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

FORM 10-Q

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

For the quarterly period ended September 30, 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 September 30, 2001

Common Stock, $.10 par value	20,076,024
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
September 30, 2001

INDEX

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

<TABLE>
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	September 30, 2001 (Unaudited)	December 31, 2000 (See Note)
ASSETS		
Real estate properties		
Land and buildings at cost	$ 701,370	$ 710,542
Less accumulated depreciation	(101,861)	(89,870)
Real estate properties - net	599,509	620,672
Mortgage notes receivable - net	185,861	206,710
	785,370	827,382
Other investments	47,818	53,242
	833,188	880,624
Assets held for sale - net	7,377	4,013
Total Investments	840,565	884,637
Cash and cash equivalents	14,145	7,172
Accounts receivable	6,881	10,497
Other assets	3,789	9,338
Operating assets for owned properties	45,885	36,807
Total Assets	$ 911,265	$ 948,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving lines of credit	$ 203,641	$ 185,641
Unsecured borrowings	199,641	225,000
Other long-term borrowings	22,755	24,161
Subordinated convertible debentures	-	16,590
Accrued expenses and other liabilities	16,708	18,002
Operating liabilities for owned properties	11,861	14,744
Total Liabilities	454,606	484,138
Preferred Stock	212,342	207,500
Common stock and additional paid-in capital	440,392	440,556
Cumulative net earnings	171,272	182,548
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(607)
Accumulated other comprehensive loss	(1,491)	(30) -
Total Stockholders' Equity	456,659	464,313
Total Liabilities and Stockholders' Equity	$ 911,265	$ 948,451

</TABLE>

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

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

(In Thousands, Except Per Share Amounts)

<TABLE>
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
Rental income	$ 14,936	$ 15,503	$ 45,686	$ 49,652
Mortgage interest income	5,130	5,888	16,343	17,800
Other investment income - net	1,374	534	3,640	4,277
Nursing home revenues of owned and operated assets	43,820	45,960	133,613	123,461
Miscellaneous	1,575	126	2,384	483
	66,835	68,011	201,666	195,673
Expenses				
Nursing home expenses of owned and operated assets	44,439	48,552	134,565	126,436
Depreciation and amortization	5,515	5,657	16,560	17,385
Interest	9,124	9,846	28,039	32,221
General and administrative	2,203	1,830	7,707	4,631
Legal	1,145	481	2,862	974
State taxes	126	15	339	241
Litigation settlement expense	-	-	10,000	-
Provision for impairment	-	49,849	8,381	54,349
Provision for uncollectable accounts	19	12,100	700	12,100
Severance, moving and consulting agreement costs	4,300	4,665	4,766	4,665
Charges for derivative accounting	561	-	1,113	-
	67,432	132,995	215,032	253,002
Loss before (loss) gain on assets sold and gain on early extinguishment of debt	(597)	(64,984)	(13,366)	(57,329)
(Loss) gain on assets sold - net	(1,485)	(109)	(873)	10,342
Gain on early extinguishment of debt	226	-	2,963	-

Net loss	(1,856)	(65,093)	(11,276)	(46,987)
Preferred stock dividends	(5,029)	(5,705)	(14,966)	(10,520)
Net loss available to common	$ (6,885)	$ (70,798)	$ (26,242)	$ (57,507)
Loss per common share:				
Net loss per share - basic	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Net loss per share - diluted	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Dividends declared and paid per common share	$ -	$ 0.25	$ -	$ 0.75
Weighted Average Shares Outstanding, Basic	20,071	20,064	20,032	20,058
Weighted Average Shares Outstanding, Diluted	20,071	20,064	20,032	20,058
Other comprehensive loss:				
Unrealized Loss on Omega Worldwide, Inc	$ (814)	$ (1,745)	$ (567)	$ (2,944)
Unrealized Loss on Hedging Contracts	$ (458)	$ -	$ (894)	$ -
Total comprehensive loss	$ (3,128)	$ (66,838)	$ (12,737)	$ (49,931)

</TABLE>

See notes to condensed consolidated financial statements.

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

<TABLE>
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	Nine Months Ended September 30,	
	2001	2000
Operating activities		
Net loss	$ (11,276)	$(46,987)
Adjustment to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	16,560	17,385
Provision for impairment	8,381	54,349
Provision for collection losses	700	12,100
Loss/(Gain) on assets sold - net	873	(10,342)
Gain on early extinguishment of debt	(2,963)	-
Other	3,291	2,078
Net change in accounts receivable for Owned & Operated assets - net	(8,120)	(17,087)
Net change in accounts payable for Owned & Operated assets	(3,776)	5,421
Net change in other Owned & Operated assets and liabilities	(97)	(12,723)
Net change in operating assets and liabilities	3,875	(3,383)

-		
Net cash provided by operating activities	7,448	811
Cash flow from financing activities		
Proceeds of revolving lines of credit - net	18,000	25,041
Payments of long-term borrowings	(43,355)	(121,447)
Receipts from Dividend Reinvestment Plan	29	430
Dividends paid	-	(22,253)
Proceeds from preferred stock offering	-	100,000
Deferred financing costs paid	(852)	(4,976)
Other	(45)	(9,339)
	---	-----
-		
Net cash used in financing activities	(26,223)	(32,544)
Cash flow from investing activities		
Proceeds from sale of real estate investments - net	1,514	35,793
Fundings of other investments - net	1,444	(5,507)
Collection of mortgage principal	22,790	1,632
	------	----
-		
Net cash provided by investing activities	25,748	31,918
	------	-----
-		
Increase in cash and cash equivalents	6,973	185
Cash and cash equivalents at beginning of period	7,172	4,105
	-----	----
-		
Cash and cash equivalents at end of period	$ 14,145	$ 4,290
	========	=======

</TABLE>

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2001

Note A - Basis of Presentation

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

Note B - Properties

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

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

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

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

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	Purchase /		Owned &	Total Healthcare	Held for	
Facility Count	Leaseback	Mortgages	Operated	Facilities	Sale	Total
Balance at June 30, 2001	129	57	63	249	9	258
Properties transferred to Held for Sale	-	-	(2)	(2)	2	-
Properties transferred to Owned & Operated	-	-	-	-	-	-
Properties Sold / Mortgages Paid	-	-	(1)	(1)	(1)	(2)
Properties Leased / Mortgages Placed	-	-	-	-	-	-
Properties transferred to Purchase/Leaseback	2	(2)	-	-	-	-
Balance at September 30, 2001	131	55	60	246	10	256

Gross Investment						
Balance at June 30, 2001	$ 581,468	$ 180,768	$ 121,368	$ 883,604	$ 5,698	$889,302
Properties transferred to Held for Sale	-	-	(2,230)	(2,230)	2,230	-
Properties transferred to Owned & Operated	-	-	-	-	-	-
Properties Sold / Mortgages Paid	-	-	(3,404)	(3,404)	(149)	(3,553)
Properties Leased / Mortgages Placed	-	9,360	-	9,360	-	9,360
Properties transferred to Purchase / Leaseback	3,900	(3,900)	-	-	-	-
Capex and other	-	(367)	268	(99)	(402)	(501)
Balance at September 30, 2001	$ 585,368	$ 185,861	$ 116,002	$ 887,231	$ 7,377	$894,608

</TABLE>

Real Estate Dispositions

The Company disposed of two facilities during the three-month period ended September 30, 2001. One facility, located in Texas, had a total of 120 beds and was classified as Owned & Operated Assets. The Company recognized a loss on disposition of this facility of $1.5 million. The other facility, located in Indiana, was classified as Assets Held for Sale. The Company recognized a net gain on disposition of assets during the nine-month period ended September 30, 2000 of $10.3 million. The net gain was comprised of a $10.9 million gain on the sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a 57 bed facility in Colorado.

Notes and Mortgages Receivable

Income on notes and mortgages that are impaired will be recognized as cash is received. During the nine-month period ended September 30, 2000 the Company

recorded a charge of $12.1 million to provision for loss on mortgages ($4.9 million) and notes receivable ($7.2 million).

During the quarter ended September 30, 2001, the Company entered into a comprehensive settlement with Mariner Post-Acute Network, Inc. ("Mariner"), resolving all outstanding issues relating to the Company's loan to Professional Healthcare Management, Inc. ("PHCM"), a subsidiary of Mariner. Pursuant to the settlement, the PHCM loan is secured by a first mortgage on 12 skilled nursing facilities owned by PHCM with 1,668 operating beds. PHCM will remain obligated on the total outstanding loan balance as of January 18, 2000, the date Mariner filed for protection under Chapter 11 of the Bankruptcy Act, and is to pay the

Company accrued interest at a rate of approximately 11% for the period from the filing date until September 1, 2001. Monthly payments with interest at the rate of 11.57% per annum resumed October 1, 2001. The settlement agreement was approved by the United States Bankruptcy Court in Wilmington, Delaware on August 22, 2001, and became effective as of September 1, 2001.

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

Following the closing of the settlement agreement, the outstanding principal balance on the PHCM loan is approximately $59.7 million. The PHCM loan term will be ten years with PHCM having the option to extend for an additional ten years. PHCM will also have the option to prepay the PHCM loan between February 1, 2005 and July 31, 2005.

Owned and Operated Assets

The Company owns 60 facilities that were recovered from customers and are operated for the Company's own account. These facilities have 4,701 beds and are located in nine states. During the three-month period ended September 30, 2001, one of the Company's previously Owned and Operated facilities was sold and two were closed and reclassified to Assets Held for Sale.

The Company intends to operate these owned and operated assets for its own account until such time as these facilities' operations are stabilized and are re-leasable or saleable at lease rates or sale prices that maximize the value of these assets to the Company. As a result, these facilities and their respective operations are presented on a consolidated basis in the Company's financial statements. See Note J - Subsequent Events.

The revenues, expenses, assets and liabilities included in the Company's condensed consolidated financial statements which relate to such owned and operated assets are set forth in the table below. Nursing home revenues from these owned and operated assets are recognized as services are provided. The amounts shown in the condensed consolidated financial statements are not comparable, as the number of Owned and Operated facilities and the timing of the foreclosures and re-leasing activities have occurred at different times during the periods presented.

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Unaudited
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues (1)				
Medicaid	$ 27,084	$ 29,176	$ 80,645	$ 75,535
Medicare	10,074	8,646	32,588	21,896
Private & Other	6,662	8,138	20,380	26,030

Total Revenues	43,820	45,960	133,613	123,461
Expenses				
Patient Care Expenses	30,917	28,782	93,638	78,885
Administration	7,246	13,171	21,423	30,613
Property & Related	3,092	3,084	9,052	7,955
Total Expenses	41,255	45,037	124,113	117,453
Contribution Margin	2,565	923	9,500	6,008
Management Fees	2,217	2,337	7,084	6,235
Rent	967	1,178	3,368	2,748
Net Operating Loss	$ (619)	$ (2,592)	$ (952)	$ (2,975)

Unaudited
(In Thousands)

	September 30, 2001	December 31, 2000
ASSETS		
Cash	$ 8,826	$ 5,364
Accounts Receivable - Net	38,150	30,030
Other Current Assets	6,013	5,098
Total Current Assets	52,989	40,492
Investment in leasehold	1,722	1,679
Land and Buildings	116,002	130,601
Less Accumulated Depreciation	(17,043)	(17,680)
Land and Buildings - Net	98,959	112,921
TOTAL ASSETS	$ 153,670	$ 155,092
LIABILITIES		
Accounts Payable	$ 4,861	$ 8,636
Other Current Liabilities	6,967	6,108
Total Current Liabilities	11,828	14,744
TOTAL LIABILITIES	$ 11,828	$ 14,744

</TABLE>

Assets Held for Sale

At September 30, 2001, the carrying value of assets held for sale totals $7.4 million (net of impairment reserves of $15.9 million). The Company intends to sell the remaining facilities as soon as practicable. There can be no assurance if or when such sales will be completed or whether such sales will be completed on terms that allow the Company to realize the carrying value of the assets.

Segment Information

The following tables set forth the reconciliation of operating results and total assets for the Company's reportable segments for the three and nine-month periods ended September 30, 2001 and 2000.

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	For the three months ended September 30, 2001			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
Operating Revenues	$ 20,066	$ 43,820	$ -	$ 63,886
Operating Expenses	-	(44,439)	-	(44,439)
Net operating income (loss)	20,066	(619)	-	19,447
Adjustments to arrive at net income (loss):				
Other revenues	-	-	2,949	2,949
Depreciation and amortization	(4,273)	(1,018)	(224)	(5,515)
Interest expense	-	-	(9,124)	(9,124)
General and administrative	-	-	(2,203)	(2,203)
Legal	-	-	(1,145)	(1,145)
State Taxes	-	-	(126)	(126)
Litigation settlement expense	-	-	-	-
Provision for impairment	-	-	-	-
Provision for uncollectable accounts	(19)	-	-	(19)
Severance, moving and consulting agreement costs	-	-	(4,300)	(4,300)
Charges for derivative accounting	-	-	(561)	(561)
	(4,292)	(1,018)	(14,734)	(20,044)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	15,774	(1,637)	(14,734)	(597)
Loss on assets sold - net	-	(1,485)	-	(1,485)
Gain on early extinguishment of debt	-	-	226	226
Preferred dividends	-	-	(5,029)	(5,029)
Net income (loss) available to common	$ 15,774	$ (3,122)	$ (19,537)	$ (6,885)
Total Assets	$ 686,411	$ 161,047	$ 63,807	$ 911,265

	For the three months ended September 30, 2000			
		Owned and		

	Core Operations	Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
Operating Revenues	$ 21,391	$ 45,960	$ -	$ 67,351
Operating Expenses	-	(48,552)	-	(48,552)
Net operating income (loss)	21,391	(2,592)	-	18,799
Adjustments to arrive at net income (loss):				
Other revenues	-	-	660	660
Depreciation and amortization	(4,302)	(967)	(388)	(5,657)
Interest expense	-	-	(9,846)	(9,846)
General and administrative	-	-	(1,830)	(1,830)
Legal	-	-	(481)	(481)
State Taxes	-	-	(15)	(15)
Provision for impairment	(1,940)	(47,909)	-	(49,849)
Provision for uncollectable accounts	(12,100)	-	-	(12,100)
Severance and consulting agreement costs	-	-	(4,665)	(4,665)
	(18,342)	(48,876)	(16,565)	(83,783)
Income (loss) before net loss on assets sold	3,049	(51,468)	(16,565)	(64,984)
Loss on assets sold-net	(109)	-	-	(109)
Preferred dividends	-	-	(5,705)	(5,705)
Net income (loss) available to common	$ 2,940	$ (51,468)	$ (22,270)	$ (70,798)
Total Assets	$ 719,848	$ 166,038	$ 78,803	$ 964,689

	For the nine months ended September 30, 2001			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
Operating Revenues	$ 62,029	$ 133,613	$ -	$ 195,642
Operating Expenses	-	(134,565)	-	(134,565)
Net operating income (loss)	62,029	(952)	-	61,077

