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 June 30, 2001

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 June 30, 2001

Common Stock, $.10 par value	20,066,142
(Class)	(Number of shares)

<TABLE>
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OMEGA HEALTHCARE INVESTORS, INC.

FORM 10-Q

June 30, 2001

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

<TABLE>
<CAPTION>

	June 30, 2001 (Unaudited)	December 31, 2000 (See Note)
ASSETS		
<S>	<C>	<C>
Real estate properties		
Land and buildings at cost	$ 702,836	$ 710,542
Less accumulated depreciation	(97,707)	(89,870)
Real estate properties - net	605,129	620,672
Mortgage notes receivable - net	180,768	206,710
	785,897	827,382
Other investments	55,709	53,242
	841,606	880,624
Assets held for sale - net	5,698	4,013
Total Investments	847,304	884,637
Cash and cash equivalents	10,795	7,172
Accounts receivable	17,032	10,497
Other assets	5,220	9,338
Operating assets for owned properties	41,463	36,807
Total Assets	$ 921,814	$ 948,451
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving lines of credit	$ 198,641	$ 185,641
Unsecured borrowings	203,527	225,000
Other long-term borrowings	23,525	24,161
Subordinated convertible debentures	-	16,590
Accrued expenses and other liabilities	22,944	18,002
Operating liabilities for owned properties	13,482	14,744
Total Liabilities	462,119	484,138
Preferred Stock	212,342	207,500
Common stock and additional paid-in capital	440,382	440,556
Cumulative net earnings	173,128	182,548
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(284)	(607)
Accumulated other comprehensive loss	(219)	(30)
Total Shareholders' Equity	459,695	464,313
Total Liabilities and Shareholders' Equity	$ 921,814	$ 948,451

</TABLE>

Note - The balance sheet at December 31, 2000, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

(In Thousands, Except Per Share Amounts)

<TABLE>
<CAPTION>

<S>	Three Months Ended June 30, 2001 <C>	Three Months Ended June 30, 2000 <C>	Six Months Ended June 30, 2001 <C>	Six Months Ended June 30, 2000 <C>
Revenues				
Rental income	$ 14,729	$ 16,268	$ 30,750	$ 34,270
Mortgage interest income	5,535	5,912	11,213	11,912
Other investment income - net	1,008	1,926	2,266	3,622
Nursing home revenues of owned and operated assets	43,796	46,076	89,793	77,501
Miscellaneous	586	266	809	357
	65,654	70,448	134,831	127,662
Expenses				
Nursing home expenses of owned and operated assets	43,676	46,919	90,126	77,884
Depreciation and amortization	5,504	5,818	11,045	11,728
Interest	9,243	11,277	18,915	22,375
General and administrative	3,155	1,212	5,504	2,801
Legal	766	472	1,717	493
State taxes	107	113	213	226
Litigation settlement expense	10,000	-	10,000	-
Provision for impairment	8,381	-	8,381	4,500
Provision for uncollectable accounts	681	-	681	-
Severance and consulting agreement costs	466	-	466	-
Charges for derivative accounting	70	-	552	-
	82,049	65,811	147,600	120,007
(Loss) earnings before (loss) gain on assets sold and gain on early extinguishment of debt	(16,395)	4,637	(12,769)	7,655
(Loss) gain on assets sold - net	(7)	10,451	612	10,451
Gain on early extinguishment of debt	2,489	-	2,737	-
Net (loss) earnings	(13,913)	15,088	(9,420)	18,106
Preferred stock dividends	(5,029)	(2,408)	(9,937)	(4,816)
Net (loss) earnings available to common	$ (18,942)	$ 12,680	$ (19,357)	$ 13,290
(Loss) Earnings per common share:				
Net (loss) earnings per share - basic	$ (0.95)	$ 0.63	$ (0.97)	$ 0.66
Net (loss) earnings per share - diluted	$ (0.95)	$ 0.63	$ (0.97)	$ 0.66
Dividends declared and paid per common share	$ -	$ -	$ -	$ 0.50
Weighted Average Shares Outstanding, Basic	20,013	20,129	20,013	20,055
Weighted Average Shares Outstanding, Diluted	20,013	20,129	20,013	20,055
Other comprehensive income (loss):				
Unrealized Gain (Loss) on Omega Worldwide, Inc.	$ 247	$ (873)	$ 247	$ (1,199)
Unrealized Loss on Hedging Contracts	$ (82)	$ -	$ (436)	$ -
Total comprehensive (loss) income	$ (13,748)	$ 14,215	$ (9,609)	$ 16,907

</TABLE>

See notes to condensed consolidated financial statements.

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

<TABLE>
<CAPTION>

<S>	Six Months Ended June 30, 2001 <C>	Six Months Ended June 30, 2000 <C>
Operating activities		
Net (loss) earnings	$ (9,420)	$ 18,106
Adjustment to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	11,045	11,728
Provision for impairment	8,381	4,500
Provision for collection losses	681	2,937
Gain on assets sold - net	(612)	(10,451)
Gain on early extinguishment of debt	(2,737)	-
Other	630	1,034
Net change in accounts receivable for Owned & Operated assets - net	(3,474)	(15,929)
Net change in accounts payable for Owned & Operated assets	(2,796)	4,777
Net change in other Owned & Operated assets and liabilities	1,961	(17,621)
Net change in operating assets and liabilities	3,108	(6,403)
Net cash provided by (used in) operating activities	6,767	(7,322)
Cash flows from financing activities		
Proceeds of revolving lines of credit - net	13,000	10,400
Payments of long-term borrowings	(38,699)	(148)
Receipts from Dividend Reinvestment Plan	20	367
Dividends paid	-	(14,816)
Deferred financing costs paid	(698)	-
Other	(45)	-
Net cash used in financing activities	(26,422)	(4,197)
Cash flow from investing activities		
Proceeds from sale of real estate investments - net	1,364	35,093
Fundings of other investments - net	(465)	(4,200)
Collection of mortgage principal	22,379	1,242
Net cash provided by investing activities	23,278	32,135
Increase in cash and cash equivalents	3,623	20,616
Cash and cash equivalents at beginning of period	7,172	4,105
Cash and cash equivalents at end of period	$ 10,795	$ 24,721

</TABLE>

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

June 30, 2001

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Omega Healthcare Investors, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and impairment provisions to adjust the carrying value of assets) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the 2000 financial statements for consistency with the current presentation. Such reclassifications have no effect on previously reported earnings or equity. Operating results for the three-month and six-month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

Note B - Properties

In the ordinary course of its business activities, the Company periodically evaluates investment opportunities and extends credit to customers. It also regularly engages in lease and loan extensions and modifications. Additionally, the Company actively monitors and manages its investment portfolio with the objectives of improving credit quality and increasing returns. In connection with portfolio management, the Company engages in various collection and foreclosure activities.

When the Company acquires real estate pursuant to a foreclosure, lease termination or bankruptcy proceeding, and does not immediately re-lease the properties to new operators, the assets are included on the balance sheet as "real estate properties," and the value of such assets is reported at the lower of cost or fair value. (See "Owned and Operated Assets" below). Additionally, when a formal plan to sell real estate is adopted, the real estate is classified as "Assets Held for Sale," with the net carrying amount adjusted to the lower of cost or fair value, less cost of disposal.

Based on management's current review of the Company's portfolio, a provision for impairment on the value of assets held for sale of $8.4 million was recorded for the three-month and six-month periods ended June 30, 2001. This provision relates to additional properties that were added to Assets Held for Sale during the three-month period ended June 30, 2001 as a result of the

foreclosure of assets leased by a defaulting customer during the quarter. A provision for impairment in the value of the Assets Held for Sale of $4.5 million was recorded for the six-month period ended June 30, 2000.

A summary of the number of properties by category for the quarter ended June 30, 2001 follows:

<TABLE>
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<S> <C> <C> <C> <C> <C> <C>

Facility Count	Purchase / Leaseback	Mortgages	Owned & Operated	Healthcare Facilities	Total Held for Sale	Total
Balance at March 31, 2001	132	63	66	261	3	264
Properties transferred to Held for Sale ..	(3)	-	(4)	(7)	7	-
Properties transferred to Owned & Operated	(3)	(1)	4	-	-	-
Properties Sold / Mortgages Paid	-	(5)	-	(5)	(1)	(6)
Properties Leased / Mortgages Placed	3	-	(3)	-	-	-
Balance at June 30, 2001	129	57	63	249	9	258
Gross Investment ($000's)						
Balance at March 31, 2001	$ 579,937	$ 206,774	$ 130,053	$ 916,764	$ 3,547	$ 920,311
Properties transferred to Held for Sale ..	(11,499)	-	(1,043)	(12,542)	12,542	-
Properties transferred to Owned & Operated	(9,133)	(4,349)	13,482	-	-	-
Properties Sold / Mortgages Paid	-	(21,958)	-	(21,958)	(156)	(22,114)
Properties Leased / Mortgages Placed	22,163	-	(22,163)	-	-	-
Impairment	-	-	-	-	(8,344)	

						(8,344)
Capex and other	-	301	1,039	1,340	(1,891)	(551)
Balance at June 30, 2001	$ 581,468	$ 180,768	$ 121,368	$ 883,604	$ 5,698	$ 889,302

</TABLE>

Real Estate Dispositions

The Company disposed of an Indiana facility during the three-month period ended June 30, 2001. The facility had a total of 40 beds and was classified as Assets Held for Sale. During the three-month period ended June 30, 2000, the Company recognized a gain on disposition of assets of $11.1 million from the sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a 57 bed facility in Colorado.

Notes and Mortgages Receivable

Income on notes and mortgages which are impaired will be recognized as cash is received. No provision for loss on mortgages or notes receivable was recorded during the six-month periods ended June 30, 2001 and 2000.

