange Commission, under both the Securities Act of 1933, as amended

and the Securities Exchange Act of 1934, as amended, including, but not limited to 10-Q Quarterly Reports, 10-K Annual Reports and registration statements to be filed by Lessor during the Term of this Lease.

Lessor's right to the statements referred to in Subparagraph (x) shall be subject to any prohibitions or limitations on disclosure of any such data under applicable laws or regulations, including, without limitation, any duly enacted "Patients' Bill of Rights" or any similar legislation, including such limitations as may be necessary to preserve the confidentiality of the Facility-patient relationship and the physician-patient privilege. Further, except for statements or information which are already public, Lessor shall not disclose the contents of any such statement, except to a Facility Mortgagee, proposed Facility Mortgagee, lender of Lessor, proposed Lender of Lessor, prospective investor, prospective purchaser, or Lessor's attorneys, accountants or agents, and except as permitted in Section 23.2.

23.2 Public Offering Information. Lessee specifically agrees that Lessor may include financial information and information concerning the operation of the Facilities that does not violate the confidentiality of the facility-patient relationship and the physician-patient privilege under applicable laws, in offering memoranda or prospectus, or similar publications in connection with syndications or public offerings of Lessor's securities or interests, and any other reporting requirements under applicable Federal and State Laws, including those of any successor to Lessor. Lessee agrees to provide such other reasonable information necessary with respect to Lessee and the Leased Properties to facilitate a public offering or to satisfy SEC or regulatory disclosure requirements. Lessor shall provide to Lessee a copy of any information prepared by Lessor to so be published and Lessee shall have a reasonable period of time (not to exceed three (3) Business Days) after receipt of such information to notify Lessor of any corrections. Lessor shall reimburse Lessee for its out-of-pocket costs to its qualified public accountants for their services in connection with such public offering information and interim or "stub" financial information and "comfort letters" required pursuant to Section 23.1 (xi) as requested by Lessor.

ARTICLE XXIV

24.1 Lessor's Right to Inspect. Lessee shall permit Lessor and its authorized representatives to inspect the Leased Properties and the books and records of Lessee and/or Sublessees relating to the operation of the Facilities during normal business hours at any time without Notice subject to any security, health, safety or confidentiality requirements any governmental agency or insurance requirement relating to the Leased Properties, or imposed by law or applicable regulations.

ARTICLE XXV

25.1 No Waiver. No failure by Lessor to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach hereof, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. No waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

ARTICLE XXVI

26.1 Remedies Cumulative. To the extent permitted by law, each legal, equitable or contractual right, power and remedy of Lessor or Lessee now or hereafter provided either in this Lease or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power and remedy and the exercise or beginning of the exercise by Lessor or Lessee of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by Lessor or Lessee of any or all of such other rights, powers and remedies.

ARTICLE XXVII

27.1 Acceptance of Surrender. No surrender to Lessor of this Lease or of the Leased Properties or any part thereof, or of any interest therein, shall be valid or effective unless agreed to and accepted in writing by Lessor, and no act by Lessor or any representative or agent of Lessor, other than such a written acceptance by Lessor, shall constitute an acceptance of any such surrender.

ARTICLE XXVIII

28.1 No Merger of Title. There shall be no merger of this Lease or of the leasehold estate created hereby by reason of the fact that the same person,

firm, corporation or other entity may acquire, own or hold, directly or indirectly, (i) this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate, and (ii) the fee estate in the Leased Properties.

28.2 No Partnership. Nothing contained in this Lease will be deemed or construed to create a partnership or joint venture between Lessor and Lessee or to cause either party to be responsible in any way for the debts or obligations of the other or any other party, it being the intention of the parties that the only relationship hereunder is that of Lessor and Lessee.

ARTICLE XXIX

29.1 Conveyance by Lessor. If Lessor or any successor owner of the Leased Properties conveys the Leased Properties other than as security for a debt, and the grantee or transferee of the Leased Properties shall expressly assume all obligations of Lessor hereunder arising or accruing from and after the date of such conveyance, Lessor or such successor owner, as the case may be, shall thereupon be released from all future liabilities and obligations of Lessor under this Lease arising or accruing from and after the date of such conveyance or other transfer and all such future liabilities and obligations shall thereupon be binding upon the new owner.

ARTICLE XXX

30.1 Quiet Enjoyment. So long as Lessee pays all Rent as it becomes due and complies with all of the terms of this Lease and performs its obligations hereunder, Lessee shall peaceably and quietly have, hold and enjoy the Leased Properties for the Term, free of any claim or other action by Lessor or anyone claiming by, through or under Lessor, but subject to the Permitted Encumbrances and all liens and encumbrances hereafter provided for in this Lease or consented to by Lessee. Except as otherwise provided in this Lease, no failure by Lessor to comply with the foregoing covenant will give Lessee any right to cancel or terminate this Lease or abate, reduce or make a deduction from or offset against the Rent or any other sum payable under this Lease, or to fail to perform any other obligation of Lessee. Lessee shall, however, have the right, by separate and independent action, to pursue any claim it may have against Lessor as a result of a breach by Lessor of the covenant of quiet enjoyment contained in this Section.