Adjustments to arrive at net income (loss):				
Other revenues	-	-	6,024	6,024
Depreciation and amortization	(12,941)	(2,950)	(669)	(16,560)
Interest expense	-	-	(28,039)	(28,039)
General and administrative	-	-	(7,707)	(7,707)
Legal	-	-	(2,862)	(2,862)
State Taxes	-	-	(339)	(339)
Litigation settlement expense	-	-	(10,000)	(10,000)
Provision for impairment	-	-	(8,381)	(8,381)
Provision for uncollectable accounts	(700)	-	-	(700)
Severance, moving and consulting agreement costs	-	-	(4,766)	(4,766)
Charges for derivative accounting	-	-	(1,113)	(1,113)
	(13,641)	(2,950)	(57,852)	(74,443)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	48,388	(3,902)	(57,852)	(13,366)
Loss on assets sold - net	-	(873)	-	(873)
Gain on early extinguishment of debt	-	-	2,963	2,963
Preferred dividends	-	-	(14,966)	(14,966)
Net income (loss) available to common	$ 48,388	$ (4,775)	$ (69,855)	$ (26,242)
Total Assets	$ 686,411	$ 161,047	$ 63,807	$ 911,265

	For the nine months ended September 30, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		(In Thousands)		
Operating Revenues	$ 67,452	$ 123,461	$ -	$ 190,913
Operating Expenses	-	(126,436)	-	(126,436)
Net operating income (loss)	67,452	(2,975)	-	64,477
Adjustments to arrive at net income (loss):				
Other revenues	-	-	4,760	4,760
Depreciation and amortization	(13,723)	(2,545)	(1,117)	(17,385)
Interest expense	-	-	(32,221)	(32,221)
General and administrative	-	-	(4,631)	(4,631)
Legal	-	-	(974)	(974)

State Taxes	-	-	(241)	(241)
Provision for impairment	(1,940)	(52,409)	-	(54,349)
Provision for uncollectable accounts	(12,100)	-	-	(12,100)
Severance and consulting agreement costs	-	-	(4,665)	(4,665)
	(27,763)	(54,954)	(39,089)	(121,806)
Income (loss) before gain on assets sold	39,689	(57,929)	(39,089)	(57,329)
Gain on assets sold-net	10,342	-	-	10,342
Preferred dividends	-	-	(10,520)	(10,520)
Net income (loss) available to common	$ 50,031	$ (57,929)	$ (49,609)	$ (57,507)
Total Assets	$ 719,848	$ 166,038	$ 78,803	$ 964,689

</TABLE>

Note C - Concentration of Risk and Related Issues

As of September 30, 2001, the Company's portfolio of domestic investments consisted of 246 healthcare facilities, located in 29 states and operated by 32 third-party operators. The Company's gross investments in these facilities totaled $887.2 million at September 30, 2001. This portfolio is made up of 129 long-term healthcare facilities and 2 rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 55 long-term healthcare facilities and 48 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for the Company's own account. In addition, 12 facilities subject to third-party leasehold interests are included in Other Investments. The Company also holds miscellaneous investments and closed healthcare facilities held for sale of approximately $55.2 million at September 30, 2001, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, a $7.7 million investment in Omega Worldwide, Inc., Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company and Principal Healthcare Finance Trust, an Australian Unit Trust, and $14.3 million of notes receivable.

Seven public companies operate approximately 73.7% of the Company's investments, including Sun Healthcare Group, Inc. (24.6%), Integrated Health Services, Inc. (18.1%, including 10.7% as the manager for and 50% owner of Lyric Health Care LLC), Advocat, Inc. (12.0%), Mariner Post-Acute Network (6.7%), Kindred Healthcare, Inc. (formerly known as Vencor Operating, Inc.) (5.7%), Alterra Healthcare Corporation (3.8%), and Genesis Health Ventures, Inc. (2.8%).

Kindred and Genesis manage facilities for the Company's own account, included in Owned & Operated Assets. The two largest private operators represent 3.5% and 2.5%, respectively, of investments. No other operator represents more than 2.5% of investments. The three states in which the Company has its highest concentration of investments are Florida (16.0%), California (7.5%) and Illinois (7.5%).

Government Healthcare Regulation, Reimbursements and Industry Concentration Risks

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

lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their monthly lease or debt payments to the Company.

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

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

Potential Risks from Bankruptcies

Generally, the Company's lease arrangements with a single operator who operates more than one of the Company's facilities is designed pursuant to a single master lease (a "Master Lease" or collectively, the "Master Leases"). Although each lease or Master Lease provides that the Company may terminate the Master Lease upon the bankruptcy or insolvency of the tenant, the Bankruptcy 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. During 2000 a number of companies were actively marketing portfolios of similar assets and, in light of the market conditions in the long-term care industry generally, it had become more difficult both to sell 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 accumulated and unpaid dividends relating to all series of the preferred stock, excluding the November 15, 2000 Series C dividends described below, total $14.9 million as of September 30, 2001.

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

During the nine-month period ended September 30, 2000 the Company paid dividends of $4.0 million on its 9.25% Series A Cumulative Preferred Stock and 8.625% Series B Cumulative Preferred Stock.

Note E - Earnings Per Share

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

Note F - Omega Worldwide, Inc.

As of September 30, 2001, the Company holds a $4.9 million investment in Omega Worldwide, Inc. ("Worldwide"), represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. The Company also holds a $1.6 million investment in Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company, and a $1.3 million investment in Principal Healthcare Finance Trust, an Australian Unit Trust. The Company had guaranteed repayment of Worldwide borrowings pursuant to a revolving credit facility in exchange for an initial 1% fee and an annual facility fee of 25 basis points. The Company was required to provide collateral in the amount of $8.8 million related to the guarantee of Worldwide's obligations. Worldwide repaid all borrowings under the revolving credit facility in June 2001. The Company's guarantee was terminated and the subject collateral was released.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to

Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Upon expiration of this agreement on June 30, 2000, the Company entered into a new agreement requiring quarterly payments from Worldwide of $37,500 for the use of offices and certain administrative and financial services provided by the Company. Upon the reduction of the Company's accounting staff, the Service Agreement was renegotiated again on November 1, 2000 requiring quarterly payments from Worldwide of $32,500. Costs allocated to Worldwide for the three-month and nine-month periods ended September 30, 2001 were $32,500 and $97,500, respectively, compared with ($19,000) and $370,000 for the same periods in 2000.

Note G - Litigation

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

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Ronald M. Dickerman and Bryan Gordon are partners in Madison and limited guarantors of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company continues to vigorously defend the case and has filed counterclaims against Madison and the guarantors, seeking repayment of approximately $9.4 million, excluding default interest, that Madison owes the Company. The Company's Motion for Summary Judgment seeking dismissal of Madison's anticipatory breach claim is scheduled for November 19, 2001. The trial in this matter is set for February 2002.

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

Note H - Borrowing Arrangements

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

The Company has a $75 million secured revolving credit facility that expires on March 31, 2002 as to $10 million and June 30, 2005 as to $65 million. Borrowings under the facility bear interest at 2.5% to 3.75% over LIBOR, based on the Company's leverage ratio and collateral assigned. Borrowings of approximately $74.6 million are outstanding at September 30, 2001. Investments with a gross book value of approximately $95 million are pledged as collateral for this credit facility.

During the three-month and nine-month periods ended September 30, 2001, the Company repurchased $3.9 million and $25.4 million, respectively, of its 6.95% Notes maturing in June 2002. At September 30, 2001, $99.6 million of these notes remain outstanding.

As of September 30, 2001, the Company had an aggregate of $238.6 million of outstanding debt that matures in 2002, including $99.6 million of 6.95% Notes due June 2002 and $139 million on credit facilities expiring in 2002.

The recognition of $10 million of expense associated with the settlement of

the lawsuit with Karrington Health, Inc. described in Note G above resulted in a violation of certain financial covenants in the loan agreements relating to the Company's secured credit facilities as of June 30, 2001. The Company previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under the Company's $175 million secured credit facility have extended this waiver through December 13, 2001. The waiver granted by the lenders under the Company's $75 million secured credit facility has expired and discussions with the lenders are continuing. The Company has not received any notice of default or acceleration of the outstanding balance under that facility. These covenant violations prevent the Company from drawing upon the otherwise remaining availability under both credit facilities until a permanent resolution is attained.

At September 30, 2001 the Company would have had $14.5 million available under its secured revolving credit facilities if it were in compliance with the applicable financial covenants. Certain assets that served as collateral for one of the credit facilities were recovered from a customer during the June 30, 2001 quarter. These assets are no longer eligible to serve as collateral, resulting in reduced availability under the credit facility. The Company has the ability to replace this collateral and increase the availability under the line by up to an additional $18.1 million subject to compliance with the applicable financial covenants. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources)

Note I - Effect of New Accounting Pronouncements

The Company utilizes interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. The Company adopted the new Statement effective January 1, 2001. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of

derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

At September 30, 2001, the Company had two interest rate swaps with notional amounts of $32 million each, based on 30-day LIBOR. Under the terms of the first agreement, which expires in December 2001, the Company receives payments when LIBOR exceeds 6.35% and pays the counterparty when LIBOR is less than 6.35%. At September 30, 2001, 30-day LIBOR was 2.63%. This interest rate swap may be extended for an additional twelve months at the option of the counterparty and therefore does not qualify for hedge accounting under FASB No. 133. The fair value of this swap at January 1, and September 30, 2001 was a liability of $351,344 and $1,200,369, respectively. The liability at January 1 was recorded as a transition adjustment in other comprehensive income and is being amortized over the initial term of the swap. Such amortization for the three-month and nine-month periods ended September 30, 2001 of $87,836 and $263,508, respectively, together with the change in fair value of the swap of $472,544 and $849,025, respectively, is included in charges for derivative accounting in the Company's Condensed Consolidated Statement of Operations.

Under the second agreement, which expires December 31, 2002, the Company receives payments when LIBOR exceeds 4.89% and pays the counterparty when LIBOR is less than 4.89%. The fair value of this interest rate swap at September 30, 2001 was a liability of $805,928, which is included in other comprehensive income as required under FASB No. 133 for fully effective cash flow hedges.

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

FASB 144 Accounting for the Impairment or Disposal of Long-Lived Assets

The Financial Accounting Standards Board recently issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The Company expects to adopt the new pronouncement effective January 1, 2002. This pronouncement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed. The Company has not yet evaluated the impact of this pronouncement on its financial condition or results of operations.

Note J - Subsequent Events

On October 30, 2001, the Company announced a plan to raise $50 million in new equity capital from its current stockholders. The Company's plan to raise $50 million of new common equity consists of two components: a $27.24 million rights offering to its common stockholders and a private placement of at least $22.76 million to Explorer Holdings, L.P., the Company's largest stockholder.

In addition to customary closing conditions, the closing of the rights offering and the private placement will be subject to the Company obtaining certain amendments to its senior secured bank facilities and waiver of the Company's current non-compliance with certain covenants on terms acceptable to the Company and Explorer. Although the Company is in discussions with the lenders under such facilities, the Company cannot provide any assurance as to whether satisfactory amendments and waivers will be reached with such lenders or, if so, as to the terms thereof. In the event such conditions are not satisfied, the Company intends to terminate the rights offering and the private placement.

A registration statement relating to the rights offering and the underlying common stock issuable upon exercise of rights has not yet been filed with the SEC. These securities, if registered, may not be sold nor may offers to buy be accepted prior to the time the proposed registration statement becomes effective. The rights offering will only be made by means of a prospectus contained in a registration statement to be filed with the SEC. The securities to be sold to Explorer in the private placement have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold without registration thereunder or pursuant to an available exemption therefrom. The Company does not currently intend to register these securities.

On November 1, 2001, seventeen properties previously classified as Owned and Operated Assets were sold to Hickory Creek Healthcare Foundation, Inc., subject to a mortgage provided by the Company in the amount of $10.5 million. The initial term of the mortgage is three years and the initial yield is 7.6%.

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

Certain information contained in this report includes forward-looking statements. Forward looking statements include statements regarding the Company's future dividend policy, future liquidity and capital resources, ability to repay indebtedness, 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 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 a bankruptcy proceeding and retain security deposits for the debtor's obligations; (iv) the availability and cost of capital; (v) regulatory and other changes in the healthcare sector; (vi) the ability of the Company to manage, re-lease or sell its owned and operated facilities; (vii) competition in the financing of healthcare facilities; (viii) the effect of economic and market conditions generally, and particularly in the healthcare industry; (ix) changes in interest rates; (x) the amount and yield of any additional investments; (xi) changes in tax laws and regulations affecting real estate investment trusts; (xii) access to the capital markets and the cost of capital; (xiii) changes in the ratings of the Company's debt securities; (xiv) the ability of the Company to negotiate appropriate revisions to the terms of existing credit facilities and to complete the proposed equity offering; and (xv) 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 and the Company's registration statement on Form S-1 to be filed with the Securities and Exchange Commission on or about November 2, 2001.

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

Rental income for the three-month and nine-month periods ended September 30, 2001 totaled $14.9 million and $45.7 million, respectively, a decrease of $0.6 million and $4.0 million, respectively, over the same periods in 2000. The three-month decrease is due to $1.5 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings. This decrease is offset by $0.3 million relating to contractual increases in rents that became effective in 2001 and $0.2 million relating to assets previously classified as owned and operated. The nine-month decrease is due to $3.8 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings, and $1.8 million from reduced investments resulting from the sale of assets in 2000. These decreases are offset by $0.9 million relating to contractual increases in rents that became effective in 2001 as defined under the related agreements and $0.2 million relating to assets previously classified as owned and operated.

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

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

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

Nursing home expenses for owned and operated assets for the three-month period and nine-month periods ended September 30, 2001 decreased by $4.1 million and increased by $8.1 million, respectively, from $48.6 million and $126.4 million for same periods in 2000. The decrease in the three-month period is due

to a decreased number of facilities versus the same three-month period in 2000 as a result of the closure of certain facilities and their reclassification to Assets Held for Sale as well as the re-lease of three facilities during 2001 to a new operator. The increase in the nine-month period is primarily due to the inclusion of 30 facilities formerly operated by RainTree for the full nine-month period ended September 30, 2001 versus seven months during the nine-month period ended September 30, 2000.

The provision for depreciation and amortization totaled $5.5 million and $16.6 million, respectively, during the three-month and nine-month periods ended September 30, 2001. This is a decrease of $0.1 million and $0.8 million, respectively, over the same periods in 2000. The decrease is primarily due to assets sold in 2000, lower depreciable values due to impairment charges on owned and operated properties and a reduction in the amortization of goodwill and non-compete agreements.

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

year.

General and administrative expenses for the three-month and nine-month periods ended September 30, 2001 totaled $2.2 million and $7.7 million, respectively, as compared to $1.8 million and $4.6 million, respectively, for the same periods in 2000, an increase of $0.4 million and $3.1 million. The increase is due primarily to consulting costs related to the efforts associated with the business objective of re-leasing 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 nine-month periods ended September 30, 2001 totaled $1.1 million and $2.9 million, respectively, an increase of $0.7 million and $1.9 million, respectively, over the same periods in 2000. The increase is largely attributable to legal costs associated with the foreclosure of assets and other negotiations with the Company's troubled operators as well as the defense of various lawsuits in which the Company is party to. (See Note G - Litigation)

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

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

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

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

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

Funds from operations ("FFO") for the three-month and nine-month periods ended September 30, 2001 were $0.5 million and a deficit of $2.3 million, respectively, an increase of approximately $15.7 million and a decrease of $6.2 million, respectively, as compared to the deficit of $15.2 million and positive $3.9 million for the same periods in 2000 due to factors mentioned above. Diluted FFO amounts were $3.1 million and $5.5 million, respectively, for the three-month and nine-month periods ended September 30, 2001, as compared to the deficit of $11.0 million and positive $10.2 million for the same period in 2000 due to factors mentioned above. FFO is defined as net earnings available to common stockholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. 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 stockholders. FFO in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles ("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 stockholders.