Owned and Operated Assets

The Company owns 63 facilities that were recovered from customers and are operated for the Company's own account. These facilities have 4,942 beds and are located in nine states. During the three-month period ended June 30, 2001, four of the Company's previously Owned and Operated facilities were closed and reclassified to Assets Held for Sale, four foreclosure facilities were added to Owned and Operated and three facilities were re-leased to a new operator.

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 (2) are as follows:

<TABLE>
<CAPTION>

	Unaudited (In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<S> <C>				
Revenues (1)				
Medicaid	$ 26,321	$ 26,834	$ 53,561	$ 46,359
Medicare	11,324	6,495	22,514	13,250
Private & Other	6,151	12,747	13,718	17,892
Total Revenues	43,796	46,076	89,793	77,501
Expenses				
Patient Care Expenses	29,568	27,729	62,721	50,103
Administration	7,642	12,763	14,177	17,442
Property & Related	2,746	2,576	5,960	4,871
Total Expenses	39,956	43,068	82,858	72,416

Contribution Margin	3,840	3,008	6,935	5,085
Management Fees	2,418	2,281	4,867	3,898
Rent	1,302	1,570	2,401	1,570
Net Operating Income (Loss)	$ 120	$ (843)	$ (333)	$ (383)

</TABLE>

(1) Nursing home revenues from these owned and operated assets are recognized as services are provided.
(2) The amounts shown in the condensed consolidated financial statements are not comparable, as the number of Owned and Operated facilities and the timing of the foreclosures and re-leasing activities occurred at different times during the periods presented.

<TABLE>
<CAPTION>

Unaudited
(In Thousands)

	June 30, 2001	December 31, 2000
ASSETS		
<S>	<C>	<C>
Cash	$ 5,045	$ 5,364
Accounts Receivable - Net	33,504	30,030
Other Current Assets	6,349	5,098
Total Current Assets	44,898	40,492
Investment in leasehold	1,610	1,679
Land and Buildings	121,368	130,601
Less Accumulated Depreciation	(17,224)	(17,680)
Land and Buildings - Net	104,144	112,921
TOTAL ASSETS	$ 150,652	$ 155,092
LIABILITIES		
Accounts Payable	$ 5,841	$ 8,636
Other Current Liabilities	7,641	6,108
Total Current Liabilities	13,482	14,744
TOTAL LIABILITIES	$ 13,482	$ 14,744

</TABLE>

Assets Held for Sale

At June 30, 2001, the carrying value of assets held for sale totals $5.7 million (net of impairment reserves of $16.3 million). 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.

Segment Information

The following tables set forth the reconciliation of operating results and total assets for the Company's reportable segments for the three and six-month periods ended June 30, 2001 and 2000.
<TABLE>
<CAPTION>

For the three months ended June 30, 2001

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 20,264	$ 43,796	$ -	$ 64,060
Operating Expenses	-	(43,676)	-	(43,676)
Net operating income	20,264	120	-	20,384
Adjustments to arrive at net income:				
Other revenues	-	-	1,594	1,594
Interest expense	-	-	(9,243)	(9,243)
Depreciation and amortization	(4,344)	(936)	(224)	(5,504)
General and administrative	-	-	(3,155)	(3,155)
Legal	-	-	(766)	(766)
State Taxes	-	-	(107)	(107)
Litigation settlement expense	-	-	(10,000)	(10,000)
Severance and consulting agreement costs .	-	-	(466)	(466)
Provision for uncollectable accounts	(681)	-	-	(681)
Provision for impairment	-	-	(8,381)	(8,381)
Charges for derivative accounting	-	-	(70)	(70)
	(5,025)	(936)	(30,818)	(36,779)
Income (loss) before gain on assets sold and gain on early extinguishment of debt	15,239	(816)	(30,818)	(16,395)
Gain on assets sold - net	-	(7)	-	(7)
Gain on early extinguishment of debt	-	-	2,489	2,489
Preferred dividends	-	-	(5,029)	(5,029)
Net income (loss) available to common	$ 15,239	$ (823)	$ (33,358)	$ (18,942)
Total Assets	$ 681,754	$ 156,350	$ 83,710	$ 921,814

</TABLE>

<TABLE>
<CAPTION>

	For the three months ended June 30, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
<S>	<C>	<C>	<C>	<C>
Operating Revenues	$ 22,180	$ 46,076	$ -	$ 68,256
Operating Expenses	-	(46,919)	-	(46,919)
Net operating income	22,180	(843)	-	21,337
Adjustments to arrive at net income:				
Other revenues	-	-	2,192	2,192
Interest expense	-	-	(11,277)	(11,277)
Depreciation and amortization	(4,489)	(964)	(365)	(5,818)
General and administrative	-	-	(1,212)	(1,212)
Legal	-	-	(472)	(472)
State Taxes	-	-	(113)	(113)
Provision for impairment	-	-	-	-
	(4,489)	(964)	(11,247)	(16,700)
Earnings (loss)	17,691	(1,807)	(11,247)	4,637
Gain on Assets Sold	10,451	-	-	10,451
Preferred dividends	-	-	(2,408)	(2,408)
Net income (loss) available to common	$ 28,142	$ (1,807)	$ (13,655)	$ 12,680
Total Assets	$ 730,081	$ 167,631	$ 140,235	$ 1,037,947

</TABLE>

<TABLE>
<CAPTION>

For the six months ended June 30, 2001

<S>	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
	<C>	<C>	<C>	<C>
Operating Revenues	$ 41,963	$ 89,793	$ -	$ 131,756
Operating Expenses	-	(90,126)	-	(90,126)
Net operating income	41,963	(333)	-	41,630
Adjustments to arrive at net income:				
Other revenues	-	-	3,075	3,075
Interest expense	-	-	(18,915)	(18,915)
Depreciation and amortization	(8,668)	(1,932)	(445)	(11,045)
General and administrative	-	-	(5,504)	(5,504)
Legal	-	-	(1,717)	(1,717)
State Taxes	-	-	(213)	(213)
Litigation settlement expense	-	-	(10,000)	(10,000)
Severance and consulting agreement costs .	-	-	(466)	(466)
Provision for uncollectable accounts	(681)	-	-	(681)
Provision for impairment	-	-	(8,381)	(8,381)
Charges for derivative accounting	-	-	(552)	(552)
	(9,349)	(1,932)	(43,118)	(54,399)
Income (loss) before gain on assets sold and gain on early extinguishment of debt	32,614	(2,265)	(43,118)	(12,769)
Gain on assets sold - net	-	612	-	612
Gain on early extinguishment of debt	-	-	2,737	2,737
Preferred dividends	-	-	(9,937)	(9,937)
Net income (loss) available to common	$ 32,614	$ (1,653)	$ (50,318)	$ (19,357)
Total Assets	$ 681,754	$ 156,350	$ 83,710	$ 921,814

</TABLE>

<TABLE>
<CAPTION>

For the six months ended June 30, 2000

<S>	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
	<C>	<C>	<C>	<C>
Operating Revenues	$ 46,182	$ 77,501	$ -	$ 123,683
Operating Expenses	-	(77,884)	-	(77,884)
Net operating income	46,182	(383)	-	45,799
Adjustments to arrive at net income:				
Other revenues	-	-	3,979	3,979
Interest expense	-	-	(22,375)	(22,375)
Depreciation and amortization	(9,420)	(1,578)	(730)	(11,728)
General and administrative	-	-	(2,801)	(2,801)
Legal	-	-	(493)	(493)
State Taxes	-	-	(226)	(226)
Provision for impairment	-	-	(4,500)	(4,500)
	(9,420)	(1,578)	(27,146)	(38,144)

Earnings (loss)	36,762	(1,961)	(27,146)	7,655
Gain on Assets Sold	10,451	-	-	10,451
Preferred dividends	-	-	(4,816)	(4,816)
Net income (loss) available to common	$ 47,213	$ (1,961)	$ (31,962)	$ 13,290
Total Assets	$ 730,081	$ 167,631	$ 140,235	$ 1,037,947

</TABLE>

Note C - Concentration of Risk and Related Issues

As of June 30, 2001, the Company's portfolio of domestic investments consisted of 249 healthcare facilities, located in 29 states and operated by 31 third-party operators. The Company's gross investments in these facilities totaled $883.6 million at June 30, 2001. This portfolio is made up of 127 long-term healthcare facilities and 2 rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 57 long-term healthcare facilities and 52 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for the Company's own account. In addition, 12 facilities subject to third-party leasehold interests are included in Other Investments. The Company also holds miscellaneous investments and closed healthcare facilities held for sale of approximately $63.0 million at June 30, 2001, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, an $8.6 million investment in Omega Worldwide, Inc., Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company and Principal Healthcare Finance Trust, an Australian Unit Trust, and $15.7 million of notes receivable.

Seven public companies operate approximately 74.0% of the Company's investments, including Sun Healthcare Group, Inc. (24.7%), Integrated Health Services, Inc. (18.2%, including 10.8% as the manager for and 50% owner of Lyric Health Care LLC), Advocat, Inc. (12.0%), Mariner Post-Acute Network (6.2%),

Kindred Healthcare, Inc. (formerly known as Vencor Operating, Inc.) (6.0%), Alterra Healthcare Corporation (3.9%), and Genesis Health Ventures, Inc. (3.0%). Kindred and Genesis manage facilities for the Company's own account, included in Owned & Operated Assets. The two largest private operators represent 3.5% and 2.5%, respectively, of investments. No other operator represents more than 2.5% of investments. The three states in which the Company has its highest concentration of investments are Florida (16.1%), California (7.6%) and Illinois (7.5%).

Government Healthcare Regulation, Reimbursements and Industry Concentration Risks

Nearly all of the Company's properties are used as healthcare facilities, therefore, the Company is directly affected by the risk associated with the healthcare industry. The Company's lessees and mortgagors, as well as the facilities owned and operated for the Company's account, derive a substantial portion of their net operating revenues from third-party payers, including the Medicare and Medicaid programs. Such programs are highly regulated and subject to frequent and substantial changes. In addition, private payers, including managed care payers, are increasingly demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk of operating a healthcare facility. Any changes in reimbursement policies which reduce reimbursement levels could adversely affect revenues of the Company's lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their monthly lease or debt payments to the Company.