ARTICLE XXXI

31.1 Notices. Any notice, request or other communication to be given by any party hereunder shall be in writing and shall be sent by registered or certified mail, postage prepaid, or by hand delivery or facsimile transmission to the following address:

To Lessee:	Diversicare Leasing Corp. c/o Advocat, Inc. 277 Mallory Station Road, Suite 130 Franklin, TN 37067 Attn: Chief Financial Officer Telephone No.: (615) 771-7575 Facsimile No.: (615) 771-7409
With copy to (which shall not constitute notice):	Harwell Howard Hyne Gabbert & Manner, P.C. 315 Deaderick Street, Suite 1800 Nashville, TN 37238 Attn: J. Mark Manner Telephone No.: (615) 256-0500 Facsimile No.: (615) 251-1057
To Lessor:	Omega Healthcare Investors, Inc. 900 Victors Way, Suite 350 Ann Arbor, Michigan 48108 Attn.: F. Scott Kellman and Susan Allene Kovach Telephone No.: (734) 887-0200 Facsimile No.: (734) 887-0201
With copy to (which shall not constitute notice):	Dykema Gossett PLLC 39577 Woodward Ave., Suite 300 Bloomfield Hills, Michigan 48304 Attn: Fred J. Fechheimer Telephone No.: (248) 203-0743 Facsimile No.: (248) 203-0763

or to such other address as either party may hereafter designate. Notice shall be deemed to have been given on the date of delivery if such delivery is made on a Business Day, or if not, on the first Business Day after delivery. If delivery

is refused, Notice shall be deemed to have been given on the date delivery was first attempted. Notice sent by facsimile transmission shall be deemed given upon confirmation that such Notice was received at the number specified above or in a Notice to the sender. If Lessee has vacated the Leased Properties, Lessor's Notice may be posted on the door of a Leased Property.

ARTICLE XXXII

32.1 Appraisers. If it becomes necessary to determine Fair Market Value or Fair Market Rent for any purpose under this Lease, the party required or permitted to give Notice of such required determination shall include in the Notice the name of a person selected to act as appraiser on its behalf. Within ten (10) days after such Notice, the party receiving such Notice shall give Notice to the other party of its selection of a person to act as appraiser on its behalf. The appraisers thus appointed, each of whom must be a member of the Appraisal Institute (or any successor organization thereto) and experienced in appraising facilities used for purposes similar to the Primary Intended Use of the Facilities, shall, within forty-five (45) days after the date of the Notice appointing the first appraiser, proceed to appraise the Leased Property or Leased Properties, as the case may be, to determine the Fair Market Value or Fair Market Rent thereof as of the relevant date (giving effect to the impact, if any, of inflation between the date of their decision and the relevant date); provided, however, that if only one appraiser has been so appointed, or if two appraisers have been so appointed but only one such appraiser has made such determination within fifty (50) days after the date of the Notice appointing the first appraiser, then the determination of such appraiser shall be final and binding upon the parties. To the extent consistent with sound appraisal practice at the time of any such appraisal, such appraisal shall be made on a basis consistent with the basis on which the Leased Property or Leased Properties were appraised for purposes of determining its Fair Market Value at the time of Lessor's acquisition thereof. If two appraisers have been appointed and have made their determinations within the respective requisite periods set forth above, and if the difference between the amounts so determined does not exceed ten percent (10%) of the lesser of such amounts, then the Fair Market Value or

Fair Market Rent shall be an amount equal to fifty percent (50%) of the sum of the amounts so determined. If the difference between the amounts so determined exceeds ten percent (10%) of the lesser of such amounts, then such two appraisers shall within twenty (20) days appoint a third appraiser. If no such appraiser is appointed within such twenty (20) days or within ninety (90) days of the date of the Notice appointing the first appraiser, whichever is earlier, either Lessor or Lessee may apply to any court having jurisdiction to have such appointment made by such court. Any appraiser appointed by the original appraisers or by such court shall be instructed to determine the Fair Market Value or Fair Market Rent within forty-five (45) days after appointment of such appraiser. The determination of the appraiser which differs most in terms of dollar amount from the determinations of the other two appraisers shall be excluded, and the average of the remaining two determinations shall be final and binding upon Lessor and Lessee as the Fair Market Value or Fair Market Rent of the Leased Property or Leased Properties, as the case may be. If the Fair Market Rent is being determined for more than one year, the Fair Market Rent may include such annual increases, if any, as the appraisers determine to be in accordance with the terms of this Lease.

This provision for determining by appraisal shall be specifically enforceable to the extent such remedy is available under applicable law, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law, and judgment may be entered upon such determination in a court of competent jurisdiction. Lessor and Lessee shall each pay the fees and expenses of the appraiser appointed by it and each shall pay one-half of the fees and expenses of the third appraiser and one-half of all other costs and expenses incurred in connection with each appraisal.

ARTICLE XXXIII

33.1 Breach by Lessor. Lessor shall not be in breach of this Lease unless Lessor fails to observe or perform any term, covenant or condition of this Lease on its part to be performed and such failure continues for a period of thirty (30) days after written Notice specifying such failure and the necessary curative action is received by Lessor from Lessee. If the failure cannot with due diligence be cured within a period of thirty (30) days, the failure shall not be deemed to continue if Lessor, within said thirty (30) day period, proceeds promptly and with due diligence to cure the failure and diligently completes the curing thereof. The time within which Lessor shall be obligated to cure any such failure shall also be subject to extension of time due to Force Majeure.

33.2 Compliance With Facility Mortgage. Except for payments due under any Facility Mortgage (which shall be the responsibility of the Mortgagor thereunder), Lessee covenants and agrees that it will duly and punctually observe, perform and comply with all of the terms, covenants and conditions

(including, without limitation, covenants requiring the keeping of books and records and delivery of financial statements and other information) of any Facility Mortgage as to which Lessee has been given Notice and that it will not directly or indirectly, do any act or suffer or permit any condition or thing to occur, which would or might constitute a default under a Facility Mortgage as to which Lessee has been given Notice. Anything in this Lease to the contrary notwithstanding, if the time for performance of any act required of Lessee by the terms of a Facility Mortgage as to which Lessee has been given Notice is shorter than the time allowed by this Lease for performance of such act by Lessee, then Lessee shall perform such act within the time limits specified in such Facility Mortgage.