Liquidity and Capital Resources

At September 30, 2001, the Company had total assets of $911.3 million, stockholders' equity of $456.7 million, and long-term debt of $426.0 million, representing approximately 46.7% of total capitalization.

The Company has two secured revolving credit facilities in place, providing up to $250 million of financing, of which $203.6 million was outstanding and $13.7 million of which was utilized for the issuance of letters of credit at September 30, 2001. The recognition of $10 million of expense associated with the settlement of the lawsuit with Karrington Health, Inc. resulted in a violation of certain of the financial covenants in the loan agreements with the Company's primary lenders at June 30, 2001. The Company previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under the Company's $175 million secured credit facility have extended this waiver through December 13, 2001. The waiver granted by the lenders under the Company's $75 million secured credit facility has expired and discussions with the lenders are continuing. The Company has not received any notice of default or acceleration of the outstanding balance under that facility. These covenant violations prevent the Company from drawing upon the otherwise remaining availability under both credit facilities until a permanent resolution is attained.

As of the date of this report, the Company would have had $14.5 million available under its secured revolving credit facilities if the Company were in compliance with the covenants in the loan documents. Certain assets that served as collateral for one of the credit facilities were recovered from a customer during the June 30, 2001 quarter. These assets are no longer eligible to serve as collateral, resulting in reduced availability under the credit facility. The Company has the ability to replace this collateral and increase the availability under the line by up to an additional $18.1 million subject to compliance with the applicable financial covenants.

As of September 30, 2001, the Company had an aggregate of $238.6 million of outstanding debt that matures in 2002, including $99.6 million of 6.95% Notes due June 2002, $10 million on its credit facility maturing on March 31, 2002, and $129 million on credit facilities expiring on December 31, 2002.

In prior years, the Company historically distributed to stockholders a large portion of the cash available from operations. The Company's historical policy had 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 can give no assurance as to when or if the dividends will be reinstated on the common stock or preferred stock or the amount of the dividends if and when such payments are recommenced. The Company does not anticipate paying dividends on any class of capital stock unless and until the approximately $110 million ($108 million as of the date of this report) of indebtedness maturing in the first half of 2002 has been repaid. 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 $0.25 per common share and $0.75 per common share, respectively, for the three-month and nine-month periods ended September 31, 2000. No common dividends were paid during the first three quarters of 2001.

The Company has received a capital commitment from the holder of its Series C Preferred Stock and has announced a rights offering to its current stockholders, together with a "backstop" for the rights offering and private placement with the Series C holder, to provide a total of $50 million of new equity into the Company. (See Note J - Subsequent Events)

Assuming the Company obtains the amendments it is seeking to the credit facilities on satisfactory terms and that the rights offering and Explorer's investment is completed, 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. 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. There also can be no assurance that the Company will be able to complete the equity offering as planned, including the required extension by one year of the December 31, 2002 expiring credit facility. 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 stockholders, or to pursue additional dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, the Company's interest expense would increase, which might affect the Company's ability to make distributions to its stockholders.

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 September 30, 2001 was $396 million. A one-percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $5.3 million.

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 September 30, 2001, the Company had two interest rate swaps with notional amounts of $32 million each, based on 30-day 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 September 30, 2001 was a deficit of $2,006,297. (See Note I - Effect of New Accounting Pronouncements)

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note G 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

None this period.

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:

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Title of Class	Annual Dividend Per Share	Arrearage as of September 30, 2001
9.25% Series A Cumulative Preferred Stock	$2.3125	$3,989,063
8.625% Series B Cumulative Preferred Stock	$2.1563	3,234,375
Series C Convertible Preferred Stock	$10.0000	7,660,493
TOTAL		$14,883,931

</TABLE>

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit	Description
4.1	Form of Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit B to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)

4.2	Form of Articles Supplementary for Series D Convertible Preferred Stock (Incorporated by reference to Exhibit C to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)
10.1	Employment Agreement between Omega Healthcare Investors, Inc. and R. Lee Crabill, Jr., dated July 30, 2001
10.2	Employment Agreement between Omega Healthcare Investors, Inc. and Robert O. Stephenson, dated August 30, 2001
10.3	Employment Agreement between Omega Healthcare Investors, Inc. and Daniel J. Booth, dated October 15, 2001
10.4	Retention, Severance and Release Agreement between Omega Healthcare Investors, Inc. and F. Scott Kellman, dated October 9, 2001
10.5	Retention, Severance and Release Agreement between Omega Healthcare Investors, Inc. and Laurence D. Rich, dated August 1, 2001
10.6	Amended and Restated Secured Promissory Note between Omega Healthcare Investors, Inc. and Professional Health Care Management, Inc. dated as of September 1, 2001
10.7	Settlement Agreement between Omega Healthcare Investors, Inc., Professional Health Care Management, Inc., Living Centers - PHCM, Inc., GranCare, Inc., and Mariner Post-Acute Network, Inc. dated as of September 1, 2001
10.8	Investment Agreement, dated as of October 29, 2001, by and between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit A to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)
10.9	Form of Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit D to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)

10.10	Form of Amended and Restated Registration Rights Agreement (Incorporated by reference to Exhibit E to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)

10.11 Amendment No. 2 to Rights Agreement (Incorporated by reference to Exhibit F to the Schedule 13D filed by Explorer Holdings, L.P. on October 29, 2001 on behalf of the Company)

(b) Reports on Form 8-K

The following reports on Form 8-K were filed since June 30, 2001:

Form 8-K dated October 31, 2001: Report with the following exhibits:

Press release issued by Omega Healthcare Investors, Inc. on October 30, 2001

SIGNATURES

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

OMEGA HEALTHCARE INVESTORS, INC.
Registrant

Date: November 2, 2001 By: /s/ C. Taylor Pickett
C. Taylor Pickett
Chief Executive Officer

Date: November 2, 2001 By: /s/ Robert O. Stephenson
Robert O. Stephenson
Chief Financial Officer

Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") to be effective as of 30th day of July, 2001 (the "Effective Date"), between Omega Healthcare Investors, Inc. (the "Company"), R. Lee Crabill, Jr. (the "Executive").

INTRODUCTION

The Company and the Executive 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 Senior Vice President of Operations 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 Chief Executive Officer of the Company. The Executive will report to the Chief Executive Officer of the Company. 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. Executive will relocate his primary residence to the Baltimore, Maryland area by no later than January 1, 2002.

(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 $215,000 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 50% 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 Compensation Committee will prorate the Bonus for the year ending December 31, 2001, 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 175,000 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 $3.00 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 133,333 shares (i.e. 33,333 shares (or $100,000/$3.00) 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) 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 January 1, 2002, or the date the Executive relocates his primary residence to the Baltimore, Maryland area, if earlier, the Company will reimburse the Executive for his reasonable travel expenses between the Baltimore area and the Executive's existing primary residence. The Company will reimburse the Executive for certain expenses in connection with the relocation, by January 1, 2002, of his primary residence from Augusta, Georgia to the Baltimore, Maryland area in accordance with the policy attached hereto as Exhibit B.

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

(f) 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.

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

3. Term, Termination and Termination Payments.

(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 referred to in Section 2(c), and expenses required to be reimbursed pursuant to Section 2(d). 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 December 31, 2002, Executive's stock options will vest pro-rata based on the number of months of Executive's employment with the Company. 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.

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:

R. Lee Crabill, Jr.
900 Victors Way
Suite 350
Ann Arbor, MI 48108

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 Maryland. 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 CEO and/or 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 Senior Vice President of Operations of the Company, which refusal continues after the CEO and/or 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;

(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/ C. TAYLOR PICKETT

C. Taylor Pickett, CEO

THE EXECUTIVE:

/s/ R. LEE CRABILL, JR.

EXHIBIT A

Investment	Ownership

Exhibit B

Policy Governing Reimbursement of Moving and Relocation Expenses

Conditions

If the Executive's employment with the Company is terminated for any reason whatsoever before the expiration of the Term (except by the Company without Cause or by the Executive for Good Reason), the Executive will refund to the Company the gross amount of moving and relocation reimbursements, i.e., actual payments received by Executive and any payments to third parties on the Executive's behalf, plus income tax gross-up, plus all taxes deducted that relate to those payments. The amount to be repaid will be prorated on a monthly basis such that for each full month during which the Executive remains in the employ of the Company, the amount to be repaid will be reduced by one-forty-eighth (1/48) of the gross reimbursement.

Expenses Incurred and Supported

Each expenditure to be reimbursed must be reasonable and necessary. Reimbursement is limited to the following expense categories, the parameters of which are discussed in more detail below:

- House hunting
- Temporary quarters
- Home sale
- Purchase of home
- Travel (actual move to new job location)
- Transportation and storage (household and personal goods)
- Do-it-yourself moves
- Income tax gross-up

House Hunting

House hunting expenses apply to the Executive, spouse, and dependent children who live with the Executive. They may be incurred while traveling between the new job location and old residence for the purpose of looking for new living accommodations at the new job location. The Executive may claim these expenses only if the travel is primarily to look for a place to live. A total of ten (10) days of expenses for house hunting may be claimed. These reimbursable expenses are:

- A maximum of two round trips for the Executive, two round trips for the spouse and one round trip for children in accompaniment of Executive or spouse.
- The cost of ground transportation, including parking fees and tolls, plus actual expenses, such as gas and oil (but not depreciation) for the use of car. Accurate records of each expense must be kept and the original receipts attached to travel voucher. In lieu of actual costs, reimbursement can be paid at 30 cents per mile. An automobile may be rented while visiting the new job location for the purpose of house hunting if a personal vehicle is not available.
- Airfare not to exceed the cost of air coach transportation. Every reasonable effort should be made to book flights in advance to obtain discounted travel.
- Lodging for the Executive, wife, and children. A night of combined lodging for the Executive and spouse or Executive, spouse, and children counts as

one night.
o The cost of meals for the Executive, wife, and children.

Other expenses, including the following expenses, are not reimbursable:

o Entertainment, laundry, and other personal expenses.

Temporary Quarters

If the Executive cannot move immediately into a new residence, reasonable expenses at the new location are reimbursable. The following expenses are covered:

o Lodging or rent until no later than January 1, 2002.

o Reasonable residential parking fees during the first thirty (30) days of temporary quarters.

o The cost of meals for the first seven (7) days of residence in temporary quarters for the Executive, wife, and children.

Other expenses, including the following expenses, are not reimbursable:

o Transportation, entertainment, living and other personal expenses of the Executive and family.

Home Sale

The following expenses related to the sale, by January 1, 2003, of a principal residence due to moving and relocating are reimbursable:

o Mortgage interest incurred by the Executive on the principal residence being sold for a period beginning after the Executive and his family have relocated their principal residence to Baltimore, Maryland area, the old principal residence is listed for sale, and the Executive has purchased a new principal residence in the Baltimore, Maryland area, and ending on the earlier of the date of sale of the old principal residence or six months after the beginning of the period.
o Actual expense of real estate commissions paid by the Executive to a third party seller's agent who is independent of the Executive.
o Attorney's fees
o Title fees
o Escrow fees
o Pest inspection
o State transfer taxes

Other expenses, including the following expenses, are not reimbursable:

o Sales commissions and similar expenses if the Executive or a family member acts as a selling agent
o Buyer's closing costs
o Advertising and "fix-up" costs
o Loss sustained on sale of residence
o Real estate and capital gains taxes
o Payment and repayment of interest
o Mortgage penalties and buyers closing costs
o Points or loan payment charges

Purchase of Home

Certain expenses related to the purchase, by January 1, 2002, of a home, incurred by an Executive relocating to the new job location, will be reimbursable. To qualify for reimbursement of these expenses, the home must be a replacement of a prior primary residence that the individual was required to sell, must be the initial home purchased by the individual on relocation, and must be a single-family residence. Reimbursement will not be approved for the purchase of a second residence, investment property, business property, or resort/vacation property at the new job location. Specific expenses will be reimbursed with the submission of supporting documentation that is signed by the buyer and seller. These reimbursable expenses are as follows:

o Loan origination fee (not to exceed 1% of principal amount of mortgage loan)
o Survey fee
o Appraisal fee
o Credit report
o Home inspection fee, limited to one inspection
o Title search
o Recording fee
o Title insurance
o Attorney fee
o Notary fees

Other expenses, including the following expenses, are not reimbursable:

o Mortgage loan differential

- Points and discount fees, and similar items
- Utility deposits and/or connection fees
- Real estate taxes, prepaid or otherwise
- Capital gains taxes
- Realtor fees related to purchasing
- Remodeling or decoration expenses
- Repair and maintenance costs
- Homeowner insurance
- Private mortgage insurance
- Permit fees such as building, sewer and zoning
- Deposit for rent
- Homeowners Warranty Fees

Travel

When the Executive and family are traveling from the old residence to the new home, expenses for transportation, in-transit meals and lodging are reimbursable. Expenses are also reimbursable for the day of arrival at the new home. The following are allowed:

- Transportation expenses include parking and tolls, plus actual expenses, such as gas and oil (but not depreciation) for the use of personal car. Accurate records must be kept of each expense and original receipts attached to the travel voucher. In lieu of actual costs, payment can be made at 30 cents per mile.
- A single one-way trip not to exceed the cost of air-coach transportation for the Executive, wife and children may be incurred in place of automobile transportation.
- If the Executive must vacate the old residence due to furniture being moved, one day's meals and lodging at the former location are reimbursable.

Other expenses, including the following, are not reimbursable:

- Travel reimbursement does not include automobile rental, except for house hunting purposes.

Transportation and Storage of Household Goods and Personal Effects

Reasonable costs for storing and transporting personal goods by common carrier from the old residence to the new residence are reimbursable. The Executive is required to obtain three (3) bids for common carrier transportation. The lowest of the three (3) bids should be used for the moving of personal effects from the former residence. Copies of the three (3) bids should be provided to the Company prior to a formal commitment to utilize the common carrier. (Executives who receive common carrier services cannot also be reimbursed for "Do-it-yourself" moves as described in the next sub-paragraph.) The Company assumes no liability for any property damage resulting from the relocation.

- The actual costs paid for carrier transportation of the Executive's household goods and personal effects from the former residence to the new residence.

- A maximum of thirty (30) days temporary (in-transit) storage of household goods if the Executive cannot move immediately into the new residence.

Do-It Yourself Moves

If the Executive chooses to move himself/herself from the old residence to the new residence, the amount of the actual costs allowed will be included in the limitation. (If the Executive requests reimbursement for rental vehicle transportation, he cannot also request payment for common carrier expenses.) Actual costs are reimbursable, within the total limitation, with appropriate documentation.

The following are allowed:

- Rental of moving van, truck, trailer, hand truck, or other appropriate moving equipment, vehicles and supplies with rental Company receipt. Only one truck trip is reimbursable.
- Gas used by a rental truck during the move is reimbursable with proper receipts.
- Rental of bicycle racks, trailer hitches, etc.
- The purchase of moving supplies, such as packing paper, boxes or cartons with appropriate receipts. The amount of such purchases must not exceed $500.
- Labor used during the move. Reimbursement is limited to a reasonable hourly wage with the maximum total being $500. A receipt from the individual employed with amount paid and signature must be attached to the reimbursement voucher.
- Tolls paid during the move are reimbursable provided the name of the facility (road, bridge, and tunnel) is provided.

Other expenses, including the following, are not reimbursable:

- Purchase of a vehicle or equipment for moving.
- Labor provided by the Executive or immediate family member(s).