The possibility that the healthcare facilities will not generate income sufficient to meet operating expenses or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in healthcare-related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as earthquakes and floods) or similar factors.

Real estate investments are relatively illiquid and, therefore, tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. Thus, if the operation of any of the Company's properties becomes unprofitable due to competition, age of improvements or other factors such that the lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses.

Potential Risks from Bankruptcies

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

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

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

until the Company receives the required licenses to operate the facilities. Should such events occur, the Company's income and cash flows from operations would be adversely affected.

Risks Related to Owned and Operated Assets

As a consequence of the financial difficulties encountered by a number of the Company's operators, the Company has recovered various long-term care assets, pledged as collateral for the operators' obligations, either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. Under normal circumstances, the Company would classify such assets as "Assets Held for Sale" and seek to re-lease or otherwise dispose of such assets as promptly as practicable. However, a number of companies are actively marketing portfolios of similar assets and, in light of the current conditions in the long-term care industry generally, it has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire such properties. During 2000, $24.3 million of assets previously classified as held for sale were reclassified to "Owned and Operated Assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

The Company is typically required to hold applicable leases and is responsible for the regulatory compliance at its owned and operated facilities. The Company's management contracts with third-party operators for such properties provide that the third-party operator is responsible for regulatory compliance, but the Company could be sanctioned for violation of regulatory requirements. In addition, the risk of third-party claims such as patient care and personal injury claims may be higher with respect to Company owned and operated properties as compared to the Company's leased and mortgaged assets.

Note D - Dividends

On February 1, 2001, the Company announced the suspension of all common and preferred dividends. This action is intended to preserve cash to facilitate the Company's ability to obtain financing to fund its 2002 maturing indebtedness. Prior to recommencing the payment of dividends on the Company's Common stock, all accrued and unpaid dividends on the Company's Series A, B and C preferred stock must be paid in full. The Company has made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain its REIT status for 2000 and intends to satisfy such requirements under the REIT rules for 2001. The cumulative unaccrued and unpaid dividends relating to all series of the preferred stock, excluding the November 15, 2000 Series C dividends described below, total $9.9 million as of June 30, 2001.

On March 30, 2001, the Company exercised its option to pay the accrued $4,666,667 Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of the Company's common stock at $6.25 per share. Such election resulted in an increase in the aggregate liquidation preference of Series C Preferred Stock as of April 2, 2001 to $104,842,000, including accrued dividends through that date.

During the six-month period ended June 30, 2000 the Company paid dividends of $2.7 million and $2.2 million, respectively, on its 9.25% Series A Cumulative Preferred Stock and 8.625% Series B Cumulative Preferred Stock.

Note E - Earnings Per Share

The computation of basic earnings per share is determined based on the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share reflect the dilutive effect, if any, of stock options and, beginning in the third quarter of 2000, the assumed conversion of the Series C Preferred Stock.

Note F - Omega Worldwide, Inc.

As of June 30, 2001 the Company holds a $5.7 million investment in Omega Worldwide, Inc. ("Worldwide"), represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. The Company also holds a $1.6 million investment in Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company, and a $1.3 million investment in Principal Healthcare Finance Trust, an Australian Unit Trust. The Company had guaranteed repayment of Worldwide borrowings pursuant to a revolving credit facility in exchange for an initial 1% fee and an annual facility fee of 25 basis points. The Company was required to provide collateral in the amount of $8.8 million related to the guarantee of Worldwide's obligations. Worldwide repaid all borrowings under the revolving credit facility in June 2001, the Company's guarantee was terminated and the subject collateral was released.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Upon expiration of this agreement on June 30, 2000, the Company entered into a new agreement requiring quarterly payments from Worldwide of $37,500 for the use of offices and certain administrative and financial services provided by the Company. Upon the reduction of the Company's accounting staff, the Service Agreement was renegotiated again on November 1, 2000 requiring quarterly payments from Worldwide of $32,500. Costs allocated to Worldwide for the three-month and six-month periods ended June 30, 2001 were $32,500 and $65,000, respectively, compared with $185,000 and $389,000 for the same periods in 2000.

Note G - Litigation

The Company is subject to various legal proceedings, claims and other actions arising out of the normal course of business. While any legal proceeding

or claim has an element of uncertainty, management believes that the outcome of each lawsuit claim or legal proceeding that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

On June 20, 2000, the Company and its former chief executive officer, former chief financial officer and chief operating officer were named as defendants in litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York, alleging that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The cases were consolidated, and Mr. LeBorys was named lead plaintiff. The Company's Motion to Dismiss filed with the Court on February 16, 2001 was heard on May 29, 2001 at which time the Court dismissed the suit without prejudice and granted leave to the Plaintiffs to amend and re-file their complaint on or before July 20, 2001. As the Plaintiffs did not re-file a complaint, the Court has dismissed the suit with prejudice, resulting in a complete resolution in favor of the Company. (See Note J - Subsequent Events)

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Mr. Dickerman is a partner of Madison and is a guarantor of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company is defending vigorously and on December 5, 2000, filed counterclaims against Madison and the guarantors, including Mr. Dickerman, seeking repayment of approximately $8.8 million that Madison owes the Company.

On December 29, 1998, Karrington Health, Inc. brought suit against the Company in the Franklin County, Ohio, Common Pleas Court (subsequently removed to the U.S. District Court for the Southern District of Ohio, Eastern Division) alleging that the Company repudiated and ultimately breached a financing contract to provide $95,000,000 of financing for the development of 13 assisted living facilities. Karrington was seeking recovery of approximately $34,000,000 in damages it alleged to have incurred as a result of the breach. On August 13, 2001, the Company paid Karrington $10,000,000 to settle all claims arising from the suit, but without admission of any liability or fault by the Company, which liability is expressly denied. Based on the settlement, the suit has been dismissed with prejudice. (See Note J - Subsequent Events)

Note H - Borrowing Arrangements

The Company has a $175 million secured revolving credit facility that expires on December 31, 2002. Borrowings under the facility bear interest at 2.5% to 3.25% over LIBOR, based on the Company's leverage ratio. Borrowings of approximately $129 million are outstanding at June 30, 2001. Investments with a gross book value of approximately $240 million are pledged as collateral for this credit facility.

The Company has a $75 million secured revolving credit facility that expires on March 31, 2002 as to $10 million and June 30, 2005 as to $65 million. Borrowings under the facility bear interest at 2.5% to 3.75% over LIBOR, based on the Company's leverage ratio and collateral assigned. Borrowings of approximately $69.6 million are outstanding at June 30, 2001. Investments with a gross book value of approximately $95 million are pledged as collateral for this credit facility.

During the three-month and six-month periods ended June 30, 2001, the Company repurchased $19.5 million and $21.5 million, respectively, of its 6.95% Notes maturing in June 2002. At June 30, 2001, $103.5 million of these notes remain outstanding.

As of June 30, 2001, the Company had an aggregate of $242 million of outstanding debt which matures in 2002, including $103.5 million of 6.95% Notes due June 2002 and $138 million on credit facilities expiring in 2002.

The Company had $50 million of funding available through July 1, 2001 pursuant to an Investment Agreement with Explorer which can be used, upon satisfaction of certain conditions, to fund growth. Following the drawing in full or expiration of this commitment, Explorer will have the option to provide up to an additional $50 million to fund growth for an additional twelve-month period. (See Note D - Dividends)

The Company is required to meet certain financial covenants, including prescribed leverage and interest coverage ratios on its long-term borrowings. At June 30, 2001 the Company had $28.2 million available under its secured revolving credit facilities prior to giving effect to the August settlement of the Karrington litigation described in Note G above. As a result of recognizing the Karrington settlement expense in the quarter ended June 30, 2001, the Company is not in compliance with one of the financial covenants under its credit facilities. The lenders have granted the Company a waiver through September 14, 2001 during which time all parties will be working together to resolve this covenant violation situation. Accordingly, as of the date of this report, the Company has $14.7 million available under its secured revolving credit facilities. Certain assets that served as collateral for one of the credit facilities were recovered from a customer during the quarter. These assets are no longer eligible to serve as collateral, resulting in reduced availability under the credit facility. The Company has the ability to replace this collateral and increase the availability under the line by up to an

additional $18.0 million subject to compliance with the applicable financial covenants. The Company's ability to draw upon the remaining availability under the credit facilities has been limited by the covenant violation noted above until such time as a permanent resolution is attained. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources)

Note I - Effect of New Accounting Pronouncements

The Company utilizes interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. The Company adopted the new Statement effective January 1, 2001. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

At June 30, 2001, the Company had two interest rate swaps with notional amounts of $32 million each, based on 30-day London Interbank Offered Rates (LIBOR). Under the terms of the first agreement, which expires in December 2001, the Company receives payments when LIBOR exceeds 6.35% and pays the counterparty when LIBOR is less than 6.35%. At June 30, 2001, 30-day LIBOR was 3.86 %. This interest rate swap may be extended for an additional twelve months at the option of the counterparty and therefore does not qualify for hedge accounting under FASB No. 133. The fair value of this swap at January 1, and June 30, 2001 was a liability of $351,344 and $727,825, respectively. The liability at January 1 was recorded as a transition adjustment in other comprehensive income and is being amortized over the initial term of the swap. Such amortization for the three-month and six-month periods ended June 30, 2001 of $87,836 and $175,672, respectively, together with the change in fair value of the swap of ($17,313) and $376,481, respectively, is included in charges for derivative accounting in the Company's Condensed Consolidated Statement of Operations.