ARTICLE XXXIV

34.1 Disposition of Personal Property on Termination; Lessor's Option to Purchase. Upon the expiration or earlier termination of this Lease, Lessee shall immediately surrender, turn over and deliver to Lessor, without the payment of any additional consideration by Lessor, all Personal Property then located on or at or used in the operation of the Leased Properties, other than Lessee's Incidental Personal Property and the items of Personal Property listed on Schedule A attached hereto. Upon Lessor's request, Lessee shall, without any charge or cost to Lessor, execute and deliver to Lessor such bills of sale, assignments or other instruments necessary, appropriate or reasonably requested by Lessor to establish Lessor's ownership of such Personal Property. In addition, Lessor shall have the option on the terms hereinafter set forth to purchase all (but not less than all) of Lessee's Incidental Personal Property (specifically excluding, the items set forth on Schedule A), if any, at the

expiration or termination of this Lease, for an amount equal to the then book value thereof (acquisition cost less accumulated depreciation on the books of Lessee pertaining thereto), subject to, and with appropriate credits for, any obligations owing from Lessee to Lessor and for the then outstanding balances owing on all equipment leases, conditional sale contracts and any other encumbrances to which such Lessee's Personal Property is subject. Lessor's option shall be exercised by Notice to Lessee no more than one hundred eighty (180) days, nor less than ninety (90) days, before the expiration of the Initial Term or, if the Term is renewed as provided herein, before the expiration of the last Renewal Term, unless this Lease is terminated prior to its expiration date by reason of an Event of Default, in which event Lessor's option shall be exercised not more than thirty (30) days after the Termination Date. Lessor's option shall terminate upon Lessee's purchase of the Leased Properties. If Lessee does not receive Lessor's Notice exercising its option before the expiration of the relevant required time period, Lessee shall give Lessor Notice thereof and Lessor's option shall continue in full force and effect for a period of thirty (30) days after such Notice from Lessee. If Lessor exercises its option, Lessee shall, in exchange for Lessor's payment of the purchase price, deliver the purchased Lessee's Personal Property to Lessor, together with a bill of sale and such other documents as Lessor may reasonably request in order to carry out the purchase, and the purchase shall be closed by such delivery and such payment on the date set by Lessor in its Notice of exercise.

34.2 Facility Trade Names. If this Lease is terminated pursuant to Section 16.1 or Lessor exercises its option to purchase Lessee's Personal Property pursuant to Section 34.1, Lessee shall be deemed to have assigned to Lessor the right to use the Facility Trade Names in the markets in which the Facilities are located, and Lessee shall not after any such termination use the Facility Trade Names in the same market in which any Facility is located in connection with any business that competes with such Facility provided, however, that nothing contained in this Section 34.2 grants Lessor any right to use the name "Diversicare" for any Leased Property or Facility.

34.3 Transfer of Operational Control of the Facilities. Lessee shall cooperate fully in transferring operational control of the Facilities to Lessor or Lessor's nominee if the Term expires without renewal or purchase by Lessee, or this Lease is terminated upon the occurrence of an Event of Default or for any other reason, and shall use its reasonable best efforts to cause the business conducted at the Facilities to continue without interruption. To that end, pending completion of the transfer of the operational control of the Facilities to Lessor or its nominee:

(i) Lessee will not terminate the employment of any employees without just cause, or change any salaries, provided, however, that without the advance written consent of Lessor Lessee may grant pre-announced wage increases of which Lessor has knowledge, increases required by written employment agreements and normal raises to non-officers at regular review dates; and Lessee will not hire any additional employees except in good faith in the ordinary course of business;

(ii) Lessee will provide all necessary information requested by Lessor or its nominee for the preparation and filing of any and all necessary applications or notifications of any federal or state

governmental authority having jurisdiction over a change in the operational control of the Facilities, and any other information reasonably required to effect an orderly transfer of the Facilities, and Lessee will use its best efforts to cause all operating health care licenses to be transferred to Lessor or to Lessor's nominee;

(iii) Lessee shall use its best efforts to keep the business and organization of the Facilities intact and to preserve for Lessor or its nominee the goodwill of the suppliers, distributors, residents and others having business relations with Lessee with respect to the Facilities;

(iv) Lessee shall engage only in transactions or other activities with respect to the Facilities which are in the ordinary course of its business and shall perform all maintenance and repairs reasonably necessary to keep the Facilities in satisfactory operating condition and repair, and shall maintain the supplies and foodstuffs at levels which are consistent and in compliance with all health care regulations, and shall not sell or remove any personal property except in the ordinary course of business and in accordance with the terms and conditions of this Lease;

(v) Lessee shall provide Lessor or its nominee with full and complete information regarding the employees of the Facilities and shall reimburse Lessor or its nominee for all outstanding accrued employee benefits, including accrued vacation, sick and holiday pay calculated on a true accrual basis, including all earned and a prorated portion of all unearned benefits;

(vi) Lessee shall use its best efforts to obtain the acknowledgment and the consent of any creditor, lessor or sublessor, mortgagee, beneficiary of a deed of trust or security agreement affecting the real and personal properties of Lessee or any other party whose acknowledgment and/or consent would be required because of a change in the operational control of the Facilities and transfer of personal property. The consent must be in form, scope and substance satisfactory to Lessor or its nominee, including, without limitation, an acknowledgment in respect to all such contracts, leases, deeds of trust, mortgage, security agreements, or other agreements that Lessee and all predecessors or successors-in-interest thereto are not in default in respect thereto, that no condition known to the consenting party exists which with the giving of notice or lapse of time would result in such a default, and, if requested, affirmatively consenting to the change in the operational control of the Facilities;