Income Tax Gross-Up

For the expense reimbursement in this Exhibit B which the Company reports as taxable wages to the Executive and for which the Executive is not entitled to an income tax deduction or other allowance of any nature which has the effect of offsetting the Executive's taxable income, the Company will pay to the Executive before the end of the calendar year in which the expenses are reimbursed by the Company an income tax gross-up amount. The income tax gross-up amount will be that dollar amount that the Company determines will put the Executive in the same after-tax position (taking into account solely federal and state income taxes) as if such reimbursements had not been taxable income to him. As a condition to receiving the income tax gross-up, the Executive must provide substantiated written documentation to the Company before such year-end showing his estimated federal gross income before the gross-up, estimated federal adjusted gross income before the gross-up, estimated federal taxable income before the gross-up, and estimated marginal federal and state income tax rates applicable to the taxable reimbursements under this Exhibit B and the income tax gross-up. Immediately following the filing of the Executive's federal and state income tax returns for the calendar year in which the income tax gross-up was paid, the Executive will provide a copy of such returns to the Company. In the event that the Company determines that the amount of the income tax gross-up paid to the Executive was different than the actual amount required to put the Executive in the intended after-tax position, then the income tax gross-up shall then be adjusted by an appropriate amount by the Company paying the shortfall to the Executive or the Executive repaying the excess to the Company, as applicable.

Miscellaneous Expenses

Other miscellaneous and incidental expenses associated with relocating an Executive's household are not reimbursable. These include, but are not limited to:

- Baby-sitting
- Disconnecting and connecting appliances and utilities
- Care of pets
- Removing and installing antennas
- Carpet and draperies
- General cleaning

Reimbursement Rules and Guidelines

Payments will be made in accordance to IRS rules. Some of the reimbursable expenses are not included in the Executive's taxable income and some are included in the Executive's taxable income. At the date this policy was prepared, IRS regulations provide that moving expenses, which are excluded from taxable income, are the reasonable cost of:

- Moving household goods and personal effects from the former residence to the new residence (this includes common carrier), and
- Traveling (including lodging but not meals during the period of travel) from the former residence to the new place of residence.

This does not, however, constitute tax advice from the Company. Any expense reimbursements which the Company determines to constitute as taxable income to the Executive will be paid through the payroll system with the appropriate taxes withheld. In this case, the cash payment to the Executive will be net of tax withholding and the Executive will have to report the reimbursement to the IRS as taxable income and pay income taxes on the full amount of the taxable reimbursement, including the amount withheld for taxes.

Executive Responsibilities

Unless otherwise specified, all expenses submitted for reimbursement must be actual, reasonable, necessary, and within the Company's guidelines as stated above and below. The Executive is responsible for:

- Obtaining and submitting estimates from three companies and choosing the common carrier providing the lowest estimate.
- Obtaining and submitting original receipts and other documents that are necessary to support all claims for reimbursement.
- Submitting claims within thirty (30) days after each expense is incurred.

Expense Reporting

Common Carrier Payments

The Company may pay third-party commercial moving companies directly. The Accounting office must receive the invoice signed by the Executive and the

required three estimates before payment can be processed. The Executive is required to list this invoice on his/her travel reimbursement expense report as a Company paid item.

Payment

Accounting reviews all requests for completeness of documentation and then makes payment as follows:

- Payments for non-taxable expenses are paid directly to the Executive through the accounts payable process.
- Payments for taxable expenses are paid through the payroll process with applicable taxes withheld.
- Payments to third-parties are paid through the Accounts Payable process with Payroll notified so the appropriate notation can be made on the Form W-2 at year-end.

EXHIBIT

INCENTIVE STOCK OPTION AWARD
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

THIS AWARD is made as of the Grant Date, by OMEGA HEALTHCARE INVESTORS, INC. (the "Company") to R. Lee Crabill, Jr. (the "Optionee").

Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference, the Company hereby awards as of the Grant Date to Optionee an incentive stock option (the "Option"), as described below, to purchase the Option Shares.

A. Grant Date: July 30, 2001.

B. Type of Option: Incentive Stock Option.

C. Plan (under which Option is granted): Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan.

D. Option Shares: All or any part of 133,333 shares of the Company's common stock (the "Stock"), subject to adjustment as provided in the attached Terms and Conditions.

E. Exercise Price: $3.00 per share, subject to adjustment as provided in the attached Terms and Conditions. The Exercise Price is, in the judgment of the Committee, not less than 100% of the Fair Market Value of a share of Stock on the Grant Date.

F. Option Period: The Option may be exercised only during the Option Period which commences on the Grant Date and ends, generally, on the earliest of:

(i) the tenth (10th) anniversary of the Grant Date;

(ii) ninety (90) days following the date the Optionee ceases to be an employee of the Company or director of or consultant to the Company or an "Affiliate" (as defined in the Plan) for any reason other than death, "Disability" (as defined in the Plan) or termination of the Optionee's service by the Company or an Affiliate with Cause;

(iii) the first anniversary of the date the Optionee ceases to be an employee or director of or consultant to the Company or an Affiliate due to death or Disability; or

(iv) ten (10) days after the date the Optionee is given notice by the Company or an Affiliate that it is terminating his service for Cause;

provided, however, that the Option may only be exercised as to the vested Option Shares determined pursuant to the Vesting Schedule. Note that other restrictions to exercising the Option, as described in the attached Terms and Conditions, may apply.

G. Vesting Schedule: The Option shall become vested in accordance with the vesting schedule attached hereto as Schedule 1.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Optionee have executed this Award as of the Grant Date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ C. TAYLOR PICKETT

C. Taylor Pickett, President and CEO

OPTIONEE

/S/ R. LEE CRABILL

R. Lee Crabill, Jr.

TERMS AND CONDITIONS TO THE
INCENTIVE STOCK OPTION AWARD
PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

1. Exercise of Option. Subject to the provisions provided herein or in the Award made pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan:

(a) The Option may be exercised with respect to all or any portion of the vested Option Shares at any time during the Option Period by the delivery to the Company, at its principal place of business, of (i) a written notice of exercise in substantially the form attached hereto as Exhibit 1, which shall be actually delivered to the Company no earlier than thirty (30) and no later than ten (10) days prior to the date upon which Optionee desires to exercise all or any portion of the Option (unless such prior notice is waived by the Company) and (ii) payment to the Company of the Exercise Price multiplied by the number of shares being purchased (the "Purchase Price") in the manner provided in Subsection (b).

(b) The Purchase Price shall be paid in full upon the exercise of an Option and no Option Shares shall be issued or delivered until full payment therefor has been made. Payment of the Purchase Price for all Option Shares purchased pursuant to the exercise of an Option shall be made in cash, certified check, or, alternatively, as follows:

(i) by delivery to the Company of a number of shares of Stock which have been owned by the Optionee for at least six (6) months prior to the date of the Option's exercise, having a Fair Market Value, as determined under the Plan, on the date of exercise either equal to the Purchase Price or in combination with cash to equal the Purchase Price; or

(ii) by receipt of the Purchase Price in cash from a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System following delivery by the Optionee to the Committee (defined in the Plan) of instructions in a form acceptable to the Committee regarding delivery to such broker, dealer or other creditor of that number of Option Shares with respect to which the Option is exercised.

Upon acceptance of such notice and receipt of payment in full of the Purchase Price and any tax withholding liability, to the extent applicable, Company shall cause to be issued a certificate representing the Option Shares purchased.

2. Withholding. To the extent the Option is deemed to be a Non-Qualified Stock Option in accordance with Section 17, the Optionee must satisfy his federal, state, and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation (i) in cash; (ii) by tendering shares of Stock which have been owned by the Optionee for at least six (6) months prior to the date of exercise having a "Fair Market Value" (as defined in plan) equal to the withholding obligation; (iii) by electing, irrevocably and in writing (the "Withholding Election"), to have the smallest number of whole shares of Stock withheld by the Company which, when multiplied by the Fair Market Value of the Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iv) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) The Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in substantially the form attached hereto as Exhibit 2; and

(b) any Withholding Election will be irrevocable; however, the Committee (as defined in the Plan) may, in its sole discretion, disapprove and give no effect to the Withholding Election.

3. Rights as Shareholder. Until the stock certificates reflecting the Option Shares accruing to the Optionee upon exercise of the Option are issued to the Optionee, the Optionee shall have no rights as a shareholder with respect to such Option Shares. The Company shall make no adjustment for any dividends or distributions or other rights on or with respect to Option Shares for which the record date is prior to the issuance of that stock certificate, except as the Plan or this Award otherwise provides.

4. Restriction on Transfer of Option and Option Shares. The Option evidenced hereby is nontransferable other than by will or the laws of descent and distribution, and, shall be exercisable during the lifetime of the Optionee only by the Optionee (or in the event of his Disability, by his legal representative) and after his death, only by legal representative of the Optionee's estate or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent,

5. Changes in Capitalization.

(a) The number of Option Shares and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Stock to holders of outstanding shares of Stock or any other increase or decrease in the number of shares of Stock outstanding effected without receipt of consideration by the Company.

(b) In the event of a merger, consolidation, extraordinary dividend, spin-off, sale of substantially all of the Company's assets or other material change in the capital structure of the Company or a tender offer for shares of Stock, or a Change in Control (each a "Corporate Transaction"), the Committee shall take such action to make such adjustments in the Option or the terms of this Award as the Committee, in its sole discretion, determines in good faith is necessary to reflect the terms of such Corporate Transaction so as to preserve the economic value of the Option determined as of the date of the Corporate Transaction or the Committee action, as the case may be, including, without limitation, adjusting the number and class of securities subject to the Option, with a corresponding adjustment made in the Exercise Price; substituting a new option to replace the Option; or accelerating the termination of the Option Period; or, terminating the Option in consideration of payment to Optionee of the excess of the then Fair Market Value of the Option Shares over the aggregate Exercise Price of the Option Shares. In determining economic value, the Committee need not take into account the possibility of future appreciation. Any determination made by the Committee pursuant to this Section 5(b) will be final and binding on the Optionee. Any action taken by the Committee need not treat all optionees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

6. Special Limitations on Exercise. Any exercise of the Option is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by the Option upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the delivery of shares thereunder, the delivery of any or all shares pursuant to the Option may be withheld unless and until such listing, registration or qualification shall have been effected. The Optionee shall deliver to the Company, prior to the exercise of the Option, such information, representations and warranties as the Company may reasonably request in order for the Company to be able to satisfy itself that the Option Shares being acquired in accordance with the terms of an applicable exemption from the securities registration requirements of applicable federal and state securities laws.

7. Legend on Stock Certificates. Certificates evidencing the Option Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth in this Award and in the Plan such as:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OR HYPOTHECATED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE TRANSFER IS MADE IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER SUCH ACT, OR (3) THE ISSUER RECEIVES AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY,

STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

Optionee agrees that the Company may also endorse any other legends it deems necessary and advisable or as may be required by applicable federal or state securities laws.

8. Governing Laws. This Award shall be construed, administered, and enforced according to the laws of the State of Michigan; provided, however, no option may be exercised except, in the reasonable judgment of the Board of Directors, in compliance with exemptions under applicable state securities laws of the state in which the Optionee resides, and/or any other applicable securities laws.

9. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors, and permitted assigns of the parties.

10. Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13. Violation. Any transfer, pledge, sale, assignment, or hypothecation of the Option or any portion thereof shall be a violation of the terms of this Award and shall be void and without effect.

14. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in
construing this Award.

15. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions, and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

16. No Right to Continued Employment. Neither the establishment of the Plan nor the award of Option Shares hereunder shall be construed as giving the Optionee the right to continued employment.

17. Qualified Status of Option. The aggregate fair market value (determined as of the date an Incentive Stock Option is granted) of the shares of Stock with respect to which an Incentive Stock Option first becomes exercisable for the first time by an individual during any calendar year (under all plans of the individual's employer corporation and its parent and subsidiary corporations) shall not exceed $100,000 (determined as of the date of grant). The Exercise Price per share multiplied by the total number of Option Shares represents the aggregate fair market value of the Option Shares. To the extent the foregoing limitation is exceeded with respect to any portion of the Option Shares, such portion of the Option shall be deemed a Non-Qualified Stock Option.

18. Definitions. As used in these Terms and Conditions and this Award,

(a) "Cause" has the definition set forth in the Employment Agreement between the Company and the Employee dated July 30, 2001, as amended.

(b) Other undefined and capitalized terms shall have the meaning set forth in the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, where the context reasonably permits.

EXHIBIT 1

NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE
COMMON STOCK OF
OMEGA HEALTHCARE INVESTORS, INC.

Name: _____

Address: _____

Date: _____

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

Re: Exercise of Incentive Stock Option

Dear Sir or Madam:

Subject to acceptance hereof in writing by Omega Healthcare Investors, Inc. (the "Company") pursuant to the provisions of the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, I hereby give at least ten (10) days but not more than thirty (30) days prior notice of my election to exercise options granted to me to purchase _____ shares of Stock of the Company under the Incentive Stock Option Award (the "Award") pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan dated as of _____, _____. The purchase shall take place as of _____, _____ (the "Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

[ ] by delivery of cash or a certified check for $_____ for the full purchase price payable to the order of the Company.

[ ] by delivery of a certified check for $_____ representing a portion of the purchase price with the balance to consist of shares of Stock that I have owned for at least six (6) months and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Stock represented by such stock certificate exceed the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of a stock certificate representing shares of Stock that I have owned for at least six (6) months which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Stock represented by such certificate exceed the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of the purchase price by _____, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in the number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price.

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the "1933 Act"), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Stock for investment and without the intent of participating, directly or indirectly, in a distribution of the Stock and not with a view to, or for resale in connection with any distribution of the Stock, nor am I aware of the existence of any distribution of the Stock;

I am not acquiring the Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Stock was not offered to me by means of any publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B) evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Stock or to comply with any exemption available for sale of the Stock without registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act may not now be available and no assurance has been given that it or they will become available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties, and covenants made by me herein extend to, and apply to, all of the Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Stock shall constitute a confirmation by me that all such agreements, representations, warranties, and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations, warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice.

Very truly yours,

AGREED TO AND ACCEPTED:

Omega Healthcare Investors, Inc.

By:

Title:

Number of Shares Exercised:

Number of Shares Remaining: Date:_____

EXHIBIT 2

NOTICE OF WITHHOLDING ELECTION
Omega Healthcare Investors, Inc.

TO: Omega Healthcare Investors, Inc.

FROM: _____

RE: Withholding Election

This election relates to the Option identified in Paragraph 3 below. I hereby certify that:

(1) My correct name and social security number and my current address are set forth at the end of this document.

(2) I am (check one, whichever is applicable)

[ ] the original recipient of the Option.

[ ] the legal representative of the estate of the original recipient of the Option.

[ ] a legatee of the original recipient of the Option.

[ ] the legal guardian of the original recipient of the Option.

(3) The Option to which this election relates was issued under the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan") in the name of _____ for the purchase of a total of _____ shares of Stock of the Company. This election relates to _____ shares of Stock issuable upon exercise of the Option, provided that the numbers set forth above shall be deemed changed as appropriate to reflect the applicable Plan provisions.

(4) In connection with any exercise of the Option with respect to the Stock, I hereby elect:

[ ] To have certain of the shares issuable pursuant to the exercise withheld by the Company for the purpose of having the value of the shares applied to pay federal, state, and local, if any, taxes arising from the exercise.

[ ] To tender shares held by me for a period of at least six (6) months prior to the exercise of the Option for the purpose of having the value of the shares applied to pay such taxes.