Under the second agreement, which expires December 31, 2002, the Company receives payments when LIBOR exceeds 4.89% and pays the counterparty when LIBOR is less than 4.89%. The fair value of this interest rate swap at June 30, 2001 was a liability of $260,660, which is included in other comprehensive income as required under FASB No. 133 for fully effective cash flow hedges.

The fair values of these interest rate swaps are included in accrued expenses and other liabilities in the Company's Condensed Consolidated Balance Sheet at June 30, 2001.

Note J - Subsequent Events

On June 20, 2000, the Company and its former chief executive officer, former chief financial officer and chief operating officer were named as defendants in litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York, alleging that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The cases were consolidated, and Mr. LeBorys was named lead plaintiff. The Company's Motion to Dismiss filed with the Court on February 16, 2001 was heard on May 29, 2001 at which time the Court dismissed the suit without prejudice and granted leave to the Plaintiffs to amend and re-file their complaint on or before July 20, 2001. As the Plaintiffs did not re-file a complaint, the Court has dismissed the suit with prejudice. (See Note G - Litigation)

Karrington Health, Inc. brought suit against the Company alleging that the Company repudiated and ultimately breached a financing contract to provide $95,000,000 of financing for the development of 13 assisted living facilities. Karrington was seeking recovery of approximately $34,000,000 in damages it alleges to have incurred as a result of the breach. On August 13, 2001, the Company paid Karrington $10,000,000 to settle all claims arising from the suit, but without admission of any liability or fault by the Company, which liability is expressly denied. Based on the settlement, the suit has been dismissed with prejudice. (See Note G - Litigation)

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

Certain information contained in this report includes forward looking statements. Forward looking statements include statements regarding the Company's expectations, beliefs, intentions, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements other than statements of historical facts. These statements may be identified, without limitation, by the use of forward looking terminology such as "may" "will" "anticipates" "expects" "believes" "intends" "should" or comparable terms or the negative thereof. All forward looking statements included herein are based on information available on the date hereof. Such statements only speak as of the date hereof and no obligation to update such forward looking statements should be assumed. Actual results may differ materially from those reflected in such forward looking statements as a result of a variety of factors, including, among other things: (i) the ability of the Company to dispose of assets held for sale on a timely basis and at appropriate prices; (ii) uncertainties relating to the operation of the Company's Owned and Operated Assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels; (iii) the general distress of the healthcare industry; (iv) continued deterioration of the operating results and financial condition of the Company's operators; (v) the ability of the Company's operators in bankruptcy to reject unexpired lease obligations, modify the terms of the Company's mortgages, and impede the ability of the Company to collect unpaid rent or interest during the pendency of a bankruptcy proceeding and retain security deposits for the debtor's obligations; (vi) the availability and cost of capital; (vii) regulatory and other changes in the healthcare sector; (viii) the ability of the Company to manage , re-lease or sell its owned and operated facilities; (ix) competition in the financing of healthcare facilities; (x) the effect of economic and market conditions and changes in interest rates; (xi) the resumption of dividends; (xii) the amount and yield of any additional investments; (xiii) changes in tax laws and regulations affecting real estate investment trusts;(xiv) access to the capital markets and the cost of capital (xv) changes in the ratings of the Company's debt securities; (xvi) and the risk factors set forth herein, including without limitation Note C - Concentration of Risk and Related Issues to the Condensed Consolidated Financial Statements included in Item 1.

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 Note B - Properties and Note C -

Concentration of Risk and Related Issues.)

Results of Operations

Revenues for the three-month and six-month periods ended June 30, 2001 totaled $65.7 million and $134.8 million, respectively, a decrease of $4.8 million and an increase of $7.2 million, respectively, over the periods ending

June 30, 2000. Excluding nursing home revenues of Owned and Operated Assets, revenues were $21.9 million and $45.0 million, respectively, for the three-month and six-month periods ended June 30, 2001, a decrease of $2.5 million and $5.1 million, respectively, from the comparable prior year periods.

Rental income for the three-month and six-month periods ended June 30, 2001 totaled $14.7 million and $30.8 million, respectively, a decrease of $1.5 million and $3.5 million, respectively, over the same periods in 2000. The three-month decrease is due to $1.1 million reductions in lease revenue due to foreclosures, bankruptcies and restructurings and $0.7 million from reduced investments resulting from the sale of assets in 2000, offset by approximately $0.3 million relating to contractual increases in rents that became effective in 2001. The six-month decrease is due to $2.3 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings, and $1.8 million from reduced investments resulting from the sale of assets in 2000. These decreases are offset by $0.6 million relating to contractual increases in rents that became effective in 2001 as defined under the related agreements.

Mortgage interest income for the three-month and six-month periods ended June 30, 2001 totaled $5.5 million and $11.2 million, respectively, decreasing $0.4 million and $0.7 million, respectively, from the same periods in 2000. The decrease is due to reductions from foreclosures, bankruptcies and restructurings and reduced investments resulting from the payoffs of mortgage notes. These decreases are partially offset by contractual increases in interest income that became effective in 2001 as defined under the related agreements.

Nursing home revenues of owned and operated assets for the three-month and six-month periods ended June 30, 2001 totaled $43.8 million and $89.8 million, respectively, decreasing $2.3 million and increasing $12.3 million, respectively, over the same periods in 2000. The decrease for the three-month period is due to a decreased number of operated facilities versus the same three-month period in 2000 as a result of the closure of certain facilities and their reclassification to Assets Held for Sale as well as the re-lease of three facilities during the three-months ended June 30, 2001 to a new operator. The increase in the six-month period is primarily due to the inclusion of 30 facilities formerly operated by RainTree Healthcare Corporation ("RainTree") for the full six-month period ended June 30, 2001 versus four months during the six-month period ended June 30, 2000.

Expenses for the three-month and six-month periods ended June 30, 2001 totaled $82.0 million and $147.6 million, respectively, increasing approximately $16.2 million and $27.6 million, respectively, over expenses of $65.8 million and $120.0 million for the three-month and six-month periods ended June 30, 2000.

Nursing home expenses for owned and operated assets for the three-month period and six-month periods ended June 30, 2001 decreased by $3.2 million and increased by $12.2 million, respectively, from $46.9 million and $77.9 million for same periods in 2000. The decrease in the three-month period is due to a decreased number of facilities versus the same three-month period in 2000 as a result of the closure of certain facilities and their reclassification to Assets Held for Sale as well as the re-lease of three facilities during the three

months ended June 30, 2001 to a new operator. The increase in the six-month period is primarily due to the inclusion of 30 facilities formerly operated by RainTree for the full six-month period ended June 30, 2001 versus four months during the three-month period ended June 30, 2000.

The provision for depreciation and amortization totaled $5.5 million and $11.0 million, respectively, during the three-month and six-month periods ended June 30, 2001. This is a decrease of $0.3 million and $0.7 million, respectively, over the same periods in 2000. The decrease is primarily due to assets sold in 2000 and lower depreciable values due to impairment charges on owned and operated properties, and a reduction in the amortization of goodwill and non-compete agreements.

Interest expense for the three-month and six-month periods ended June 30, 2001 was approximately $9.2 million and $18.9 million, compared with $11.3 million and $22.4 million, respectively, for the same periods in 2000. The decrease in 2001 is primarily due to lower average outstanding borrowings during the 2001 period, partially offset by slightly higher average interest rates due to increased rate spreads under the Company's credit facilities versus last year.

General and administrative expenses for the three-month and six-month periods ended June 30, 2001 totaled $3.2 million and $5.5 million, respectively, as compared to $1.2 million and $2.8 million, respectively, for the same periods in 2000, an increase of $1.9 million and $2.7 million. The increase is due primarily to consulting costs related to the efforts associated with the business objective of re-leasing the Company's owned and operated assets, restructuring activities and other non-recurring expenses including executive recruiting fees.

Legal expenses for the three-month and six-month periods ended June 30, 2001 totaled $0.8 million and $1.7 million, respectively, an increase of $0.3 million and $1.2 million, respectively, over the same periods in 2000. The increase is largely attributable to legal costs associated with the foreclosure of assets and other negotiations with the Company's troubled operators as well as the defense of various lawsuits in which the Company is party to. (See Note G - - Litigation)

During the three-month period ended June 30, 2001 the Company recorded a $10 million litigation settlement expense related to a suit brought against it by Karrington, Health, Inc. (See Note G - Litigation)

A provision for impairment of $8.4 million is included in expenses for the six-month period ended June 30, 2001. This provision was to reduce the cost basis of assets recovered from a defaulting operator to their fair value less cost to dispose, as these assets are being marketed for sale. A provision for impairment of $4.5 million was recognized in the 2000 period.

A charge of $681,000 for provision for uncollectable accounts was taken during the three-month period ended June 30, 2001 relating to write-off of rents due from and funds advanced to the defaulting operator.

Severance and consulting agreement costs of $466,000 were recognized during the three-month period ended June 30, 2001 related to the termination of an employment contract with an officer of the Company.

During the six-month period ended June 30, 2001, the Company recognized a gain on disposal of real estate of $0.6 million. For the three-month and six-month periods ended June 30, 2000, a gain of $10.5 million was recognized on the disposal of real estate.

Funds from operations (FFO) for the three-month and six-month periods ended June 30, 2001 were deficits of $7.5 million and $2.7 million, respectively, a decrease of approximately $15.5 million and $21.8 million, respectively, as compared to the $8.0 million and $19.1 million for the same periods in 2000 due to factors mentioned above. Diluted FFO amounts were a deficit of $4.8 million and a positive $2.4 million, respectively, for the three-month and six-month periods ended June 30, 2001, as compared to the $9.1 million and $21.3 million for the same period in 2000 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. The Company considers FFO to be one performance measure which is helpful to investors of real estate companies because, along with cash flows from operating activities, financing activities and investing activities, it provides investors an understanding of the ability of the Company to incur and service debt, to make capital expenditures and to pay dividends to its shareholders. FFO in and of itself does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net earnings as an indication of operating performance or to net cash flow from operating activities as determined by GAAP as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

No provision for Federal income taxes has been made since the Company continues 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 has not been subject to Federal income taxes on amounts distributed to shareholders, as it distributed at least 95% (90% in 2001) of its real estate investment trust taxable income and has met certain other conditions.