(vii) Lessee shall not encourage the transfer of any patients from the Facilities;

(viii) Lessee consents to Lessor, or its nominee, seeking to employ any on-site employees of the Facilities, but neither Lessor nor its nominee shall have any obligation to employ any employees of the Facilities;

(ix) To more fully preserve and protect Lessor's rights under this Section, Lessee does hereby make, constitute and appoint Lessor its true and lawful attorney-in-fact, for it and in its name, place and stead to execute and deliver all such instruments and documents, and to do all such other acts and things, as Lessor may deem to be necessary or desirable to protect and preserve the rights granted under this Section, including, without limitation, the preparation, execution and filing with the Board of Health (or similar agency) of each State or any and all required "Letters of Responsibility" or similar documents. Lessee hereby grants to Lessor the full power and authority to appoint one or more substitutes to perform any of the acts that Lessor is authorized to perform under this Section, with a right to revoke such appointment of substitution at Lessor's pleasure. The power of attorney granted pursuant to this Section is coupled with an interest and therefore is irrevocable. Any person dealing with Lessor may rely upon the representation of Lessor relating to any authority granted by this power of attorney, including the intended scope of the authority, and may accept the written certificate of Lessor that this power of attorney is in full force and effect. Photographic or other facsimile reproductions of this executed Lease may be made and delivered by Lessor, and may be relied upon by any person to the same extent as though the copy were an original. Anyone who acts in reliance upon any representation or certificate of Lessor, or upon a reproduction of this Lease, shall not be liable for permitting Lessor to perform any act pursuant to this power of attorney. Notwithstanding the foregoing, Lessor covenants with Lessee that Lessor shall refrain from exercising the power of attorney granted hereby except in the case of an Event of Default hereunder or in the event of a default, which, in Lessor's reasonable judgment, may lead to the suspension or revocation of any license of Lessee or of any sublessee.

34.4 Intangibles and Personal Property. Notwithstanding any other

provision of this Lease but subject to Section 6.4 relating to the security interest in favor of Lessor, Lessor's Personal Property shall not include goodwill nor shall it include any other intangible personal property that is severable from Lessor's "interests in real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto.

ARTICLE XXXV

35.1 Arbitration. Except with respect to the payment of Rent under this Lease and any proceedings to recover possession of one or more of the Leased Properties, in case any controversy arises between the parties hereto as to any of the provisions of this Lease or the performance thereof, and the parties are unable to settle the controversy by agreement or as otherwise provided herein, the controversy shall be decided by arbitration. The arbitration shall be conducted by three arbitrators selected in accordance with the rules and procedures of the American Arbitration Association. The decision of the arbitrators shall be final and binding, and judgment may be entered thereon in any court of competent jurisdiction. The decision shall set forth in writing the basis for the decision. In rendering the decision and award, the arbitrators shall not add to, subtract from, or otherwise modify the provisions of this Lease. The expense of the arbitration shall be divided between Lessor and Lessee unless otherwise specified in the award. Each party in interest shall pay the fees and expenses of its own counsel. The arbitration shall be conducted in Ann Arbor, Michigan. In any arbitration, the parties shall be entitled to conduct discovery in the same manner as permitted under Federal Rules of Civil Procedure 26 through 37, as amended. No provision in this Article shall limit the right of any party to this Agreement to obtain provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration, and the exercise of such remedies does not constitute a waiver of the right of either party to arbitration.

ARTICLE XXXVI

36.1 Miscellaneous.

36.1.1 Survival, Choice of law. Anything contained in this Lease to the contrary notwithstanding, all claims against, and liabilities of, Lessee or Lessor arising prior to the date of expiration or termination of this Lease shall survive such expiration or termination. If any term or provision of this Lease or any application thereof is held invalid or unenforceable, the remainder of this Lease and any other application of such term or provisions shall not be affected thereby. If any late charges provided for in any provision of this Lease are based upon a rate in excess of the maximum rate permitted by applicable law, the parties agree that such charges shall be fixed at the maximum permissible rate. Neither this Lease nor any provision hereof may be changed, waived, discharged or terminated except by an instrument in writing and in recordable form signed by Lessor and Lessee. All the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The headings in this Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. This Lease shall be governed by and construed in accordance with the laws of the state of Michigan, as to all matters other than (i) those matters relating to the enforcement or exercise of any possessory or summary remedies of Lessor under this Lease, which shall be governed by the laws of the applicable State or States and (ii) matters which under applicable procedural conflicts of laws rules require the application of laws of another State.

LESSEE CONSENTS TO IN PERSONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF THE STATES OF MICHIGAN AND EACH STATE IN WHICH A FACILITY IS LOCATED, AND AGREES THAT ALL DISPUTES CONCERNING THIS AGREEMENT BE HEARD IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATES OF MICHIGAN OR ANY STATE IN WHICH A FACILITY IS LOCATED. LESSEE AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED UPON IT UNDER ANY METHOD PERMISSIBLE UNDER THE LAWS OF THE STATES OF MICHIGAN OR ANY STATE IN WHICH A FACILITY IS LOCATED AND IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN THE STATE AND FEDERAL COURTS OF THE STATES OF MICHIGAN OR ANY SUCH STATE.

36.1.2 Limitation on Recovery. Lessee specifically agrees to look solely to Lessor's interest in the Leased Properties for recovery of any judgment from Lessor, it being specifically agreed that no constituent shareholder, officer or director of Lessor shall ever be personally liable for any such judgment or for the payment of any monetary obligation to Lessee. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Lessee might otherwise have to obtain injunctive relief against Lessor or Lessor's successors in interest or any action not involving the personal liability of Lessor (original or successor). Furthermore, except as otherwise expressly provided herein, Lessor (original or successor) shall never be liable to Lessee for any indirect or consequential damages suffered by Lessee from whatever cause. Lessor agrees to look solely to the assets of Lessee and not to any director, officer or shareholder (other than Guarantor pursuant to the Guaranty) of Lessee for payment of Lessee for payment of any monetary obligation to Lessor or for recovery of any judgment from Lessee.