The shares to be withheld or tendered, as applicable, shall have, as of the Tax Date applicable to the exercise, a Fair Market Value equal to the minimum statutory tax withholding requirement under federal, state, and local law in connection with the exercise.

(5) This Withholding Election is made no later than the Tax Date and is otherwise timely made pursuant to the Plan.

(6) I understand that this Withholding Election may not be revised, amended or revoked by me.

(7) I further understand that the Company shall withhold from the shares a whole number of shares having the value specified in Paragraph 4 above, as applicable.

(8) The Plan has been made available to me by the Company. I have read and understand the Plan and I have no reason to believe that any of the conditions to the making of this Withholding Election have not been met.

(9) Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Plan.

Dated: _____ _____
Signature

_____ _____
Social Security Number Name (Printed)

_____
Street Address

City, State, Zip Code

SCHEDULE 1

VESTING SCHEDULE FOR INCENTIVE
STOCK OPTION AWARD ISSUED PURSUANT TO THE
Omega Healthcare Investors, Inc.
2000 INCENTIVE STOCK OPTION PLAN

Vesting Schedule

The Option shall become vested as to 33,333 Option Shares (i.e., a number of Option Shares equal to $100,000 divided by the Exercise Price per share) on each of December 31, 2002, August 1, 2003, August 1, 2004 and August 1, 2005, in each case provided the Optionee continues to be employed by the Company through the applicable date.

Notwithstanding the foregoing, in the event of the Optionee's termination of employment (i) by the Optionee for "Good Reason" (as defined in the Employment Agreement between the Company and the Employee dated July 30, 2001 (the "Employment Agreement")) within one year following a Change in Control or (ii) by the Company without "Cause" (as defined in the Employment Agreement), 100% of the Option Shares shall become vested. The vesting provided for in this paragraph is expressly contingent upon the Employee executing and not revoking the release, covenant not to sue, and non-disparagement agreement referred to in Section 3(c) of the Employment Agreement.

"Change in Control" means the occurrence of any of the following events:

(i) any "Person" (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") as modified and used in Sections 13(d) and 14(d) of the Exchange Act), other than Explorer Holdings, L.P. or Hampstead Investment Partners III, L.P. or either of their successors or affiliates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of equity securities of the Company representing more than fifty percent (50%) of the voting power or value of the Company's then outstanding voting equity securities and controls the right to elect a majority of the Board of Directors of the Company;

(ii) The consummation of a merger, consolidation, share exchange or other reorganization in which the shareholders of the Company immediately prior to the transaction do not own equity securities of the surviving entity representing at least fifty percent (50%) of the combined voting power or value of the surviving entity's then outstanding voting securities immediately after the transaction and do not control the right to elect a majority of the Board of Directors of the Company;

(iii) The sale or transfer of all or substantially all of the value of the assets of the Company, in a single transaction, in a series of related transactions, or in a series of transactions over any one year period; or

(iv) A dissolution or liquidation of the Company.

Except as otherwise expressly provided above, the Optionee shall continue to vest in the Option Shares only for those periods during which the Optionee continues to be an employee of the Company or an Affiliate and any portion of the Option Shares in which the Optionee is not vested as of his termination of employment shall be forfeited.

EXHIBIT

NON-QUALIFIED STOCK OPTION AWARD
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.

2000 STOCK INCENTIVE PLAN

THIS AWARD is made as of the Grant Date, by OMEGA HEALTHCARE INVESTORS, INC. (the "Company") to R. Lee Crabill, Jr. (the "Optionee").

Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference, the Company hereby awards as of the Grant Date to Optionee a non-qualified stock option (the "Option"), as described below, to purchase the Option Shares.

A. Grant Date: July 30, 2001

B. Type of Option: Non-Qualified Stock Option.

C. Plan under which granted: Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan").

D. Option Shares: All or any part of 41,667 shares of the Company's common stock (the "Common Stock"), subject to adjustment as provided in the attached Terms and Conditions.

E. Exercise Price: $3.00 per share, subject to adjustment as provided in the attached Terms and Conditions.

F. Option Period: The Option may be exercised only during the Option Period which commences on the Grant Date and ends, subject to earlier termination as provided in the attached Terms and Conditions, on the earliest of the following:

(i) the tenth (10th) anniversary of the Grant Date;

(ii) ninety (90) days following the date the Optionee ceases to be an employee or director of or consultant to the Company or an "Affiliate" (as defined in the Plan) for any reason other than death, Disability or termination of the Optionee's service by the Company or an Affiliate for Cause;

(iii) the first anniversary of the date the Optionee ceases to be an employee or director of or consultant to the Company or an Affiliate due to death or Disability; or

(iv) ten (10) days after the date the Optionee is given notice by the Company or an Affiliate that it is terminating his service for Cause;

provided, however, that the Option may only be exercised as to the vested Option Shares determined pursuant to the Vesting Schedule. Note that other restrictions to exercising the Option, as described in the attached Terms and Conditions, may apply.

G. Vesting Schedule: The Option Shares shall vest in accordance with the Vesting Schedule attached hereto as Schedule 1.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Optionee have executed this Award as of the Grant Date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: _____
Taylor Pickett, President and CEO

OPTIONEE

_____
R. Lee Crabill, Jr.

TERMS AND CONDITIONS TO THE
NON-QUALIFIED STOCK OPTION AWARD
PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

1. Exercise of Option. Subject to the provisions provided herein or in the Award made pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan:

(a) The Option may be exercised with respect to all or any portion of the vested Option Shares at any time during the Option Period by the delivery to the Company, at its principal place of business, of (i) a written notice of exercise in substantially the form attached hereto as Exhibit 1, which shall be actually delivered to the Company no earlier than thirty (30) days and no later than ten (10) days prior to the date upon which Optionee desires to exercise all or any portion of the Option and (ii) payment to the Company of the Exercise Price multiplied by the number of shares being purchased (the "Purchase Price") in the manner provided in Subsection (b).

(b) The Purchase Price shall be paid in full upon the exercise of an Option and no Option Shares shall be issued or delivered until full payment therefor has been made. Payment of the Purchase Price for all Option Shares purchased pursuant to the exercise of an Option shall be made in cash, certified check, or, alternatively, as follows:

(i) by delivery to the Company of a number of shares of Common Stock which have been owned by the Optionee for at least six (6) months prior to the date of the Option's exercise, having a Fair Market Value, as determined under the Plan, on the date of exercise either equal to the Purchase Price or in combination with cash to equal the Purchase Price; or

(ii) by receipt of the Purchase Price in cash from a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System following delivery by the Optionee to the Committee (defined in the Plan) of instructions in a form acceptable to the Committee regarding delivery to such broker, dealer or other creditor of that number of Option Shares with respect to which the Option is exercised.

Upon acceptance of such notice and receipt of payment in full of the Purchase Price and any tax withholding liability, the Company shall cause to be issued a certificate representing the Option Shares purchased.

2. Withholding. The Optionee must satisfy federal, state and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation (i) in cash; (ii) by tendering shares of Common Stock which have been owned by the Optionee for at least six (6) months prior to the date of exercise having a "Fair Market Value" (as defined in the Plan) equal to the withholding obligation; (iii) by electing, irrevocably and in writing (the "Withholding Election"), to have the smallest number of whole shares of Common Stock withheld by the Company which, when multiplied by the Fair Market Value of the Common Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iv) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) the Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in substantially the form attached hereto as Exhibit 2; and

(b) any Withholding Election will be irrevocable; however, the Committee may, in its sole discretion, disapprove and give no effect to the Withholding Election.

3. Rights as Shareholder. Until the stock certificates reflecting the Option Shares accruing to the Optionee upon exercise of the Option are issued to the Optionee, the Optionee shall have no rights as a shareholder with respect to such Option Shares. The Company shall make no adjustment for any dividends or distributions or other rights on or with respect to Option Shares for which the record date is prior to the issuance of that stock certificate, except as the Plan or this Award otherwise provides.

4. Restriction on Transfer of Option and Option Shares. Unless otherwise permitted by the "Committee" (as defined in the Plan), the Option evidenced hereby is nontransferable other than by will or the laws of descent and distribution, and, shall be exercisable during the lifetime of the Optionee only by the Optionee (or in the event of his Disability, by his legal representative) and after his death, only by the legal representative of the Optionee's estate or, if no legal representative is appointed, the successor in interest determined under the Optionee's will.

5. Changes in Capitalization.

(a) The number of Option Shares and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number of

issued shares of Common Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Common Stock to holders of outstanding shares of Common Stock or any other increase or decrease in the number of shares of Common Stock outstanding effected without receipt of consideration by the Company.

(b) In the event of a merger, consolidation, extraordinary dividend, spin-off, sale of substantially all of the Company's assets or other material change in the capital structure of the Company, or a tender offer for shares of Common Stock, or a Change in Control (each, a "Corporate Transaction") , the Committee shall take such action to make such adjustments in the Option or the terms of this Award as the Committee, in its sole discretion, determines in good faith is necessary to reflect the terms of such Corporate Transaction so as to preserve the economic value of the Option determined as of the date of the Corporate Transaction or Committee action, as the case may be, including, without limitation, adjusting the number and class of securities subject to the Option, with a corresponding adjustment in the Exercise Price, substituting a new option to replace the Option, accelerating the termination of the Option Period or terminating the Option in consideration of a cash payment to the Optionee in an amount equal to the excess of the then Fair Market Value of the Option Shares over the aggregate Exercise Price of the Option Shares. In determining economic value, the Committee need not take into account the possibility of future appreciation. Any determination made by the Committee pursuant to this Section 5(b) will be final and binding on the Optionee. Any action taken by the Committee need not treat all optionees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

6. Special Limitations on Exercise. Any exercise of the Option is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by the Option upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the delivery of shares thereunder, the delivery of any or all shares pursuant to the Option may be withheld unless and until such listing, registration or qualification shall have been effected. The Optionee shall deliver to the Company, prior to the exercise of the Option, such information, representations and warranties as the Company may reasonably request in order for the Company to be able to satisfy itself that the Option Shares being acquired in accordance with the terms of an applicable exemption from the securities registration requirements of applicable federal and state securities laws.

7. Legend on Stock Certificates. Certificates evidencing the Option Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth herein and in the Plan such as:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OR HYPOTHECATED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE TRANSFER IS MADE IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER SUCH ACT, OR (3) THE ISSUER RECEIVES AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

Optionee agrees that the Company may also endorse any other legends it deems necessary and advisable or as may be required by applicable federal or state securities laws.

8. Governing Laws. This Award shall be construed, administered and enforced according to the laws of the State of Michigan; provided, however, no option may be exercised except, in the reasonable judgment of the Board of Directors, in compliance with exemptions under applicable state securities laws of the state in which the Optionee resides, and/or any other applicable securities laws.

9. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and permitted assigns of the parties.

10. Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have

been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13. Violation. Any transfer, pledge, sale, assignment, or hypothecation of the Option or any portion thereof shall be a violation of the terms of this Award and shall be void and without effect.

14. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award.

15. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

16. No Right to Continued Employment. Neither the establishment of the Plan nor the award of Option Shares hereunder shall be construed as giving the Optionee the right to continued employment.

17. Definitions. As used in these Terms and Conditions and this Award,

(a) "Cause" has the definition set forth in the Employment Agreement between the Company and the Employee dated July 30, 2001, as amended.

(b) Other undefined and capitalized terms shall have the meaning set forth in the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, where the context reasonably permits.

EXHIBIT 1

NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE
COMMON STOCK OF
OMEGA HEALTHCARE INVESTORS, INC.

Name

Address

Date

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

Re: Exercise of Non-Qualified Stock Option

Gentlemen:

Subject to acceptance hereof in writing by Omega Healthcare Investors, Inc. (the "Company") pursuant to the provisions of the Omega Healthcare Investors, Inc. 2000 Stock Option and Equity Incentive Plan, I hereby give at least ten days but not more than thirty days prior notice of my election to exercise options granted to me to purchase _____ shares of Common Stock of the Company under the Non-Qualified Stock Option Award (the "Award") pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Option and Equity Incentive Plan dated as of _____. The purchase shall take place as of _____ (the "Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

[ ] by delivery of cash or a certified check for $_____ for the full purchase price payable to the order of Omega Healthcare Investors, Inc..

[ ] by delivery of a certified check for $_____ representing a portion of the purchase price with the balance to consist of shares of Common Stock that I have owned for at least six months and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Common Stock represented by such stock certificate exceed the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of a stock certificate representing shares of Common Stock that I have owned for at least six months which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Common Stock represented by such certificate exceed the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of the purchase price by _____, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price.

The required federal, state and local income tax withholding obligations, if any, on the exercise of the Award shall also be paid in cash or by certified check on or before the Exercise Date, or will be satisfied in the manner provided in the Withholding Election previously tendered or to be tendered to the Company no later than the indicated date of purchase.

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Common Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the "1933 Act"), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Common Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Common Stock for investment and without the intent of participating, directly or indirectly, in a distribution of the Common Stock and not with a view to, or for resale in connection with, any distribution of the Common Stock, nor am I aware of the existence of any distribution of the Common Stock;

I am not acquiring the Common Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Common Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Common Stock was not offered to me by means of publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Common Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Common Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Common Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B) evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Common Stock or to comply with any exemption available for sale of the Common Stock without

registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act are not now available and no assurance has been given that it or they will become available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Common Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Common Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Common Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties and covenants made by me herein extend to and apply to all of the Common Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Common Stock shall constitute a confirmation by me that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations and warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice.

Very truly yours,

AGREED TO AND ACCEPTED

OMEGA HEALTHCARE INVESTORS, INC.

By:

Title:

Number of Shares
Exercised:

Number of Shares
Remaining:

Date:

EXHIBIT 2

NOTICE OF WITHHOLDING ELECTION
OMEGA HEALTHCARE INVESTORS, INC.

TO: Omega Healthcare Investors, Inc.

FROM:

RE: Withholding Election

This election relates to the Option identified in Paragraph 3 below. I hereby certify that:

(1) My correct name and social security number and my current address are set forth at the end of this document.

(2) I am (check one, whichever is applicable).

[ ] the original recipient of the Option.

[ ] the legal representative of the estate of the original recipient of the Option.

[ ] a legatee of the original recipient of the Option.

[ ] the legal guardian of the original recipient of the Option.

(3) The Option to which this election relates was issued under the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan") in the name of _____ for the purchase of a total of _____ shares of Common Stock of the Company. This election relates to _____ shares of Common Stock issuable upon exercise of the Option, provided that the numbers set forth above shall be deemed changed as appropriate to reflect the applicable Plan provisions.

(4) In connection with any exercise of the Option with respect to the Common Stock, I hereby elect:

[ ] to have certain of the shares issuable pursuant to the exercise withheld by the Company for the purpose of having the value of the shares applied to pay federal, state, and local, if any, taxes arising from the exercise.

[ ] to tender shares held by me for a period of at least six (6) months prior to the exercise of the option for the purpose of having the value of the shares applied to pay such taxes.

The shares to be withheld or tendered, as applicable, shall have, as of the Tax Date applicable to the exercise, a Fair Market Value equal to the minimum statutory tax withholding requirement under federal, state, and local law in connection with the exercise.

(5) This Withholding Election is made no later than the Tax Date and is otherwise timely made pursuant to the Plan.

(6) I understand that this Withholding Election may not be revised, amended or revoked by me.

(7) I further understand that the Company shall withhold from the shares a whole number of shares having the value specified in Paragraph 4 above, as applicable.