Liquidity and Capital Resources

The settlement of the lawsuit with Karrington Health, Inc. fixed the amount of expense associated with this claim against the Company at $10 million and was therefore recorded at June 30, 2001. The recognition of this expense has resulted in a violation of one of the financial covenants in the loan agreements with the Company's primary lenders. The lenders have granted the Company a waiver through September 14, 2001 during which time all parties will be working together to resolve this covenant violation situation.

At June 30, 2001 the Company had total assets of $921.8 million, shareholders' equity of $459.7 million, and long-term debt of $425.7 million, representing approximately 46.2% of total capitalization. The Company has revolving credit facilities in place, providing up to $250 million of financing, of which $198.6 million was drawn at June 30, 2001. As of the date of this report, the Company has $14.7 million available under its secured revolving credit facilities. Certain assets that served as collateral for one of the credit facilities were recovered from a customer during the quarter. These assets are no longer eligible to serve as collateral, resulting in reduced availability under the credit facility. The Company has the ability to replace this collateral and increase the availability under the line by up to an additional $18.0 million subject to compliance with the applicable financial covenants. The Company's ability to draw upon the remaining availability under the credit facilities has been limited by the covenant violation waiver noted above until such time as a permanent resolution is attained.

As of June 30, 2001, the Company had an aggregate of $242 million of outstanding debt which matures in 2002, including $103.5 million of 6.95% Notes due June 2002 and $138 million on credit facilities expiring in 2002.

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

The Company anticipates that it will reinstate dividends on its common and preferred stock when the Company determines that it has sufficient resources or satisfactory plans to meet its 2002 debt maturities, but the Company can give no assurance as to when the dividends will be reinstated or the amount of the dividends if and when such payments are recommenced. Prior to recommencing the payment of dividends on the Company's Common stock, all accrued and unpaid dividends on the Company's Series A, B and C Preferred Stock must be paid in full. The Company has made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain its REIT status for 2000 and intends to satisfy such requirements under the REIT rules for 2001.

Cash dividends paid totaled $0.50 per common share for the three-month period ended March 31, 2000. No common dividends were paid during the first and second quarters of 2001 nor during the second quarter of 2000.

The Company has $50 million of funding available through July 1, 2001 pursuant to an Investment Agreement with Explorer Holdings, L.P. ("Explorer") which can be used, upon satisfaction of certain conditions, to fund growth. Following the drawing in full or expiration of this commitment, Explorer will have the option to provide up to an additional $50 million to fund growth for an additional twelve-month period.

Management believes the Company's liquidity and various sources of available capital, including funds from operations and expected proceeds from planned asset sales, are adequate to finance operations, meet recurring debt service requirements and fund future investments through the next 12 months, including through the waiver period, but is taking immediate steps to facilitate a refinancing of maturing 2002 debt, including the announced suspension of dividends and the pursuit of additional capital. As a result of the ongoing financial challenges facing long-term care operators, the availability of the external capital sources historically used by the Company has become extremely limited and expensive, and, therefore, no assurance can be given that the Company will be able to replace or extend the 2002 debt maturities, or that any refinancing or replacement financing would be on favorable terms to the Company. If the Company were unable to refinance its 2002 debt maturities or other indebtedness on acceptable terms, it might be forced to dispose of properties on disadvantageous terms, which might result in losses to the Company and might adversely affect the cash available for distribution to shareholders, or to pursue dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, the Company's interest expense would increase, which might affect the Company's ability to make distributions to its shareholders.

Item 3 - Quantitative and Qualitative Disclosure 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, but 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 June 30, 2001 was $398 million. A one-percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $4.7 million.

The Company is subject to risks associated with debt or preferred equity financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

The Company utilizes interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. At June 30, 2001, the Company had two interest rate swaps with notional amounts of $32 million each, based on 30-day London Interbank Offered Rates (LIBOR). Under the first $32 million agreement, the Company receives payments when LIBOR interest rates exceed 6.35% and pays the counterparties when LIBOR rates are under 6.35%. The amounts exchanged are based on the notional amounts. The $32 million agreement expires in December 2001 but may be extended for an additional year by the counterparty.

Under the terms of the second agreement, which expires in December 2002, the Company receives payments when LIBOR rates exceed 4.89% and pays the counterparties when LIBOR rates are under 4.89%. The combined fair value of the interest rate swaps at June 30, 2001 was a deficit of $988,485. (See Note I - Effect of New Accounting Pronouncements.)

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note G and Note J to the Condensed Consolidated Financial Statements in Item 1 hereto, which are hereby incorporated by reference in response to this item.

Item 2. Changes in Securities and Use of Proceeds

On March 30, 2001, the Company exercised its option to pay the accrued $4,666,667 Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of the Company's Common Stock at $6.25 per share.

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. The shares of Series C Preferred were issued without registration under the Securities Act of 1933, as amended (the "Securities Act") because the issuance did not involve a sale within the meaning of the Securities Act and/or in reliance upon the private placement exemption provided by Section 4(2) of the Securities Act.

Item 3. Defaults upon Senior Securities

(a) Payment Defaults. Not Applicable.

(b) Dividend Arrearages. On February 1, 2001, the Company announced the suspension of dividends on all common and preferred stock. See

Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. Dividends on the Company's preferred stock are cumulative, and therefore all accrued and unpaid dividends on the Company's Series A, B and C Preferred Stock must be paid in full prior to recommencing the payment of cash dividends on the Company's Common Stock. The table below sets forth information regarding arrearages in payment of preferred stock dividends:

Title of Class	Dividend Per Share	Annual Arrearage as of June 30, 2001
9.25% Series A Cumulative Preferred Stock	$2.3125	$2,659,375
8.625% Series B Cumulative Preferred Stock	$2.1563	2,156,250
Series C Preferred Stock	$10.0000	5,039,443
	TOTAL	$9,855,068

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

(a) The Company's Annual Meeting of Shareholders was held on May 22, 2001.

(b) The following directors were elected at the meeting for a three-year term: Edward Lowenthal, Christopher W. Mahowald and Stephen D. Plavin. Thomas W. Erickson, Donald J. McNamara and Daniel A. Decker were elected to complete the remainder of the terms of the directors who resigned prior to the completion of their terms. The following directors were not elected at the meeting but their term of office continued after the meeting: Thomas F. Franke, Harold J. Kloosterman and Bernard J. Korman.

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

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Manner of Vote Cast	Edward Lowenthal	Christopher W. Mahowald	Stephen D. Plavin	Thomas W. Erickson	Donald J. McNamara	Daniel A. Decker
For	34,078,188	34,067,752	34,072,686	34,062,778	34,063,083	34,080,253
Withheld	9,221	19,657	14,723	27,775	27,470	5,750
Against	--	--	--	--	--	--
Abstentions and broker non-votes	463,944	463,944	463,944	460,800	460,800	465,350

(b) Not applicable.

</TABLE>

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit	Description
10.1	Letter Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C. dated as of June 1, 2001
10.2	Employment Agreement between Omega Healthcare Investors, Inc. and C. Taylor Pickett, dated June 12, 2001

(b) Reports on Form 8-K - none were filed.

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: August 14, 2001 By: /s/ C. Taylor Pickett

C. Taylor Pickett
Chief Executive Officer

Date: August 14, 2001 By: /s/ Robert O. Stephenson

Robert O. Stephenson
Chief Financial Officer

Exhibit 10.1

The Hampstead Group, L.L.C.
2200 Ross Avenue, Suite 4200 West
Dallas, Texas 75201-6799

June 1, 2001

Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108

Ladies and Gentlemen:

Reference is made to the Amended and Restated Advisory Agreement dated as of October 4, 2000 (as amended, the "Agreement") between Omega Healthcare Investors, Inc. (the "Company") and The Hampstead Group, L.L.C. ("Hampstead"). Capitalized terms used herein but not defined have the meanings given to those terms in the Agreement.

By signing in the space provided below, Hampstead and the Company agree, in accordance with Section 1 of the Agreement, as follows:

A. Past Services.

The parties agree that Hampstead has previously provided services under the Agreement ("Past Services"), including without limitation the following:

1. Chief Financial Officer. Richard FitzPatrick has served full-time in the capacity as Chief Financial Officer of the Company for the period July 1, 2000 through April 30, 2001.

2. Chairman / Executive Chairman. Daniel Decker has served as Chairman/Executive Chairman of the Company since July 16, 2000 and has devoted substantially all his efforts during working hours to the Company's business.

3. Executive Search and Strategic Matters. Donald McNamara has assisted the Company in its search for a new Chief Executive Officer and other senior management and with respect to various strategic matters.

4. Company Indebtedness. Kurt Read, Steven Sheetz and/or other individuals at Hampstead have advised and assisted the Company in its efforts (i) to refinance, repay or extend the respective maturity dates of the Company's indebtedness that may be incurred pursuant to (A) the Loan Agreement, dated as of August 16, 2000, by and among the Company, Sterling Acquisition Corp., Delta Investors I, LLC, The Provident Bank, as Agent, and the various lenders named therein, as amended (the "Provident Debt"), (B) the Loan Agreement, dated as of June 15, 2000, by and among the Company and certain of its subsidiaries, the Banks signatory thereto and Fleet Bank, N.A., as Agent for such Banks, as amended (the "Fleet Debt"), (C) the Indenture, dated as of August 27, 1997, between the Company and NBD Bank, as Trustee, as amended (the "2002 Public Debt"), and (D) the Indenture, dated as of January 24, 1997, between the Company and NBD Bank, as Trustee, as amended (together with the Provident Debt, the Fleet Debt and the 2002 Public Debt, collectively, the "Company Indebtedness"), and (ii) to manage the Company's capitalization and liquidity.