36.1.3 Waivers. Lessee waives any defense by reason of any disability of Lessee, and waives any other defense based on the termination of Lessee's (including Lessee's successor's) liability from any cause. Lessee waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance, and waives all notices of the existence, creation, or incurring of new or additional obligations.

36.1.4 Consents. Whenever the consent or approval of Lessor or Lessee is required hereunder, Lessor or Lessee may in its sole discretion and without reason withhold that consent or approval unless otherwise specifically provided.

36.1.5 Counterparts. This Lease may be executed in separate counterparts, each of which shall be considered an original when each party has executed and delivered to the other one or more copies of this Lease.

36.1.6 Options Personal. The renewal options granted to Lessee in this Lease are granted solely to Lessee and are not assignable or transferrable except in connection with a Transfer permitted in Article XXII.

36.1.7 Rights Cumulative. Except as provided herein to the contrary, the respective rights and remedies of the parties specified in this Lease shall be cumulative and in addition to any rights and remedies not specified in this Lease.

36.1.8 Entire Agreement. There are no oral or written agreements or representations between the parties hereto affecting this Lease. This Lease supersedes and cancels any and all previous negotiations, arrangements, representations, brochures, agreements and understandings, if any, between Lessor and Lessee.

36.1.9 Amendments in Writing. No provision of this Lease may be amended except by an agreement in writing signed by Lessor and Lessee.

36.1.10 Severability. If any provision of this Lease or the application of such provision to any person, entity or circumstance is found invalid or unenforceable by a court of competent jurisdiction, such determination shall not affect the other provisions of this Lease and all other provisions of this Lease shall be deemed valid and enforceable.

36.1.11 Time of the Essence. Except for the delivery of possession of the Facilities to Lessee, time is of the essence of all provisions of this Lease of which time is an element.

ARTICLE XXXVII

37.1 Commissions. Lessor or Lessee each represent and warrant to the other that no real estate commission, finder's fee or the like is due and owing to any person in connection with this Lease. Lessor and Lessee each agree to save, indemnify and hold the other harmless from and against any and all claims, liabilities or obligations for brokerage, finder's fees or the like in connection with this Lease or the transactions contemplated hereby, asserted by any person on the basis of any statement or act alleged to have been made or taken by that party.

ARTICLE XXXVIII

38.1 Memorandum or Short Form of Lease. Lessor and Lessee shall, promptly upon the request of either, enter into a Memorandum or Short Form of this Lease, substantially in the form of attached Exhibit D with such modifications as may be appropriate under the laws and customs of the States and in the customary form suitable for recording under the laws of each of the States. Lessee shall pay all costs and expenses of recording such memorandum or short form of this Lease.

ARTICLE XXXIX

39.1 Security Deposit. Lessor acknowledges that it holds the Security Deposit in the form of cash. Lessor shall continue to hold the Security Deposit as security for the full and faithful performance by Lessee of each and every term, provision, covenant and condition of this Lease. The Security Deposit shall be deposited by Lessor into an account which shall earn interest for the benefit of Lessee, which cash shall remain on deposit as security and be available to Lessor as provided in this Article. The Security Deposit shall not be considered an advance payment of Rent (or of any other sum payable to Lessee under this Lease) or a measure of Lessor's damages in case of a default by Lessee. The Security Deposit shall not be considered a trust fund, and Lessee expressly acknowledges and agrees that Lessor is not acting as a trustee or in any fiduciary capacity in controlling or using the Security Deposit.

Notwithstanding the foregoing, Lessor shall maintain the Security Deposit separate and apart from Lessor's general and/or other funds. Provided that Lessee is not then in default, Lessor shall disburse to Lessee the earnings on the Security Deposit on a quarterly basis. The Security Deposit, less any portion thereof applied as provided in Section 39.2 shall be returned to Lessee within sixty (60) days following the expiration of the Term or earlier termination of this Lease. Lessee may satisfy the Security Deposit obligation by providing one or more letters of credit, subject to the following conditions: (a) Lessor shall reasonable approve the form of any proposed letter of credit; and (b) Lessee shall execute a letter of credit agreement in a form acceptable to Lessor, in Lessor's sole discretion.

39.2 Additional Security Deposit. If a Facility is affected by any of the conditions described in Subsection (h) under the definition of Event of Default, and such condition continues beyond the shorter of (i) the period during which Lessor is in good faith appealing such condition, and (ii) ninety (90) days, then Lessee shall increase the amount of the Security Deposit. The increase ("Increase") shall be in an amount equal to the fair market value which the affected Facility would have if none of the conditions described in Subsection (h) existed with respect to that Facility and if the Facility had licensed beds equal to the number of licensed beds in the Facility as of the Effective Date, an occupancy rate equal to the State average occupancy rate for facilities utilized for the Primary Intended Use of the Facility, less the actual fair market value of the Facility. If the parties cannot agree upon the amount of the Increase, the amount of the Increase shall be determined in accordance with the arbitration procedures set forth in Article XXXV. Lessee may fund the Increase in equal monthly installments beginning on the first (1st) day of the first (1st) month following the end of the time periods set forth above and ending on the earlier of (i) three (3) years thereafter, and (ii) two (2) years prior to the end of the Term; provided, however, that if the obligation to fund occurs during the last two (2) years of the Term, the Increase shall be funded immediately. If an Increase has been funded, the Facility is subsequently no longer affected by any of the conditions described in Subsection (h), the Facility has been reopened, and no Event of Default is continuing, the Increase shall be returned to Lessee. Pending an agreement between Lessor and Lessee as to the amount of the Increase, Lessee will fund the Increase based upon Lessee's good faith estimate of the amount thereof.