(8) The Plan has been made available to me by the Company. I have read and understand the Plan and I have no reason to believe that any of the conditions to the making of this Withholding Election have not been met.

(9) Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Plan.

Dated: _____

_____
Signature

_____
Social Security Number

_____
Name (Printed)

_____
Street Address

_____
City, State, Zip Code

SCHEDULE 1
NON-QUALIFIED STOCK OPTION AWARD
ISSUED PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.

Vesting Schedule

The Option shall become vested as to 50% of the Option Shares after the Optionee has performed two years of service, and the remaining unvested 50% of the Option Shares shall become ratably vested (month by month) over the twenty-four (24) months of Optionee's service following the second anniversary of the Grant Date, so that once the Optionee has performed four years of service, the Option will be vested as to 100% of the Option Shares.

Notwithstanding the foregoing, in the event of the Optionee's termination of employment (i) by the Optionee for "Good Reason" (as defined in the Employment Agreement between the Company and the Employee dated July 30, 2001 (the "Employment Agreement")) within one year following a Change in Control or (ii) by the Company without "Cause" (as defined in the Employment Agreement), 100% of the Option Shares shall become vested. The vesting provided for in this paragraph is expressly contingent upon the Employee executing and not revoking the Release, as provided in Section 3(c) of the Employment Agreement.

Change in Control means the occurrence of any of the following events:

(i) any "Person" (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") as modified and used in Sections 13(d) and 14(d) of the Exchange Act), other than Explorer Holdings, L.P. or Hampstead Investment Partners III, L.P. or either of their successors or affiliates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of equity securities of the Company representing more than fifty percent (50%) of the voting power or value of the Company's then outstanding voting equity securities and elects a majority of the Board of Directors of the Company;

(ii) The consummation of a merger, consolidation, share exchange or other reorganization in which the shareholders of the Company immediately prior to the transaction do not own equity securities of the surviving entity representing at least fifty percent (50%) of the combined voting power or value of the surviving entity's then outstanding voting securities immediately after the transaction and has not elected a majority of the Board of Directors of the Company;

(iii) The sale or transfer of all or substantially all of the value of the assets of the Company, in a single transaction, in a series of related transactions, or in a series of transactions over any one year period; or

(iv) A dissolution or liquidation of the Company.

Except as otherwise expressly provided above, the Optionee shall continue to vest in the Option Shares only for those periods during which the Optionee continues to be an employee of the Company or an Affiliate and any portion of the Option Shares in which the Optionee is not vested as of his termination of employment shall be forfeited.

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement") to be effective as of 30th day of August, 2001 (the "Effective Date"), between Omega Healthcare Investors, Inc. (the "Company"), Robert O. Stephenson (the "Executive").

INTRODUCTION

The Company and the Executive 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 Financial 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 Chief Executive Officer of the Company. The Executive will report to the Chief Executive Officer of the Company. 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. The parties acknowledge that, although the Company's current headquarters is in Ann Arbor, Michigan, it is anticipated that the headquarters will be moved to Baltimore, Maryland on or before January 31, 2002.

(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 agrees not to make any healthcare related investments during the Term except as a passive investor.

2. Compensation.

(a) Base Salary. Beginning on the date of this Agreement, the Company shall pay the Executive a base salary of $215,000 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 50% 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 Compensation Committee may prorate the Bonus for the year ending December 31, 2001, 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 200,000 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 (the "Code")) as of the date of grant as to the maximum number of shares permitted under Section 422(d) of the Code, based on the assumption, solely for purposes of determining such maximum number, that the Executive remains employed with the Company during the contemplated term of this Agreement 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 and vests accordingly pursuant to the vesting schedule set forth in the form of non-qualified stock option agreement attached hereto as an Exhibit. [With a

deemed exercise price of $2.76 per share and continuous employment through the ISO Vesting Schedule (defined below), the portion of the options designated as incentive stock options as of the date of grant would be for 181,155 shares (i.e. 36,231 shares (or $100,000/$2.76) first vesting and exercisable in each of 2002, 2003, 2004, 2005 and 2006, as set forth below)] The "ISO Vesting Schedule" shall mean (1) 36,231 shares vesting on December 31, 2002, (2) 36,231 shares vesting each year thereafter on August 1, 2003, 2004 and 2005 and (3) 36,231 shares vesting on January 1, 2006. 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) 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 hereunder on behalf of the Company; 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 Company relocates its headquarters to 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.

(e) Vacation. The Executive shall be entitled to a minimum of three weeks vacation in accordance with the terms of Company policy.

(f) 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, including, but not limited to medical insurance; provided, however, that nothing contained herein shall require the establishment or continuation of any particular plan or program.

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

3. Term, Termination and Termination Payments.

(a) Term. The term of this Agreement shall begin as of the Effective Date. It shall continue through January 1, 2006 (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, other than the 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 referred to in Section 2(c), and expenses required to be reimbursed pursuant to Section 2(d). 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 (1) twelve months following the date of termination or (2) 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 $107,500 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 3(c), 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 will be 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 the 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 attempt to solicit divert or encourage to go to work for anyone other than the Company or its Affiliates, any person that is a management level 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 commercial 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.

(f) Notwithstanding anything to the contrary contained herein, no provision of this Section 5 will be enforceable if the Executive is terminated by the Company without Cause.

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. Notwithstanding the foregoing, in the event of a breach of the representation and warranty set forth in Section 6 above (but not the covenant contained therein), the Company's sole remedy shall be termination of the Executive's employment and such termination shall be deemed to be for Cause.

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: Robert O. Stephenson
1401 Thorndon Drive
Bel Air, Maryland 21015

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. In addition, in the event the Company assigns this Agreement as permitted, both the Company and assignee shall remain liable to Executive for all payments to be made to Executive hereunder. 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 Executive or the Company, in connection with any relocation of the Company's headquarters to another state, the parties 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 the earlier of (i) twelve months after the termination of the Executive's employment with the Company or any of its Affiliates or (ii) the end of the Term.

(c) "Area" means such states where the Company and its Subsidiaries are, at the time of Executive's termination, materially doing business, which states presently include 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,.

(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.

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

(i) willful refusal by the Executive to follow a lawful direction of the CEO and/or 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 Financial Officer of the Company, which refusal continues for a period of ten (10) days after the CEO and/or the Board of Directors has again given the direction in writing;

(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, or crime 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 CFO as established in the sole discretion of the CEO of the Company within the first 180 days of the Executive's employment hereunder, as reasonably modified by the CEO from time to time thereafter, such that the Executive would no longer have responsibilities substantially equivalent to those of other CFO'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; or

(B) the Company fails to relocate its headquarters from Ann Arbor, Michigan to Baltimore, Maryland prior to January 31, 2002; and

(C) the Executive provides the Company with written notice of intent to terminate employment for a reason specified by the Executive pursuant to Sections 10(ii)(A) or (B) above at least thirty (30) days prior to the effective date of termination of employment.

(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 parties shall mutually agree .

(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/ C. TAYLOR PICKETT

C. Taylor Pickett, CEO

THE EXECUTIVE:

/S/ ROBERT O. STEPHENSON

Exhibit

INCENTIVE STOCK OPTION AWARD
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

THIS AWARD is made as of the Grant Date, by OMEGA HEALTHCARE INVESTORS, INC. (the "Company") to Robert O. Stephenson (the "Optionee").

Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference, the Company hereby awards as of the Grant Date to Optionee an incentive stock option (the "Option"), as described below, to purchase the Option Shares.

A. Grant Date: August 30, 2001.

B. Type of Option: Incentive Stock Option.

C. Plan (under which Option is granted): Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan.

D. Option Shares: All or any part of 181,155 shares of the Company's common stock (the "Stock"), subject to adjustment as provided in the attached Terms and Conditions.

E. Exercise Price: $2.76 per share, subject to adjustment as provided in the attached Terms and Conditions. The Exercise Price is, in the judgment of the Committee, not less than 100% of the Fair Market Value of a share of Stock on the Grant Date.

F. Option Period: The Option may be exercised only during the Option Period which commences on the Grant Date and ends, generally, on the earliest of:

(i) the tenth (10th) anniversary of the Grant Date;

(ii) ninety (90) days following the date the Optionee ceases to be an employee of the Company or director of or consultant to the Company or an "Affiliate" (as defined in the Plan) for any reason other than death, "Disability" (as defined in the Plan) or termination of the Optionee's service by the Company or an Affiliate with Cause;

(iii) the first anniversary of the date the Optionee ceases to be an employee or director of or consultant to the Company or an Affiliate due to death or Disability; or

(iv) ten (10) days after the date the Optionee is given notice by the Company or an Affiliate that it is terminating his service for Cause;

provided, however, that the Option may only be exercised as to the vested Option Shares determined pursuant to the Vesting Schedule. Note that other restrictions to exercising the Option, as described in the attached Terms and Conditions, may apply.

G. Vesting Schedule: The Option shall become vested in accordance with the vesting schedule attached hereto as Schedule 1.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Optionee have executed this Award as of the Grant Date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ DANIEL DECKER

Daniel Decker, Chairman

OPTIONEE

/s/ ROBERT O. STEPHENSON

TERMS AND CONDITIONS TO THE
INCENTIVE STOCK OPTION AWARD
PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

1. Exercise of Option. Subject to the provisions provided herein or in the Award made pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan:

(a) The Option may be exercised with respect to all or any portion of the vested Option Shares at any time during the Option Period by the delivery to the Company, at its principal place of business, of (i) a written notice of exercise in substantially the form attached hereto as Exhibit 1, which shall be actually delivered to the Company no earlier than thirty (30) and no later than ten (10) days prior to the date upon which Optionee desires to exercise all or any portion of the Option (unless such prior notice is waived by the Company) and (ii) payment to the Company of the Exercise Price multiplied by the number of shares being purchased (the "Purchase Price") in the manner provided in Subsection (b).

(b) The Purchase Price shall be paid in full upon the exercise of an Option and no Option Shares shall be issued or delivered until full payment therefor has been made. Payment of the Purchase Price for all Option Shares purchased pursuant to the exercise of an Option shall be made in cash, certified check, or, alternatively, as follows:

(i) by delivery to the Company of a number of shares of Stock which have been owned by the Optionee for at least six (6) months prior to the date of the Option's exercise, having a Fair Market Value, as determined under the Plan, on the date of exercise either equal to the Purchase Price or in combination with cash to equal the Purchase Price; or

(ii) by receipt of the Purchase Price in cash from a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System following delivery by the Optionee to the Committee (defined in the Plan) of instructions in a form acceptable to the Committee regarding delivery to such broker, dealer or other creditor of that number of Option Shares with respect to which the Option is exercised.

Upon acceptance of such notice and receipt of payment in full of the Purchase Price and any tax withholding liability, to the extent applicable, Company shall cause to be issued a certificate representing the Option Shares purchased.

2. Withholding. To the extent the Option is deemed to be a Non-Qualified Stock Option in accordance with Section 17, the Optionee must satisfy his federal, state, and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation (i) in cash; (ii) by tendering shares of Stock which have been owned by the Optionee for at least six (6) months prior to the date of exercise having a "Fair Market Value" (as defined in plan) equal to the withholding obligation; (iii) by electing, irrevocably and in writing (the "Withholding Election"), to have the smallest number of whole shares of Stock withheld by the Company which, when multiplied by the Fair Market Value of the Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iv) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) The Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in substantially the form attached hereto as Exhibit 2; and

(b) any Withholding Election will be irrevocable; however, the Committee (as defined in the Plan) may, in its sole discretion, disapprove

and give no effect to the Withholding Election.

3. Rights as Shareholder. Until the stock certificates reflecting the Option Shares accruing to the Optionee upon exercise of the Option are issued to the Optionee, the Optionee shall have no rights as a shareholder with respect to such Option Shares. The Company shall make no adjustment for any dividends or distributions or other rights on or with respect to Option Shares for which the record date is prior to the issuance of that stock certificate, except as the Plan or this Award otherwise provides.

4. Restriction on Transfer of Option and Option Shares. The Option evidenced hereby is nontransferable other than by will or the laws of descent and distribution, and, shall be exercisable during the lifetime of the Optionee only by the Optionee (or in the event of his Disability, by his legal representative) and after his death, only by legal representative of the Optionee's estate or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent,

5. Changes in Capitalization.

(a) The number of Option Shares and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Stock to holders of outstanding shares of Stock or any other increase or decrease in the number of shares of Stock outstanding effected without receipt of consideration by the Company.

(b) In the event of a merger, consolidation, extraordinary dividend, spin-off, sale of substantially all of the Company's assets or other material change in the capital structure of the Company or a tender offer for shares of Stock, or a Change in Control (each a "Corporate Transaction"), the Committee shall take such action to make such adjustments in the Option or the terms of this Award as the Committee, in its sole discretion, determines in good faith is necessary to reflect the terms of such Corporate Transaction so as to preserve the economic value of the Option determined as of the date of the Corporate Transaction or the Committee action, as the case may be, including, without limitation, adjusting the number and class of securities subject to the Option, with a corresponding adjustment made in the Exercise Price; substituting a new option to replace the Option; or accelerating the termination of the Option Period; or, terminating the Option in consideration of payment to Optionee of the excess of the then Fair Market Value of the Option Shares over the aggregate Exercise Price of the Option Shares. In determining economic value, the Committee need not take into account the possibility of future appreciation. Any determination made by the Committee pursuant to this Section 5(b) will be final and binding on the Optionee. Any action taken by the Committee need not treat all optionees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

6. Special Limitations on Exercise. Any exercise of the Option is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by the Option upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the delivery of shares thereunder, the delivery of any or all shares pursuant to the Option may be withheld unless and until such listing, registration or qualification shall have been effected. The Optionee shall deliver to the Company, prior to the exercise of the Option, such information, representations and warranties as the Company may reasonably request in order for the Company to be able to satisfy itself that the Option Shares being acquired in accordance with the terms of an applicable exemption from the securities registration requirements of applicable federal and state securities laws.

7. Legend on Stock Certificates. Certificates evidencing the Option Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth in this Award and in the Plan such as:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OR HYPOTHECATED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE TRANSFER IS MADE IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER SUCH ACT, OR (3) THE ISSUER RECEIVES AN OPINION OF COUNSEL,

REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

Optionee agrees that the Company may also endorse any other legends it deems necessary and advisable or as may be required by applicable federal or state securities laws.

8. Governing Laws. This Award shall be construed, administered, and enforced according to the laws of the State of Michigan; provided, however, no option may be exercised except, in the reasonable judgment of the Board of Directors, in compliance with exemptions under applicable state securities laws of the state in which the Optionee resides, and/or any other applicable securities laws.

9. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors, and permitted assigns of the parties.

10. Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13. Violation. Any transfer, pledge, sale, assignment, or hypothecation of the Option or any portion thereof shall be a violation of the terms of this Award and shall be void and without effect.

14. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award.

15. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions, and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

16. No Right to Continued Employment. Neither the establishment of the Plan nor the award of Option Shares hereunder shall be construed as giving the Optionee the right to continued employment.

17. Qualified Status of Option. The aggregate fair market value (determined as of the date an Incentive Stock Option is granted) of the shares of Stock with respect to which an Incentive Stock Option first becomes exercisable for the first time by an individual during any calendar year (under all plans of the individual's employer corporation and its parent and subsidiary corporations) shall not exceed $100,000 (determined as of the date of grant). The Exercise Price per share multiplied by the total number of Option Shares represents the aggregate fair market value of the Option Shares. To the extent the foregoing limitation is exceeded with respect to any portion of the Option Shares, such portion of the Option shall be deemed a Non-Qualified Stock Option.