5. Other Past Services. Various other individuals at Hampstead have devoted significant amounts of time with respect to financial, strategic growth, asset disposition and other matters.

B. Anticipated Services.

The parties agree that Hampstead shall provide the following services under the Agreement through December 31, 2001 ("Anticipated Services," and together with the Past Services, the "Services"):

1. Chief Financial Officer. Hampstead shall make Mr. FitzPatrick available to continue to serve as Chief Financial Officer of the Company at the sole cost and expense of the Company in accordance with the terms set forth on Annex A hereto.

2. Chairman/Executive Chairman. Hampstead shall make Mr. Decker available to continue to serve as the Company's Executive Chairman and will devote substantially all of his efforts during working hours to the Company's business until the date on which a Chief Executive Officer is hired by the Company. Thereafter, Mr. Decker will remain Chairman of the Company's Board of Directors with a significantly reduced time commitment as is consistent for a non-executive Chairman.

3. Executive Search and Strategic Matters. Hampstead shall make Donald

McNamara available to continue to assist the Company in its search for a new Chief Executive Officer and other senior management.

4. Company Indebtedness. Hampstead shall make Kurt Read, Steven Scheetz and/or other individuals designated by Hampstead available to continue to advise and assist the Company in its efforts (i) to refinance, repay or extend the respective maturity dates of the Company's Indebtedness, and (ii) to manage the Company's capitalization and liquidity.

5. Other Anticipated Services. Hampstead shall make William Cavanaugh available to continue to assist the Company in resolving its "re-leasing program" and "transition liability" issues. Mr. Cavanaugh and Michael Wallace (or another analyst designated by Hampstead) may, if the Company so requests and Hampstead so agrees, assist the Company on other specified matters.

6. Substitution of Personnel. In the event that any of the individuals above are not available to Hampstead and therefore cannot be made available to the Company, Hampstead will use its commercially reasonable best efforts to provide substitute personnel with similar expertise and training to the Company.

C. Agreement As To Compensation.

By signing in the space provided below, Hampstead and the Company agree, in accordance with Sections 2 and 3 of the Agreement, as follows:

1. Reimbursement of Out-of-Pocket Expenses. The Company will promptly reimburse Hampstead an amount in cash equal to $221,033 in respect of Out-of-Pocket Expenses incurred prior to January 1, 2001. The Company further agrees to promptly reimburse Hampstead for all Out-of-Pocket Expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by Hampstead under the Agreement or this letter agreement in accordance with Section 3 of the Agreement.

2. Reimbursement of Services of Chief Financial Officer. In addition to any Y2000/2001 Advisory Fee (as defined below), Fees that may be payable under the Agreement or reimbursements payable pursuant to Section 1 of this letter agreement (but without duplication), the Company will reimburse Hampstead an amount in cash equal to $295,833 in respect of services provided by Mr. FitzPatrick to the Company prior to May 1, 2001. As of May 1, 2001, Mr. FitzPatrick became an employee of the Company in accordance with the terms set forth in Annex A hereto. Hampstead will continue to provide health insurance and other benefits to Mr. FitzPatrick as described on Annex A hereto. Hampstead's costs in providing such benefits will be deemed to be Out-of-Pocket Expenses for purposes of Section 3 of the Agreement.

3. Financial Advisory Fee. (a) Section 2 of the Agreement will become Section 2(a). The following will be added to the end of Section 2 of the Agreement:

> "; provided, however, that, in consideration for the Services provided or to be provided by the Advisor under this Agreement as defined in that certain letter agreement between the Company and the Advisor dated as of June 1, 2001 (the "Letter Agreement"), the Company will pay to the Advisor the advisory fees set forth in paragraph (b) of this Section 2 (the "Y2000/2001 Advisory Fee").
>
> (b) With respect to any Company Indebtedness (as defined in the Letter Agreement) that, on or before December 31, 2002, (i) is refinanced, whether such refinancing is provided by the same lender as the original indebtedness or otherwise, with a maturity date at least 12 months after the maturity date of such Company Indebtedness in effect on the date hereof, (ii) is repaid, whether such repayments are made from the Company's cash flows, assets sales or otherwise, or (iii) the maturity date is extended to a date that is at least 12 months after the maturity date of such Company Indebtedness in effect on the date hereof (any such Company Indebtedness so refinanced, repaid or the maturity date so extended, "Refinanced Debt"), the Company will pay the Advisor a fee equal to 1% of the aggregate amount of Refinanced Debt. For the avoidance of doubt, Refinanced Debt will include the maximum amount of Company Indebtedness that could have been outstanding had all amounts available thereunder been fully drawn and not subsequently repaid (regardless of whether the full amount of such Company Indebtedness is then outstanding at the time it is refinanced, repaid or extended). In no event will the Y2000/2001 Advisory Fee payable under this Section 2 exceed $3.1 million.
>
> (c) Payment of any Y2000/2001 Advisory Fee will be made by the Company to the Advisor within five business days after the date on which any Company Indebtedness becomes Refinanced Debt, provided, however, that:
>
> > (i) unless the entire balance of the $10.0 million Revolving Loan B under the Provident Debt maturing on March

31, 2002 has been refinanced, repaid or extended, the amount of the Y2000/2001 Advisory Fee relating to any such Refinanced Debt will not be paid until March 31, 2002;

(ii) unless the entire balance of the $125.0 million in 2002 Public Debt maturing on June 15, 2002 has been refinanced, repaid or extended, the amount of the Y2000/2001 Advisory Fee relating to any such Refinanced Debt will not be paid until June 15, 2002;

(iii) unless the entire balance of the Fleet Debt maturing on December 31, 2002 has been refinanced, repaid or extended, the amount of the Y2000/2001 Advisory Fee relating to any such Refinanced Debt will not be paid until December 31, 2002; and

(iv) no portion of the Advisory Fee will be payable prior to December 31, 2001 in any event.

(d) Notwithstanding the foregoing, nothing herein will prevent the Company from engaging one or more investment bankers, mortgage bankers or other third party advisors to assist with refinancing, repayment and/or the extension of the maturity of any Company Indebtedness; provided, however, that in no event will any such engagement reduce the Y2000/2001 Advisory Fees payable hereunder to the Advisor."

4. Term. The phrase "July 1, 2001" in Section 6(ii) of the Agreement is hereby deleted and replaced with "December 31, 2001."

5. Limitation on Fees and Services. Except as described herein or otherwise subsequently agreed, (i) the Company will have no obligation to reimburse Hampstead for Mr. Decker's past services, any other past services or any Anticipated Services through December 31, 2001 (except for compensation paid or payable to Hampstead personnel in their capacity as directors of the Company) and (ii) Hampstead will have no obligation to provide services to the Company.

The parties acknowledge that the compensation payable to Hampstead hereunder is based on the Past Services, the Anticipated Services to be provided hereunder and the parties' current assessment of the time to be spent until December 31, 2001 to achieve the parties' objectives. The parties also acknowledge that, in the event that other challenges or opportunities develop, the parties' estimates of future services required could be dramatically understated and the achievement of these objectives may require services beyond December 31, 2001. In either case, each of Hampstead and the Company agree to negotiate in good faith to increase Hampstead's compensation to fairly compensate Hampstead for such expanded services.

Each of the Company and Hampstead represent and warrant to the 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 limited liability action, as applicable, 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.

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. 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 will be deemed to be an original signature page.

The provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns but are otherwise not intended to confer upon any person other than the parties hereto any rights or remedies. Except as otherwise expressly amended hereby, the terms and provisions of the Agreement will remain in full force and effect.

[Remainder of page intentionally left blank]

By signing below, each of the parties agrees to be bound hereby.

THE HAMPSTEAD GROUP, L.L.C.

By: /s/ WILLIAM T. CAVANAUGH

William T. Cavanaugh, Jr.

Vice President

Agreed and accepted as of the date first written above, which agreement has been approved by a majority of the Company's independent directors.

OMEGA HEALTHCARE
INVESTORS, INC.

By: /s/ THOMAS W. ERICKSON

Thomas W. Erickson
Chief Executive Officer

Exhibit 10.2

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") to be effective as of the 12th day of June, 2001 (the "Effective Date"), between Omega Healthcare Investors, Inc. (the "Company"), and C. Taylor Pickett (the "Executive").

INTRODUCTION

The Company and the Executive now desire to enter into this Agreement confirming the terms of the Executive's employment.

NOW, THEREFORE, the parties agree as follows:

1. Terms and Conditions of Employment.

(a) Employment. During the Term, Company will employ the Executive, and the Executive will serve as the Chief Executive Officer of the Company on a full-time basis and will have such responsibilities and authority as may from time to time be assigned to the Executive by the Board of Directors of the Company. The Executive will report to the Board of Directors of the Company. The Executive will also be permitted to attend all meetings of the Board of Directors and executive sessions thereof (except for portions of meetings or executive sessions involving discussions relating to the Executive's employment, including without limitation, his compensation and performance ("Executive's Employment Issues")) and shall be provided copies of all materials provided to the Board of Directors (except those relating to Executive's Employment Issues). The Board of Directors will use its commercially reasonable best efforts to cause the shareholders of the Company to approve amendments to the Company's Articles of Incorporation and Bylaws to increase the maximum number of directors of the Company; provided, however, that nothing herein shall obligate the Company to call a special meeting of stockholders to accomplish such amendments. If the shareholders approve such amendments, the Executive will be appointed to serve as a member of the Board of Directors of the Company if he is then serving as the Chief Executive Officer, and he shall so serve without additional compensation beyond that set forth in this Agreement, and shall continue to so serve for so long as he is thereafter elected to such position by the Company's stockholders. The Executive's primary office will be at the Company's headquarters in such geographic location within the United States as may be determined by the Company.