39.3 Application of Security Deposit. If Lessee defaults in respect of any of the terms, provisions, covenants and conditions of this Lease, including, but not limited to, payment of any Rent and other sums of money payable by Lessee, Lessor may, but shall not be required to, in addition to and not in lieu of any other rights and remedies available to Lessor use, apply all or any part of the Security Deposit to the payment of any sum in default, or any other sum, including but not limited to, any damages or deficiency in reletting the Leased Properties, which Lessor may expend or be required to expend by reason of Lessee's default. Whenever, and as often as, Lessor has applied any portion of the Security Deposit to cure Lessee's default hereunder, Lessee shall, within ten (10) days after Notice from Lessor, deposit additional money with Lessor sufficient to restore the Security Deposit to the full amount originally provided or paid, and Lessee's failure to do so shall constitute an Event of Default hereunder without any further Notice.

39.4 Transfer of Security Deposit. If Lessor transfers its interest under this Lease, Lessor shall assign the Security Deposit to the new lessor and thereafter Lessor shall have no further liability for the return of the Security Deposit, and Lessee agrees to look solely to the new lessor for the return of the Security Deposit. The provisions of the preceding sentence shall apply to every transfer or assignment of Lessor's interest under this Lease. Lessee agrees that it will not assign or encumber or attempt to assign or encumber the Security Deposit and that Lessor, its successors and assigns, may return the Security Deposit to the last Lessee in possession at the last address for Notice given by such Lessee and that Lessor shall thereafter be relieved of any liability therefor, regardless of one or more assignments of this Lease or any such actual or attempted assignment or encumbrances of the Security Deposit.

SIGNATURE PAGES FOLLOW

IN WITNESS WHEREOF, the parties have executed this Lease by their duly authorized officers as of the date first above written.

LESSOR:

STERLING ACQUISITION CORP., a Kentucky corporation

By: /s/ Susan A. Kovach

Name: Susan A. Kovach

Title: Vice President

LESSEE:

DIVERSICARE LEASING CORPORATION,
a Tennessee corporation

By: /s/ James F. Mills, Jr.

Name: James F. Mills, Jr.
Title: Senior Vice President

THE STATE OF TENNESSEE)
:ss
COUNTY OF DAVIDSON)

This instrument was acknowledged before me on the 8th day of November, 2000, by Susan A. Kovach, the Vice President of Sterling Acquisition Corp., a Delaware corporation, on behalf of the corporation

Andrea Neiderland
Notary Public
Davidson, County, Tennessee
My commission expires: March 23, 2002

THE STATE OF TENNESSEE)
:ss
COUNTY OF DAVIDSON)

This instrument was acknowledged before me on the 8th day of November, 2000, by James F. Mills, Jr., the Senior Vice President of Diversicare Leasing Corporation, a Tennessee corporation, on behalf of the corporation

Andrea Neiderland
Notary Public
Davidson, County, Tennessee
My commission expires: March 23, 2002

LIST OF EXHIBITS TO LEASE

Exhibit A - Description of Land

Exhibit B - Permitted Encumbrances

Exhibit C - Form of Lessee's Certificate

Exhibit D - Form of Memorandum and Short Form of Lease

Exhibit E - Form of Consent and Agreement of Manager

LIST OF SCHEDULES TO LEASE

Schedule A - Excluded Personal Property of Lessee

Schedule B - Exceptions to Permitted Use

Schedule C - Excepted Facilities to Radius Restriction

EXHIBIT A

DESCRIPTION OF LAND

EXHIBIT B

PERMITTED ENCUMBRANCES

EXHIBIT C

FORM OF LESSEE'S CERTIFICATE

The undersigned ("Lessee") under that certain Lease (the "Lease") dated 199 - and made with , a ("Lessor"), hereby certifies:

1. That it is Lessee under the Lease; that attached hereto as Exhibit "A" is a true and correct copy of the Lease; that the Lease is now in full force and effect and has not been amended, modified or assigned except as disclosed or included in Exhibit "A"; and that the Lease constitutes the entire agreement between Lessor and Lessee.

2. That there exist no defenses or offsets to enforcement of the Lease; that there are, as of the date hereof, no breaches or uncured defaults on the part of Lessee or, to the best of Lessee's knowledge, Lessor thereunder; and that Lessee has no notice or knowledge of any prior assignment, hypothecation, subletting or other transfer of Lessor's interest in the Lease.

3. That the Base Rent for the first Lease Year under this Lease is $. All Rent which is due has been paid, and there are no unpaid Additional Charges owing by Lessee under the Lease as of the date hereof. No Base Rent or other items (including without limitation security deposit and any impound account or funds) have been paid by Lessee in advance under the Lease except for the security deposit held by Lessor [in the form of an irrevocable letter of credit] in the amount of $******* and the monthly installment of Base Rent that became due on .

4. That Lessee has no claim against Lessor for any security deposit, impound account or prepaid Rent except as provided in paragraph 3 of this Certificate.

5. That there are no actions, whether voluntary or otherwise, pending against the undersigned under the bankruptcy laws of the United States or any state thereof, nor has Lessee nor, to the best of Lessee's knowledge has Lessor begun any action, or given or received any notice for the purpose of termination of the Lease.

6. That there are, as of the date hereof, no breaches or uncured defaults on the part of Lessee under any other agreement executed in connection with the Lease.

7. This Certificate has been requested by Lessor pursuant to Section 19.3 of this Lease and for the benefit of ("Relying Party"). The Relying Party is entitled to rely on the statements of Lessee contained in this certificate.