18. Definitions. As used in these Terms and Conditions and this Award,

(a) "Cause" has the definition set forth in the Employment Agreement between the Company and the Employee dated August 1, 2001, as amended.

(b) Other undefined and capitalized terms shall have the meaning set forth in the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, where the context reasonably permits.

EXHIBIT 1

NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE
COMMON STOCK OF
OMEGA HEALTHCARE INVESTORS, INC.

Name: _____

Address: _____

_____

Date: _____

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

Re: Exercise of Incentive Stock Option

Dear Sir or Madam:

Subject to acceptance hereof in writing by Omega Healthcare Investors, Inc. (the "Company") pursuant to the provisions of the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, I hereby give at least ten (10) days but not more than thirty (30) days prior notice of my election to exercise options granted to me to purchase _____ shares of Stock of the Company under the Incentive Stock Option Award (the "Award") pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan dated as of _____, _____. The purchase shall take place as of _____, _____ (the "Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

[ ] by delivery of cash or a certified check for $_____ for the full purchase price payable to the order of the Company.

[ ] by delivery of a certified check for $_____ representing a portion of the purchase price with the balance to consist of shares of Stock that I have owned for at least six (6) months and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Stock represented by such stock certificate exceed the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of a stock certificate representing shares of Stock that I have owned for at least six (6) months which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Stock represented by such certificate exceed the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of the purchase price by _____, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in the number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price.

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the "1933 Act"), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Stock for investment and without the intent of participating,

directly or indirectly, in a distribution of the Stock and not with a view to, or for resale in connection with any distribution of the Stock, nor am I aware of the existence of any distribution of the Stock;

I am not acquiring the Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Stock was not offered to me by means of any publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B) evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Stock or to comply with any exemption available for sale of the Stock without registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act may not now be available and no assurance has been given that it or they will become available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties, and covenants made by me herein extend to, and apply to, all of the Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Stock shall constitute a confirmation by me that all such agreements, representations, warranties, and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations, warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice.

Very truly yours,

AGREED TO AND ACCEPTED:

Omega Healthcare Investors, Inc.

By:

Title:

Number of Shares Exercised:

Number of Shares Remaining: Date:_____

EXHIBIT 2

NOTICE OF WITHHOLDING ELECTION
Omega Healthcare Investors, Inc.

TO: Omega Healthcare Investors, Inc.

FROM:

RE: Withholding Election

This election relates to the Option identified in Paragraph 3 below. I hereby certify that:

(1) My correct name and social security number and my current address are set forth at the end of this document.

(2) I am (check one, whichever is applicable)

[ ] the original recipient of the Option.

[ ] the legal representative of the estate of the original recipient of the Option.

[ ] a legatee of the original recipient of the Option.

[ ] the legal guardian of the original recipient of the Option.

(3) The Option to which this election relates was issued under the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan") in the name of _____ for the purchase of a total of _____ shares of Stock of the Company. This election relates to _____ shares of Stock issuable upon exercise of the Option, provided that the numbers set forth above shall be deemed changed as appropriate to reflect the applicable Plan provisions.

(4) In connection with any exercise of the Option with respect to the Stock, I hereby elect:

[ ] To have certain of the shares issuable pursuant to the exercise withheld by the Company for the purpose of having the value of the shares applied to pay federal, state, and local, if any, taxes arising from the exercise.

[ ] To tender shares held by me for a period of at least six (6) months prior to the exercise of the Option for the purpose of having the value of the shares applied to pay such taxes.

The shares to be withheld or tendered, as applicable, shall have, as of the Tax Date applicable to the exercise, a Fair Market Value equal to the minimum statutory tax withholding requirement under federal, state, and local law in connection with the exercise.

(5) This Withholding Election is made no later than the Tax Date and is otherwise timely made pursuant to the Plan.

(6) I understand that this Withholding Election may not be revised, amended or revoked by me.

(7) I further understand that the Company shall withhold from the shares a whole number of shares having the value specified in Paragraph 4 above, as applicable.

(8) The Plan has been made available to me by the Company. I have read and understand the Plan and I have no reason to believe that any of the conditions to the making of this Withholding Election have not been met.

(9) Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Plan.

Dated:

Signature

Social Security Number

Name (Printed)

Street Address

City, State, Zip Code

SCHEDULE 1

VESTING SCHEDULE FOR INCENTIVE
STOCK OPTION AWARD ISSUED PURSUANT TO THE
Omega Healthcare Investors, Inc.
2000 INCENTIVE STOCK OPTION PLAN

Vesting Schedule

The Option shall become vested as to 36,231 Option Shares (i.e., a number of Option Shares equal to $100,000 divided by the Exercise Price per share) on each of December 31, 2002, August 1, 2003, August 1, 2004, August 1, 2005, and January 1, 2006, in each case provided the Optionee continues to be employed by the Company through the applicable date.

Notwithstanding the foregoing, in the event of the Optionee's termination of employment (i) by the Optionee for "Good Reason" (as defined in the Employment Agreement between the Company and the Employee dated August 1, 2001 (the "Employment Agreement")) within one year following a Change in Control or (ii) by the Company without "Cause" (as defined in the Employment Agreement), 100% of the Option Shares shall become vested. The vesting provided for in this paragraph is expressly contingent upon the Employee executing and not revoking the release, covenant not to sue, and non-disparagement agreement referred to in Section 3(c) of the Employment Agreement.

"Change in Control" means the occurrence of any of the following events:

(i) any "Person" (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") as modified and used in Sections 13(d) and 14(d) of the Exchange Act), other than Explorer Holdings, L.P. or Hampstead Investment Partners III, L.P. or either of their successors or affiliates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of equity securities of the Company representing more than fifty percent (50%) of the voting power or value of the Company's then outstanding voting equity securities and controls the right to elect a majority of the Board of Directors of the Company;

(ii) The consummation of a merger, consolidation, share exchange or other reorganization in which the shareholders of the Company immediately prior to the transaction do not own equity securities of the surviving entity representing at least fifty percent (50%) of the combined voting power or value of the surviving entity's then outstanding voting securities immediately after the transaction and do not control the right to elect a majority of the Board of Directors of the Company;

(iii) The sale or transfer of all or substantially all of the value of the assets of the Company, in a single transaction, in a series of related transactions, or in a series of transactions over any one year period; or

(iv) A dissolution or liquidation of the Company.

Except as otherwise expressly provided above, the Optionee shall continue to vest in the Option Shares only for those periods during which the Optionee continues to be an employee of the Company or an Affiliate and any portion of the Option Shares in which the Optionee is not vested as of his termination of employment shall be forfeited.

Exhibit

NON-QUALIFIED STOCK OPTION AWARD
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

THIS AWARD is made as of the Grant Date, by OMEGA HEALTHCARE INVESTORS, INC. (the "Company") to Robert O. Stephenson (the "Optionee").

Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference, the Company hereby awards as of the Grant Date to Optionee a non-qualified stock option (the "Option"), as described below, to purchase the Option Shares.

A. Grant Date: August 30, 2001

B. Type of Option: Non-Qualified Stock Option.

C. Plan under which granted: Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan").

D. Option Shares: All or any part of 18,845 shares of the Company's common stock (the "Common Stock"), subject to adjustment as provided in the attached Terms and Conditions.

E. Exercise Price: $2.76 per share, subject to adjustment as provided in the attached Terms and Conditions.

F. Option Period: The Option may be exercised only during the Option Period which commences on the Grant Date and ends, subject to earlier termination as provided in the attached Terms and Conditions, on the earliest of the following:

(i) the tenth (10th) anniversary of the Grant Date;

(ii) ninety (90) days following the date the Optionee ceases to be an employee or director of or consultant to the Company or an "Affiliate" (as defined in the Plan) for any reason other than death, Disability or termination of the Optionee's service by the Company or an Affiliate for Cause;

(iii) the first anniversary of the date the Optionee ceases to be an employee or director of or consultant to the Company or an Affiliate due to death or Disability; or

(iv) ten (10) days after the date the Optionee is given notice by the Company or an Affiliate that it is terminating his service for Cause;

provided, however, that the Option may only be exercised as to the vested Option Shares determined pursuant to the Vesting Schedule. Note that other restrictions to exercising the Option, as described in the attached Terms and Conditions, may apply.

G. Vesting Schedule: The Option Shares shall vest in accordance with the Vesting Schedule attached hereto as Schedule 1.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and Optionee have executed this Award as of the Grant Date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ DANIEL DECKER

Daniel Decker, Chairman

OPTIONEE

/s/ ROBERT O. STEPHENSON

TERMS AND CONDITIONS TO THE
NON-QUALIFIED STOCK OPTION AWARD
PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

1. Exercise of Option. Subject to the provisions provided herein or in the Award made pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan:

(a) The Option may be exercised with respect to all or any portion of the vested Option Shares at any time during the Option Period by the delivery to the Company, at its principal place of business, of (i) a written notice of exercise in substantially the form attached hereto as Exhibit 1, which shall be actually delivered to the Company no earlier than thirty (30) days and no later than ten (10) days prior to the date upon which Optionee desires to exercise all or any portion of the Option and (ii) payment to the Company of the Exercise Price multiplied by the number of shares being purchased (the "Purchase Price") in the manner provided in Subsection (b).

(b) The Purchase Price shall be paid in full upon the exercise of an Option and no Option Shares shall be issued or delivered until full payment therefor has been made. Payment of the Purchase Price for all Option Shares purchased pursuant to the exercise of an Option shall be made in cash, certified check, or, alternatively, as follows:

(i) by delivery to the Company of a number of shares of Common Stock which have been owned by the Optionee for at least six (6) months prior to the date of the Option's exercise, having a Fair Market Value, as determined under the Plan, on the date of exercise either equal to the Purchase Price or in combination with cash to equal the Purchase Price; or

(ii) by receipt of the Purchase Price in cash from a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System following delivery by the Optionee to the Committee (defined in the Plan) of instructions in a form acceptable to the Committee regarding delivery to such broker, dealer or other creditor of that number of Option Shares with respect to which the Option is exercised.

Upon acceptance of such notice and receipt of payment in full of the Purchase Price and any tax withholding liability, the Company shall cause to be issued a certificate representing the Option Shares purchased.

2. Withholding. The Optionee must satisfy federal, state and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation (i) in cash; (ii) by tendering shares of Common Stock which have been owned by the Optionee for at least six (6) months prior to the date of exercise having a "Fair Market Value" (as defined in the Plan) equal to the withholding obligation; (iii) by electing, irrevocably and in writing (the "Withholding Election"), to have the smallest number of whole shares of Common Stock withheld by the Company which, when multiplied by the Fair Market Value of the Common Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iv) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) the Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in substantially the form attached hereto as Exhibit 2; and

(b) any Withholding Election will be irrevocable; however, the Committee may, in its sole discretion, disapprove and give no effect to the Withholding Election.

3. Rights as Shareholder. Until the stock certificates reflecting the Option Shares accruing to the Optionee upon exercise of the Option are issued to the Optionee, the Optionee shall have no rights as a shareholder with respect to such Option Shares. The Company shall make no adjustment for any dividends or distributions or other rights on or with respect to Option Shares for which the record date is prior to the issuance of that stock certificate, except as the Plan or this Award otherwise provides.

4. Restriction on Transfer of Option and Option Shares. Unless otherwise permitted by the "Committee" (as defined in the Plan), the Option evidenced hereby is nontransferable other than by will or the laws of descent and distribution, and, shall be exercisable during the lifetime of the Optionee only by the Optionee (or in the event of his Disability, by his legal representative) and after his death, only by the legal representative of the Optionee's estate or, if no legal representative is appointed, the successor in interest determined under the Optionee's will.

5. Changes in Capitalization.

(a) The number of Option Shares and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number of

issued shares of Common Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Common Stock to holders of outstanding shares of Common Stock or any other increase or decrease in the number of shares of Common Stock outstanding effected without receipt of consideration by the Company.

(b) In the event of a merger, consolidation, extraordinary dividend, spin-off, sale of substantially all of the Company's assets or other material change in the capital structure of the Company, or a tender offer for shares of Common Stock, or a Change in Control (each, a "Corporate Transaction") , the Committee shall take such action to make such adjustments in the Option or the terms of this Award as the Committee, in its sole discretion, determines in good faith is necessary to reflect the terms of such Corporate Transaction so as to preserve the economic value of the Option determined as of the date of the Corporate Transaction or Committee action, as the case may be, including, without limitation, adjusting the number and class of securities subject to the Option, with a corresponding adjustment in the Exercise Price, substituting a new option to replace the Option, accelerating the termination of the Option Period or terminating the Option in consideration of a cash payment to the Optionee in an amount equal to the excess of the then Fair Market Value of the Option Shares over the aggregate Exercise Price of the Option Shares. In determining economic value, the Committee need not take into account the possibility of future appreciation. Any determination made by the Committee pursuant to this Section 5(b) will be final and binding on the Optionee. Any action taken by the Committee need not treat all optionees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

6. Special Limitations on Exercise. Any exercise of the Option is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by the Option upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the delivery of shares thereunder, the delivery of any or all shares pursuant to the Option may be withheld unless and until such listing, registration or qualification shall have been effected. The Optionee shall deliver to the Company, prior to the exercise of the Option, such information, representations and warranties as the Company may reasonably request in order for the Company to be able to satisfy itself that the Option Shares being acquired in accordance with the terms of an applicable exemption from the securities registration requirements of applicable federal and state securities laws.

7. Legend on Stock Certificates. Certificates evidencing the Option Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth herein and in the Plan such as:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OR HYPOTHECATED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE TRANSFER IS MADE IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER SUCH ACT, OR (3) THE ISSUER RECEIVES AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

Optionee agrees that the Company may also endorse any other legends it deems necessary and advisable or as may be required by applicable federal or state securities laws.

8. Governing Laws. This Award shall be construed, administered and enforced according to the laws of the State of Michigan; provided, however, no option may be exercised except, in the reasonable judgment of the Board of Directors, in compliance with exemptions under applicable state securities laws of the state in which the Optionee resides, and/or any other applicable securities laws.

9. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and permitted assigns of the parties.

10. Notice. Except as otherwise specified herein, all notices and other

communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13. Violation. Any transfer, pledge, sale, assignment, or hypothecation of the Option or any portion thereof shall be a violation of the terms of this Award and shall be void and without effect.

14. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award.

15. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

16. No Right to Continued Employment. Neither the establishment of the Plan nor the award of Option Shares hereunder shall be construed as giving the Optionee the right to continued employment.

17. Definitions. As used in these Terms and Conditions and this Award,

(a) "Cause" has the definition set forth in the Employment Agreement between the Company and the Employee dated August 1, 2001, as amended.

(b) Other undefined and capitalized terms shall have the meaning set forth in the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan, where the context reasonably permits.

EXHIBIT 1

NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE
COMMON STOCK OF
OMEGA HEALTHCARE INVESTORS, INC.

Name

Address

Date

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

Re: Exercise of Non-Qualified Stock Option

Gentlemen:

Subject to acceptance hereof in writing by Omega Healthcare Investors, Inc. (the "Company") pursuant to the provisions of the Omega Healthcare Investors, Inc. 2000 Stock Option and Equity Incentive Plan, I hereby give at least ten days but not more than thirty days prior notice of my election to exercise options granted to me to purchase _____ shares of Common Stock of the Company under the Non-Qualified Stock Option Award (the "Award") pursuant to the Omega Healthcare Investors, Inc. 2000 Stock Option and Equity Incentive Plan dated as of _____. The purchase shall take place as of _____ (the

"Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

[ ] by delivery of cash or a certified check for $_____ for the full purchase price payable to the order of Omega Healthcare Investors, Inc..