(b) Exclusivity. Throughout the Executive's employment hereunder, the Executive shall devote substantially all of the Executive's time, energy and skill during regular business hours to the performance of the duties of the Executive's employment, shall faithfully and industriously perform such duties, and shall diligently follow and implement all management policies and decisions of the Company; provided, however, that this provision is not intended to prevent the Executive from managing his investments, so long as he gives his duties to the Company first priority and such investment activities do not interfere with his performance of duties for the Company. Notwithstanding the foregoing, other than with regard to the Executive's duties to the Company, the Executive will not accept any other employment during the Term, perform any consulting services during the Term, or serve on the board of directors or governing body of any other business, except with the prior written consent of the Board of Directors. Further, the Executive has disclosed on Exhibit A hereto, all of his healthcare related investments, and agrees during the Term not to make any investments during the term hereof except as a passive investor.

2. Compensation.

(a) Base Salary. Beginning on the date of this Agreement, the Company shall pay the Executive base salary of $450,000 per annum, which base salary will be subject to review effective as of January 1, 2003, and at least annually thereafter, by the Company for possible increases. The base salary shall be payable in equal installments, no less frequently than bi-monthly, in accordance with the Company's regular payroll practices.

(b) Bonus. The Executive shall be eligible for an annual bonus of up to 100% of the Executive's annual base salary ("Bonus"), which Bonus, if any, shall be payable as soon as feasible following the year the Bonus is earned. The Bonus criteria shall be determined in the discretion of the Compensation Committee of the Board of Directors of the Company and shall consist of such objective, subjective and personal performance goals as the Compensation Committee shall determine appropriate. The Bonus for the year ending December 31, 2001, may be prorated by the Compensation Committee for the partial year the Executive works in 2001. The Bonus for any calendar year will be earned and accrued for that year only if the Executive remains employed by the Company through the last day of the year.

(c) Stock Option. As of the Effective Date, the Company shall grant the Executive stock options to purchase 800,000 shares of the common stock of the Company at an exercise price per share equal to the weighted average trading price of the Company's common stock as of the trading day immediately preceding the Effective Date. A portion of the options will be designated as an "incentive stock option" (within the meaning of Section 422 of the Internal Revenue Code) as of the date of grant as to the maximum number of shares permitted under Section 422(d) of the Internal Revenue Code, based on the assumption, solely for purposes of determining such maximum number, that the Executive remains employed with the Company for four years from the date of grant and vests accordingly pursuant to the vesting schedule set forth in the form of incentive stock option agreement attached hereto as an Exhibit. The balance will be designated as a nonqualified stock option as of the date of grant. [Assuming an exercise price of $2.10 per share (approximate current trading price) and continuous employment through the ISO Vesting Schedule (defined below), under those assumptions, the portion of the options designated as incentive stock options as of the date of grant would be for 190,478 shares (i.e. 47,619 shares (or $100,000/$2.10) first vesting and exercisable in each of 2002, 2003, 2004, and 2005.) The "ISO Vesting Schedule shall mean (1) the portion of the option for a number of shares equal to $100,000 divided by the exercise price per share vesting on December 31, 2002, (2) the portion of the option for 50% of the shares minus the number of shares in clause (1), vesting after 2 years, and (3) the portion of the option for 25% of the shares vesting ratably each month in 2004, and (4) the portion of the option for the remaining 25% of the shares vesting ratably each month over the first six months in 2005.] Such stock options shall be subject to the terms of the stock option award agreements (attached hereto as Exhibits) and the terms of the applicable stock option plan maintained by the Company.

(d) Restricted Stock. As of the Effective Date, the Company shall grant the Executive a restricted stock award for 50,000 shares of common stock of the Company, subject to the terms of the restricted stock award agreement (attached hereto as an Exhibit) and the terms of the applicable stock incentive plan maintained by the Company.

(e) Expenses. The Executive shall be entitled to be reimbursed in accordance with Company policy for reasonable and necessary expenses incurred by the Executive in connection with the performance of the Executive's duties of employment hereunder; provided, however, the Executive shall, as a condition of such reimbursement, submit verification of the nature and amount of such expenses in accordance with the reasonable reimbursement policies from time to time adopted by the Company. Until June 12, 2002, or the date the Executive relocates his primary residence from the Baltimore, Maryland area, if earlier, the Company will reimburse the Executive for his reasonable travel expenses between the Baltimore area and the Company's headquarters, and the Executive's reasonable lodging and living expenses in the area of the Company's headquarters.

(f) Vacation. The Executive shall be entitled to vacation in accordance with the terms of Company policy.

(g) Benefits. In addition to the benefits payable to the Executive specifically described herein, the Executive shall be entitled to such benefits as generally may be made available to all other Executives of the Company from time to time; provided, however, that nothing contained herein shall require the establishment or continuation of any particular plan or program.

(h) Withholding. All payments pursuant to this Agreement shall be reduced for any applicable state, local, or federal tax withholding obligations.

3. <u>Term, Termination and Termination Payments.</u>

(a) Term. The term of this Agreement shall begin as of the Effective Date. It shall continue through the fourth anniversary of the Effective Date (the "Term").

(b) Termination. This Agreement and the employment of the Executive by the Company hereunder may only be terminated: (i) by expiration of the Term; (ii) by mutual agreement of the parties; (ii) by the Company without Cause; (iii) by the Executive for Good Reason; (iv) by the Company or the Executive due to the Disability of the Executive; (v) by the Company for Cause; or (vi) by the Executive for any reason in his sole discretion, upon at least sixty (60) days prior written notice to the Company. This Agreement shall also terminate immediately upon the death of the Executive. Notice of termination by any party shall be given prior to termination in writing and shall specify the basis for termination and the effective date of termination. Notice of termination for Cause by the Company or Good Reason by the Executive shall specify the basis for termination for Cause or Good Reason, as applicable. The Executive shall not be entitled to any payments or benefits after the effective date of the termination of this Agreement, except for base salary pursuant to Section 2(a) accrued up to the effective date of termination, any unpaid earned and accrued Bonus, if any, pursuant to Section 2(b), as provided under the terms of the stock option agreements and restricted stock agreements referred to in Section 2(c) and Section 2(d), respectively, and expenses required to be reimbursed pursuant to Section 2(e). The expiration of the Term shall not be deemed to result in termination without Cause by the Company or termination for Good Reason by the Executive.

(c) Termination by the Company without Cause or by the Executive for Good Reason. In the event the employment of the Executive is terminated by the Company without Cause or by the Executive for Good Reason, the Company will continue to pay the Executive the sum of (i) his base salary pursuant to Section 2(a) hereof for a period of the shorter of twelve months following the date of termination or the then remaining Term, in either case on the same schedule as if the Executive had continued to perform services for such period and (ii) an amount equal to the Bonus actually paid to Executive during the prior year, paid in twelve monthly equal installments. In the event a termination occurs under this Section 3(c) prior to the calculation of the Executive's Bonus for 2001, then a deemed Bonus equal to $225,000 will be used strictly for the purpose of calculating the severance payment hereunder. As a condition to the payment of any severance pay hereunder, the Executive shall be required to execute and not revoke within the revocation period provided therein, the Release.

(d) Survival. The covenants in Sections 4, 5, and 6 hereof shall survive the termination of this Agreement and shall not be extinguished thereby.

4. Ownership and Protection of Proprietary Information.

(a) Confidentiality. All Confidential Information and Trade Secrets and all physical embodiments thereof received or developed by the Executive while employed by the Company are confidential to and are and will remain the sole and exclusive property of the Company. Except to the extent necessary to perform the duties assigned by the Company hereunder, the Executive will hold such Confidential Information and Trade Secrets in trust and strictest confidence, and will not use, reproduce, distribute, disclose or otherwise disseminate the Confidential Information and Trade Secrets or any physical embodiments thereof and may in no event take any action causing or fail to take the action necessary in order to prevent, any Confidential Information and Trade Secrets disclosed to or developed by the Executive to lose its character or cease to qualify as Confidential Information or Trade Secrets.

(b) Return of Company Property. Upon request by the Company, and in any event upon termination of this Agreement for any reason, as a prior condition to receiving any final compensation hereunder (including any payments pursuant to Section 3 hereof), the Executive will promptly deliver to the Company all property belonging to the Company, including, without limitation, all Confidential Information and Trade Secrets (and all embodiments thereof) then in the Executive's custody, control or possession.

(c) Survival. The covenants of confidentiality set forth herein will apply on and after the date hereof to any Confidential Information and Trade Secrets disclosed by the Company or developed by the Executive prior to or after the date hereof. The covenants restricting the use of Confidential Information will continue and be maintained by the Executive for a period of two years following the termination of this Agreement. The covenants restricting the use of Trade Secrets will continue and be maintained by the Executive following termination of this Agreement for so long as permitted by the governing law.

5. Non-Competition and Non-Solicitation Provisions.

(a) The Executive agrees that during the Applicable Period, the Executive will not (except on behalf of or with the prior written consent of the Company, which consent may be withheld in Company's sole discretion), within the Area either directly or indirectly, on his own behalf, or in the service of or on behalf of others, engage in or provide managerial services or management consulting services to, any Competing Business. The Executive acknowledges and agrees that the Business of the Company is conducted in the Area.

(b) The Executive agrees that during the Applicable Period, he will not, either directly or indirectly, on his own behalf or in the service of or on behalf of others solicit, divert or appropriate, or attempt to solicit, divert or appropriate, to a Competing Business, any individual or entity which is an actual or, to his knowledge, actively sought prospective client or customer of the Company or any of its Affiliates (determined as of date of termination of employment) with whom he had material contact while he was an Executive of the Company.

(c) The Executive agrees that during the Applicable Period, he will not, either directly or indirectly, on his own behalf or in the service of or on behalf of others, solicit, divert or hire, or attempt to solicit, divert or hire, or encourage to go to work for anyone other than the Company or its Affiliates, any person that is a management level or key employee of the Company or an Affiliate.