8. All capitalized terms used herein and not defined herein shall have the meanings for such terms set forth in the Lease.

Dated: _____, 199_ LESSEE:

By:

EXHIBIT D

FORM OF MEMORANDUM OR SHORT FORM OF LEASE

MEMORANDUM OF CONSOLIDATED, AMENDED AND RESTATED LEASE

THIS MEMORANDUM OF CONSOLIDATED, AMENDED AND RESTATED LEASE, made and entered into as of November _____, 2000 by and between Sterling Acquisition Corp., a Kentucky corporation, having its principal office at c/o Omega Healthcare Investors, Inc., 900 Victors Way, Suite 350, Ann Arbor, Michigan 48108 as Lessor and Diversicare Leasing Corp., a Tennessee corporation, having its principal office at c/o Advocat, Inc., 277 Mallory Station Road, Suite 130, Franklin, Tennessee 37067 as Lessee with respect to the real property identified in Exhibit "A" attached hereto and located in Phenix City, Alabama.

WITNESSETH:

1. Omega Healthcare Investors, Inc., a Maryland corporation and Diversicare Corporation of America, a Delaware corporation, entered into a Master Lease dated August 11, 1992 (the "Original Lease"), as evidenced by the Short Form Lease dated August 11, 1992 and recorded on _____ in Book _____ at Page _____ in the Office of _____.

2. Lessor and Lessee, as the successors-in-interest to the Original Lease, have entered into a Consolidated, Amended and Restated Master Lease of even date herewith (the "Amended Lease").

3. For and in consideration of the rents reserved and the other covenants contained in the Amended Lease, Lessor has and does hereby continue to lease to Lessee, and Lessee has and does hereby continue to take and rent from Lessor, all of Lessor's rights and interest in and to the parcel of real property described in Exhibit "A" and the improvements, fixtures, personal and other property included within the definition of "Leased Properties" as set forth in the Lease.

4. The Initial Term of the Amended Lease is approximately ten (10) years, commencing October 1, 2000 (the "Commencement Date") and ending on September 30, 2012.

5. As more particularly provided in the Amended Lease, Lessee may elect to renew the original term for one (1) ten (10) year optional renewal periods ("Renewal Terms") for a maximum term, if exercised, of twenty (20) years after the Commencement Date.

6. This instrument is executed and recorded for the purpose of giving notice of Lessee's interest in the Leased Properties and giving notice of the existence of the Lease, to which reference is made for a full statement of the terms and conditions thereof. The respective addresses of the parties hereto are:

Lessee:

Diversicare Leasing Corp.
c/o Advocat, Inc.
277 Mallory Station Road, Suite 130
Franklin, Tennessee 37067
Attn: Chief Financial Officer
Telephone: (615) 771-7575
Telecopier: (615) 771-7409

Lessor:

Sterling Acquisition Corp.
c/o Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attn.: F. Scott Kellman and Susan Allene Kovach
Telephone: (734) 887-0200
Telecopier: (734) 887-0201

IN WITNESS WHEREOF, the parties have caused this instrument to be executed by their duly authorized officer or officers and general partners, as applicable, all as of the day and date first above written.

LESSOR:	LESSEE:
STERLING ACQUISITION CORP., a Kentucky corporation	DIVERSICARE LEASING CORP., a Tennessee corporation

By: _____ By: _____

Name: Name:
Its: Its:

STATE OF MICHIGAN)
)SS
COUNTY OF WASHTENAW)

On this _____ day of October, 2000, before me, _____, a Notary Public within and for the County and State aforesaid, duly qualified, commissioned and acting, appeared in person the within named Susan A. Kovach, to me personally well known, who stated that they were the Vice President, of STERLING ACQUISITION CORP., a Kentucky corporation, and were duly authorized in their respective capacities to execute the foregoing Memorandum of Amended and Restated Lease for and in the name and behalf of said corporation, and further stated and acknowledged that they had so signed, executed and delivered said Memorandum of Amended and Restated Lease in the capacities and for the consideration and purposed therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this _____ day of October, 2000.

_____
Notary Public

(NOTARY SEAL)

My commission expires:_____

STATE OF _____)
)SS
COUNTY OF _____)

On this _____ day of October, 2000, before me, _____, a Notary Public within and for the County and State aforesaid, duly qualified, commissioned and acting, appeared in person the within named _____, to me personally well known, who stated that they were the _____, of DIVERSICARE LEASING CORP., a Tennessee corporation, and were duly authorized in their respective capacities to execute the foregoing Memorandum of Amended and Restated Lease for and in the name and behalf of said corporation, and further stated and acknowledged that they had so signed, executed and delivered said Memorandum of Amended and Restated Lease in the capacities and for the consideration and purposed therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this _____ day of October, 2000.

_____
Notary Public

(NOTARY SEAL)

My commission expires:_____

SCHEDULE A

Excluded Personal Property of Lessee

1. Lessee's continuous quality improvement program, manuals and materials; management information systems; policy, procedure and educational manuals and materials and similar proprietary property.

2. Computer hardware, and related equipment which is integrated with the computer system maintained by Advocat, and computer software, provided, however, that Lessee shall cause all data that is reasonably necessary for the continuing operation of one or more of the Facilities, and which may be accessed through such computers or software, to be made available to Lessor in a reasonably accessible form without material cost to Lessee.