(d) The Executive agrees that during the Applicable Period, he will not take any action that is adverse to the interests of the Company or any of its Affiliates or make any statement (written or oral) that could reasonably be perceived as disparaging to the Company or any person or entity that he reasonably should know is an Affiliate of the Company or any statement (written or oral) that is damaging to the commercial interests of the Company or any person or entity that he reasonably should know is an Affiliate of the Company.

(e) In the event that this Section 5 is determined by a court which has jurisdiction to be unenforceable in part or in whole, it shall be deemed to be revised to the minimum extent necessary to be enforceable to the maximum extent permitted by law.

6. Agreements with Former Employer or Business/Noninterference with Duties/No Litigation.

The Executive hereby represents, warrants, and covenants that he is not and shall not be, during the period of time which begins as of the Effective Date and extends through the Term, subject to any employment or consulting agreement or other document, with another employer or with any business as to which the Executive's employment by the Company and provision of services in the capacity contemplated herein would be a breach. The Executive hereby represents, warrants, and covenants that he is not and shall not be subject to any agreement which prohibits the Executive during the period of time which begins as of the Effective Date and extends through the Term from any of the following: (i) providing services for the Company in the capacity contemplated by this Agreement; (ii) competing with, or in any way participating in a business which includes the Company's business; (iii) soliciting personnel of such former employer or other business to leave such former employer's employment or to leave such other business; or (iv) soliciting customers of such former employer or other business on behalf of another business. Further, the Executive is not aware of the existence of any circumstances that could materially interfere with his duties under this Agreement, and the Executive represents and warrants that there is no pending or threatened litigation against him unrelated to Executive's role as an officer at Integrated Health Services, Inc. and its subsidiaries.

7. Remedies and Enforceability.

The Executive agrees that the covenants, agreements, and representations contained in Sections 4, 5, and 6 hereof are of the essence of this Agreement; that each of such covenants are reasonable and necessary to protect and preserve the interests and properties of the Company; that irreparable loss and damage will be suffered by the Company should the Executive breach any of such covenants and agreements; that each of such covenants and agreements is separate, distinct and severable not only from the other of such covenants and agreements but also from the other and remaining provisions of this Agreement; that the unenforceability of any such covenant or agreement shall not affect the validity or enforceability of any other such covenant or agreements or any other provision or provisions of this Agreement; and that, in addition to other remedies available to it, including, without limitation, termination of the Executive's employment for cause, the Company shall be entitled to seek both temporary and permanent injunctions to prevent a breach or contemplated breach by the Executive of any of such covenants or agreements.

8. Notice.

All notices, requests, demands and other communications required hereunder shall be in writing and shall be deemed to have been duly given if delivered or if mailed, by United States certified or registered mail, prepaid to the party to which the same is directed at the following addresses (or at such other addresses as shall be given in writing by the parties to one another):

If to the Company:	Omega Healthcare Investors, Inc. 900 Victors Way Suite 350 Ann Arbor, MI 48108 Attn: Chairman
If to the Executive:	C. Taylor Pickett 3509 Houcks Mill Road Monkton , MD 21111

Notices delivered in person shall be effective on the date of delivery. Notices delivered by mail as aforesaid shall be effective upon the third calendar day subsequent to the postmark date thereof.

9. Miscellaneous.

(a) Assignment. The rights and obligations of the Company under this

Agreement shall inure to the benefit of the Company's successors and assigns. This Agreement may be assigned by the Company to any legal successor to the Company's business or to an entity that purchases all or substantially all of the assets of the Company, but not otherwise without the prior written consent of the Executive. In the event the Company assigns this Agreement as permitted by this Agreement and the Executive remains employed by the assignee, the "Company" as defined herein will refer to the assignee and the Executive will not be deemed to have terminated his employment hereunder until the Executive terminates his employment with the assignee. The Executive may not assign this Agreement.

(b) Waiver. The waiver of any breach of this Agreement by any party shall not be effective unless in writing, and no such waiver shall constitute the waiver of the same or another breach on a subsequent occasion.

(c) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Michigan. The parties agree that any appropriate state or federal court located in Ann Arbor, Michigan shall have jurisdiction of any case or controversy arising under or in connection with this Agreement and shall be a proper forum in which to adjudicate such case or controversy. The parties consent to the jurisdiction of such courts. Notwithstanding the foregoing, if requested by the Company, in connection with any relocation of the Company's headquarters to another state, the Executive will enter into an amendment to this Agreement to make it governed by such state's laws and subject to the jurisdiction of the appropriate state or federal courts located in such state.

(d) Entire Agreement. This Agreement embodies the entire agreement of the parties hereto relating to the subject matter hereof and supersedes all oral agreements, and to the extent inconsistent with the terms hereof, all other written agreements.

(e) Amendment. This Agreement may not be modified, amended, supplemented or terminated except by a written instrument executed by the parties hereto.

(f) Severability. Each of the covenants and agreements hereinabove contained shall be deemed separate, severable and independent covenants, and in the event that any covenant shall be declared invalid by any court of competent jurisdiction, such invalidity shall not in any manner affect or impair the validity or enforceability of any other part or provision of such covenant or of any other covenant contained herein.

(g) Captions and Section Headings. Except as set forth in Section 10 hereof, captions and section headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

10. Definitions

(a) "Affiliate" means any person, firm, corporation, partnership, association or entity that, directly or indirectly or through one or more intermediaries, controls, is controlled by or is under common control with the Company.

(b) "Applicable Period" means the period commencing as of the date of this Agreement and ending twelve months after the termination of the Executive's employment with the Company or any of its Affiliates.

(c) "Area" means Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Missouri, Nevada, New Hampshire, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Washington, and West Virginia, and such other states where the Company or its subsidiaries may materially do business during the Term.

(d) "Business of the Company" means any business with the primary purpose of leasing assets to healthcare operators, or financing the ownership or operation of, senior housing, long-term care facilities, assisted living facilities, retirement housing facilities, or other healthcare related real estate, and ancillary financing businesses relating to any of the foregoing.

(e) "Cause" the occurrence of any of the following events:

(i) willful refusal by the Executive to follow a lawful direction of the Board of Directors of the Company, provided the direction is not materially inconsistent with the duties or responsibilities of the Executive's position as Chief Executive Officer of the Company, which refusal continues after the Board of Directors has again given the direction;

(ii) willful misconduct or reckless disregard by the Executive of his duties or of the interest or property of the Company;

(iii) intentional disclosure by the Executive to an unauthorized person of Confidential Information or Trade Secrets, which causes material harm to the Company;

(iv) any act by the Executive of fraud, material misappropriation, significant dishonesty, or act involving moral turpitude;

(v) commission by the Executive of a felony; or

(vi) a material breach of this Agreement by the Executive, provided that the nature of such breach shall be set forth with reasonable particularity in a written notice to the Executive who shall have ten (10) days following delivery of such notice to cure such alleged breach, provided that such breach is, in the reasonable discretion of the Board of Directors, susceptible to a cure.

(f) "Competing Business" means any person, firm, corporation, joint venture, or other business that is engaged in the Business of the Company.

(g) "Confidential Information" means data and information relating to the Business of the Company or an Affiliate (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through his relationship to the Company or an Affiliate and which has value to the Company or an Affiliate and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Company or an Affiliate (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means without breach of any obligations of confidentiality owed to the Company or any of its Affiliates.

(h) "Disability" means the inability of the Executive to perform the material duties of his position as Chief Executive Officer hereunder due to a physical, mental, or emotional impairment, for a ninety (90) consecutive day period or for aggregate of one hundred eighty (180) days during any three hundred sixty-five (365) day period.

(i) "Good Reason" means the occurrence of all of the events listed in either (i) or (ii) below:

(i) (A) the Company materially breaches this Agreement, including without limitation, a material diminution of the Executive's responsibilities as CEO as established in the sole discretion of the Board of Directors of the Company within the first 180 days of the Executive's employment hereunder, as reasonably modified by the Board of Directors from time to time thereafter, such that the Executive would no longer have responsibilities substantially equivalent to those of other CEO's at companies with similar revenues and market capitalization;

(B) the Executive gives written notice to the Company of the facts and circumstances constituting the breach of the Agreement within ten (10) days following the occurrence of the breach;

(C) the Company fails to remedy the breach within ten (10) days following the Executive's written notice of the breach; and

(D) the Executive terminates his employment and this Agreement within ten (10) days following the Company's failure to remedy the breach.

(ii) (A) the Company relocates the Executive's primary place of employment to a new location (other than a location in the Ann Arbor, Michigan area, or the Baltimore, Maryland area), that is more than fifty (50) miles from its current location, without the Executive's consent; and

(B) the Executive provides the Company with written notice of intent to terminate employment for a reason specified by the Executive pursuant to Section 10(ii)(A) above at least thirty days prior to the effective date of termination of employment (such termination to occur only during the period of January 1 through January 31 of the year following the calendar year in which the relocation occurred); and the Executive does in fact terminate employment during the period of January 1 through January 31 of the year following the calendar year in which the relocation occurred.

(j) "Release" means a comprehensive release, covenant not to sue, and non-disparagement agreement from the Executive in favor of the Company, its executives, officers, directors, Affiliates, and all related parties, in such form as the Company may provide to the Executive in its sole discretion.

(k) "Term" has the meaning as set forth in Section 3(a) hereof.

(l) "Trade Secrets" means information including, but not limited to, technical or nontechnical data, formulae, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Company and the Executive have each executed and delivered this Agreement as of the date first shown above.

COMPANY:

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ Daniel Decker

Daniel Decker, Chairman

THE EXECUTIVE:

/s/ C. Taylor Pickett

C. Taylor Pickett

EXHIBIT A

Investment	Ownership
Chance Murphy, Inc.	49.5%