Explorer Holdings, L.P.
4200 Texas Commerce Tower West
2200 Ross Avenue
Dallas, Texas

November 15, 2000

Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attn.: Susan Allene Kovach

Dear Susan:

By signing in the space provided below, Explorer Holdings, L.P. ("Explorer") hereby consents to the extension of the Dividend Payment Date applicable to the Series C Preferred Stock of Omega Healthcare Investors, Inc. ("OHI") for the Dividend Period ended October 31, 2000 (the "October 2000 Dividend Period"), until April 2, 2001 (the "Due Date"). Explorer also waives its right to demand pursuant to Section 4(d) of the Articles that any dividends paid on OHI's issued and outstanding Series A Preferred Stock and Series B Preferred Stock for the dividend period ending October 31, 2000, be paid on a pro rata basis together with the accrued and unpaid dividend on the Series C Preferred Stock for the October 2000 Dividend Period and consents to the payment in full by OHI of the accrued dividends on such Series A Preferred Stock and Series B Preferred Stock in accordance with the terms thereof. Explorer also (i) waives the application of the provisions of Section 4(e) of the Articles solely with respect to the deferral by OHI of the payment of the October 2000 Dividend Period Amount (as defined below), (ii) consents to the payment by OHI of a dividend in respect of the October 2000 Dividend Period on the issued and outstanding Common Stock on November 15, 2000 in the amount of $0.25 per share, and (iii) acknowledges and agrees that the October 2000 Dividend Period Amount will not be deemed to be an unpaid dividend for a past Dividend Period for the purpose set forth in the first sentence of Section 4(e) of the Articles. Notwithstanding the foregoing, OHI expressly acknowledges and agrees that, without the written consent of Explorer, nothing herein will be deemed to be a waiver of Explorer's rights (or a consent to a deferral of payment of dividends other than those in respect of the October 2000 Dividend Period) under Section 4 of the Articles with respect to the Series C Preferred Stock for any future Dividend Period in which the dividend relating to such Dividend Period is not paid in accordance with the requirements of Section 4 thereof.

Subject to the immediately following paragraph, in consideration of Explorer's consent, OHI hereby agrees to pay, no later than the Due Date, out of funds legally available for the payment of dividends, cash in an aggregate amount equal to $4,667,000 million which OHI and Explorer expressly acknowledge and agree constitutes the total unpaid preferential cumulative dividend for the October 2000 Dividend Period with respect to the Series C Preferred Stock (the "October 2000 Dividend Period Amount"), plus a waiver fee on the amount of the daily unpaid principal balance of the October 2000 Dividend Period Amount from November 15, 2000 until the October 2000 Dividend Period Amount shall have been paid in full, which waiver fee shall be payable at a rate of 10% per annum, compounded annually and calculated on the basis of a 360 day year based on the actual number of days elapsed.

Furthermore, in the event that (i) funds are not legally available to OHI to pay all or any of the October 2000 Dividend Period Amount plus the wavier fee as provided hereinabove or (ii) OHI elects pursuant to the first sentence of Section 4(b) of the Articles not to pay all or any of the October 2000 Dividend Period Amount plus the waiver fee in cash, OHI hereby agrees that any portion of the October 2000 Dividend Period Amount (including any accrued and unpaid waiver fee) which is not paid in cash on or prior to the Due Date (the "Unpaid Amount") will be payable by the issuance as of the Due Date of additional shares of fully paid, nonassessable Series C Preferred Stock having an aggregate liquidation preference equal to such Unpaid Amount (with the amount of any fractional share that might otherwise be issuable being paid in cash). In the event that any dividends (including any accrued and unpaid waiver fee) are paid in shares of Series C Preferred Stock pursuant to the immediately preceding sentence, OHI agrees to take such actions as are necessary to increase the number of authorized shares of Series C Preferred Stock by the number of shares to be issued pursuant hereto, including but not limited to the filing of Articles Supplementary with the State Department of Assessments and Taxation of Maryland in accordance with Article VII of the OHI Charter. OHI will deliver certificates representing shares of Series C Preferred Stock issued pursuant to this paragraph promptly after the Due Date. Any payments by OHI of cash pursuant to this letter agreement shall be applied first to the payment of any then accrued but unpaid waiver fee with respect to the October 2000 Dividend Period Amount and thereafter to the payment of the October 2000 Dividend Period Amount.

OHI and Explorer represent and warrant to each other that (i) it has the requisite power and authority to execute and deliver this letter agreement, (ii) the execution and delivery of this letter agreement has been

duly authorized by all necessary corporate or partnership action, as appropriate, and (iii) this letter agreement has been duly and validly executed and delivered by it and constitutes its valid and binding obligation, enforceable against it in accordance with the terms hereof except that (y) such enforceability may be subject to applicable bankruptcy, insolvency or other similar laws now or hereinafter in effect affecting creditors' rights generally and (z) the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefore may be brought.

This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflict of laws principles, and may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Capitalized terms used in this letter agreement and not defined shall have the respective meanings set forth in the Articles Supplementary for Series C Convertible Preferred Stock. This letter agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered will be an original, but all such counterparts will together constitute one and the same instrument. A facsimile copy of a signature page shall be deemed to be an original signature page.

By signing in the space below, OHI expressly acknowledges and agrees to take any and all actions as are necessary to implement the foregoing obligations. The provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and until such time as the October 2000 Dividend Period Amount and all waiver fees accrued thereon are paid in full, Explorer will either cause the certificates representing the shares of Series C Preferred Stock to be legended to reference the existence of this letter agreement or will cause a copy of this letter agreement to be physically attached to all such certificates.

Very truly yours,

EXPLORER HOLDINGS, L.P.

By: Explorer Holdings GenPar, LLC,
its General Partner

By: /s/ William T. Cavanaugh, Jr.

William T. Cavanaugh, Jr.
Vice President

Agreed to and accepted as of this 15th day of November, 2000.

OMEGA HEALTHCARE
INVESTORS, INC.

By: /s/ Susan Allene Kovach

Susan Allene Kovach
Vice President

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