[ ] by delivery of a certified check for $_____ representing a portion of the purchase price with the balance to consist of shares of Common Stock that I have owned for at least six months and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Common Stock represented by such stock certificate exceed the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of a stock certificate representing shares of Common Stock that I have owned for at least six months which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Common Stock represented by such certificate exceed the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.

[ ] by delivery of the purchase price by _____, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price.

The required federal, state and local income tax withholding obligations, if any, on the exercise of the Award shall also be paid in cash or by certified check on or before the Exercise Date, or will be satisfied in the manner provided in the Withholding Election previously tendered or to be tendered to the Company no later than the indicated date of purchase.

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Common Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the "1933 Act"), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Common Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Common Stock for investment and without the intent of participating, directly or indirectly, in a distribution of the Common Stock and not with a view to, or for resale in connection with, any distribution of the Common Stock, nor am I aware of the existence of any distribution of the Common Stock;

I am not acquiring the Common Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Common Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Common Stock was not offered to me by means of publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Common Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Common Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Common Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B)

evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Common Stock or to comply with any exemption available for sale of the Common Stock without registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act are not now available and no assurance has been given that it or they will become available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Common Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Common Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Common Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties and covenants made by me herein extend to and apply to all of the Common Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Common Stock shall constitute a confirmation by me that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations and warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice.

Very truly yours,

AGREED TO AND ACCEPTED

OMEGA HEALTHCARE INVESTORS, INC.

By: _____

Title: _____

Number of Shares Exercised: _____

Number of Shares Remaining: _____ Date: _____

EXHIBIT 2

NOTICE OF WITHHOLDING ELECTION
OMEGA HEALTHCARE INVESTORS, INC.

TO: Omega Healthcare Investors, Inc.

FROM:

RE: Withholding Election

This election relates to the Option identified in Paragraph 3 below. I hereby certify that:

(1) My correct name and social security number and my current address are set forth at the end of this document.

(2) I am (check one, whichever is applicable).

[ ] the original recipient of the Option.

[ ] the legal representative of the estate of the original recipient of the Option.

[ ] a legatee of the original recipient of the Option.

[ ] the legal guardian of the original recipient of the Option.

(3) The Option to which this election relates was issued under the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan (the "Plan") in the name of _____ for the purchase of a total of _____ shares of Common Stock of the Company. This election relates to _____ shares of Common Stock issuable upon exercise of the Option, provided that the numbers set forth above shall be deemed changed as appropriate to reflect the applicable Plan provisions.

(4) In connection with any exercise of the Option with respect to the Common Stock, I hereby elect:

[ ] to have certain of the shares issuable pursuant to the exercise withheld by the Company for the purpose of having the value of the shares applied to pay federal, state, and local, if any, taxes arising from the exercise.

[ ] to tender shares held by me for a period of at least six (6) months prior to the exercise of the option for the purpose of having the value of the shares applied to pay such taxes.

The shares to be withheld or tendered, as applicable, shall have, as of the Tax Date applicable to the exercise, a Fair Market Value equal to the minimum statutory tax withholding requirement under federal, state, and local law in connection with the exercise.

(5) This Withholding Election is made no later than the Tax Date and is otherwise timely made pursuant to the Plan.

(6) I understand that this Withholding Election may not be revised, amended or revoked by me.

(7) I further understand that the Company shall withhold from the shares a whole number of shares having the value specified in Paragraph 4 above, as applicable.

(8) The Plan has been made available to me by the Company. I have read and understand the Plan and I have no reason to believe that any of the conditions to the making of this Withholding Election have not been met.

(9) Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Plan.

Dated:

Signature

Social Security Number

Name (Printed)

Street Address

City, State, Zip Code

SCHEDULE 1
NON-QUALIFIED STOCK OPTION AWARD
ISSUED PURSUANT TO THE
OMEGA HEALTHCARE INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

Vesting Schedule

The Option shall become vested as to 100% of the Option Shares on August 1, 2003, provided the Optionee continues to be employed by the Company through that date.

Notwithstanding the foregoing, in the event of the Optionee's termination of employment (i) by the Optionee for "Good Reason" (as defined in the Employment Agreement between the Company and the Employee dated August 1, 2001 (the "Employment Agreement")) within one year following a Change in Control or (ii) by the Company without "Cause" (as defined in the Employment Agreement), 100% of the Option Shares shall become vested. The vesting provided for in this paragraph is expressly contingent upon the Employee executing and not revoking the Release, as provided in Section 3(c) of the Employment Agreement.

Change in Control means the occurrence of any of the following events:

(i) any "Person" (as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") as modified and used in Sections 13(d) and 14(d) of the Exchange Act), other than Explorer Holdings, L.P. or Hampstead Investment Partners III, L.P. or either of their successors or affiliates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of equity securities of the Company representing more than fifty percent (50%) of the voting power or value of the Company's then outstanding voting equity securities and elects a majority of the Board of Directors of the Company;

(ii) The consummation of a merger, consolidation, share exchange or other reorganization in which the shareholders of the Company immediately prior to the transaction do not own equity securities of the surviving entity representing at least fifty percent (50%) of the combined voting power or value of the surviving entity's then outstanding voting securities immediately after the transaction and has not elected a majority of the Board of Directors of the Company;

(iii) The sale or transfer of all or substantially all of the value of the assets of the Company, in a single transaction, in a series of related transactions, or in a series of transactions over any one year period; or

(iv) A dissolution or liquidation of the Company.

Except as otherwise expressly provided above, the Optionee shall continue to vest in the Option Shares only for those periods during which the Optionee continues to be an employee of the Company or an Affiliate and any portion of the Option Shares in which the Optionee is not vested as of his termination of employment shall be forfeited.

Exhibit 10.3

EMPLOYMENT AGREEMENT

THIS AGREEMENT (this "Agreement") to be effective as of October 15, 2001 (the "Effective Date"), is entered into between Omega Healthcare Investors, Inc. (the "Company"), and Dan Booth (the "Executive").

INTRODUCTION

The Company and the Executive 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, the Company will employ the Executive, and the Executive will serve as the Chief Operating Office 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 Chief Executive Officer of the Company. The Executive will report to the Chief Executive Officer of the Company. 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. The parties acknowledge that although the Company's current headquarters is in Ann Arbor, Michigan, it is anticipated that the headquarters will be moved to Baltimore, Maryland on or before January 31, 2002.

(b) Exclusivity. Throughout the Executive's employment hereunder, during regular business hours, the Executive shall devote substantially all of the Executive's time, energy and skill 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 commercial business, except with the prior written consent of the Chief Executive Officer. Further, the Executive agrees not to make any healthcare related investments during the Term except as a passive investor.

2. Compensation.

(a) Base Salary. Beginning on the date of this Agreement, the Company shall pay the Executive a base salary of $275,000 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 50% 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. Notwithstanding the forgoing, to the extent a Bonus has been earned, the same will be paid to Executive no later than the time when the CEO's annual bonus is paid in any such year. 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 Compensation Committee will prorate the Bonus for the year ending December 31, 2001, for the partial year the Executive works in 2001. Other than a prorated bonus to the extent due to the Estate of the Executive for any partial year worked in which the death of the Executive occurs, 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 250,000 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 (the "Code")) as of the date of grant as to the maximum number of shares permitted under Section 422(d) of the Code, based on the assumption, solely for purposes of determining such maximum number, that the Executive remains employed with the Company during the contemplated term of this Agreement 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 of the options will be designated as a nonqualified stock option as of the date of grant, vesting pursuant to the vesting schedule set forth in the form of non-qualified

stock option agreement attached hereto as an Exhibit. [For example, with a deemed exercise price of $3.00 per share and continuous employment through the ISO Vesting Schedule (defined below), the portion of the options designated as incentive stock options as of the date of grant would be for 166,666 shares (i.e. 33,333 shares (or $100,000/$3.00) first vesting and exercisable in each of 2002, 2003, 2004, 2005 and 2006, as set forth below)] The "ISO Vesting Schedule" shall mean (1) 33,333 shares vesting on December 31, 2002, (2) 33,333 shares vesting each year thereafter on October 1, 2003, 2004 and 2005 and (3) 33,333 shares vesting on January 1, 2006. Such stock option shall be subject to the terms of the stock option award agreement (attached hereto as Exhibit) and the terms of the applicable stock option plan maintained by the Company.

(d) Expenses. The Executive shall be entitled to be reimbursed in accordance with Company policy for reasonable and necessary expenses incurred by the Executive on behalf of the Company; 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 January 1, 2002, or the date the Company relocates to the Baltimore, Maryland area, if earlier, the Company will reimburse the Executive for his reasonable travel expenses between the Executive's existing primary residence and Ann Arbor Michigan, and the Executive's reasonable lodging and living expenses in the Ann Arbor area.

(e) Vacation. The Executive shall be entitled to a minimum of three (3) weeks vacation in accordance with the terms of Company policy and such additional personal days as may be included in the Company's policy from time to time.

(f) 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, including, but not limited to medical insurance; provided, however, that nothing contained herein shall require the establishment or continuation of any particular plan or program.

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

3. Term, Termination and Termination Payments.

(a) Term. The term of this Agreement shall begin as of the Effective Date. It shall continue through January 1, 2006 (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, other than (i) the base salary pursuant to Section 2(a) accrued up to the effective date of termination, (ii) any unpaid earned and accrued Bonus, if any, pursuant to Section 2(b), (iii) as provided under the terms of the stock option referred to in Section 2(c), (iv) expenses incurred prior to the termination date and required to be reimbursed pursuant to Section 2(d), (v) other benefits earned and/or accrued prior to the termination date and required to be paid pursuant to Sections 2(e) and 2(f) and (vi) as provided under Section 3(c), to the extent applicable. 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 (x) twelve months following the date of termination or (y) the then remaining Term, in either case on the same schedule as if the Executive had continued to perform services for such period, (ii) an amount equal to the Bonus actually paid to Executive during the prior year, paid in twelve monthly equal installments, (iii) expenses incurred prior to the termination date and required to be reimbursed pursuant to Section 2(d) and (iv) other benefits earned and/or accrued prior to the termination date and required to be paid pursuant to Sections 2(e) and 2(f). In the event a termination occurs under this Section 3(c) prior to December 31, 2002, a deemed Bonus equal to $137,500 for 2001 will be used strictly for the purpose of calculating the severance payment hereunder and the Executive's stock options will vest pro-rata based on the number of months of Executive's employment with the Company. 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 3(b) and (c), 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 reasonably 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 (i) disclosed by the Company prior to or after the date hereof and/or (ii) developed by the Executive 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 will be 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 the 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 attempt to solicit, divert or encourage to go to work for anyone other than the Company or its Affiliates, any person that is a management level 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 commercial 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.

(f) Notwithstanding anything to the contrary contained herein, no provision of this Section 5 will be enforceable if the Executive is terminated by the Company without Cause.

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 (except for a one (1) year prohibition on participating in negotiations related to the sale, lease or operation of any facility owned, leased or operated by Executive's former employer); (ii) competing with, or in any way participating in a business which includes the Company's business (except for a one (1) year prohibition on participating in negotiations related to the sale, lease or operation of any facility owned, leased or operated by Executive's former employer); (iii) soliciting personnel of such former employer or other business to leave such former employer's employment or to leave such other business (except for a six (6) month restriction on the disturbance, enticement, solicitation or hiring of any employee of Executive's former employer); 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 and director at Integrated Health Services, Inc. and its subsidiaries and affiliates, including without limitation, Lyric Healthcare, LLC and its subsidiaries and affiliates.

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. Notwithstanding the foregoing, in the event of a breach of the representation and warranty set forth in Section 6 above (but not the covenant contained therein), the Company's sole remedy shall be termination of the Executive's employment and such termination shall be deemed to be for Cause.

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: Dan Booth
20 Hickory Meadow
Cockeysville, Maryland 21230

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 all or substantially all of 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 Maryland. The parties agree that any appropriate state or federal court located in the Baltimore, Maryland area 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 or the Executive, in connection with any relocation of the Company's headquarters to another state, the parties 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 the earlier of (i) twelve months after the termination of the Executive's employment with the Company or any of its Affiliates or (ii) the end of the Term.

(c) "Area" means such states where the Company is, at the time of Executive's termination, materially doing business, which states presently include 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.

(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.

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

(i) willful refusal by the Executive to follow a lawful direction of the CEO and/or 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 Operating Officer of the Company, which refusal continues after the CEO and/or the Board of Directors has again given the direction in writing;

(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, or crime 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, considered as a whole, together with all parent corporations, subsidiaries and affiliates, is primarily 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 by the Executive.

(h) "Disability" means the inability of the Executive to perform the material duties of his position as Chief Operating 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 Chief Operating Officer, as established in the sole discretion of the Chief Executive Officer of the Company within the first one hundred eighty (180) days of the Executive's employment hereunder, as reasonably modified by the Chief Executive Officer from time to time thereafter, such that the Executive would no longer have responsibilities substantially equal to those of other chief operating officers at companies with similar business operations, 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; or

(B) the Company fails to relocate its headquarters from Ann Arbor, Michigan to the Baltimore, Maryland area on or before January 31, 2002; and

(C) the Executive provides the Company with written notice of intent to terminate employment for a reason specified by the Executive pursuant to Section 10(i)(ii)(A) or (B) above at least thirty (30) days prior to the effective date of termination of employment.

(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 parties shall mutually agree; it being agreed in advance that such Release will not limit the Company's indemnification of Executive pursuant to the Company's bylaws and/or articles of incorporation, to the extent applicable. Furthermore, the Release will not result in the waiver of any claims by Executive against the Company to the extent the Company makes any untrue statement about Executive on or after the date of the Release.

(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 of the Company 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.

THE COMPANY:

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ C. TAYLOR PICKETT

C. Taylor Pickett, CEO

THE EXECUTIVE:

/S/ DAN BOOTH

RETENTION, SEVERANCE AND RELEASE AGREEMENT

THIS RETENTION, SEVERANCE AND RELEASE AGREEMENT ("Agreement") is dated as of October 9, 2001 and effective as of the Effective Date, by and between Omega Healthcare Investors, Inc., a Maryland corporation, its successors and assigns ("Omega"), and F. Scott Kellman ("Employee").

INTRODUCTION

Employee is employed by Omega; and

Omega desires to provide Employee with incentives to remain available for employment in Ann Arbor through January 31, 2002, subject to the terms and conditions contained herein below.

NOW THEREFORE, in consideration of the covenants herein contained and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. RESIGNATION. Employee agrees to continue his employment with Omega through the Resignation Date. Upon the Resignation Date, Employee's employment with Omega shall end of its own accord, without the necessity of action by either party. "Resignation Date" means the earlier of (i) January 31, 2002 or (ii) the date specified by Omega that Employee's services shall no longer be needed (other than termination for Cause).

2. RETENTION PAYMENTS.

(a) Omega shall pay Employee his regular base salary through January 31, 2002.

(b) If Employee remains employed through the Resignation Date, Employee shall receive, on February 1, 2002, a minimum cash bonus of $150,000.00.

(c) If Employee achieves the performance objectives set for Employee by management of Omega (as attached hereto as Exhibit A), Employee shall have the opportunity to earn an additional performance bonus of up to $150,000.00, payable on February 1, 2002. The performance objectives for this additional performance bonus may include both objective and subjective elements.

(d) If Employee remains employed through the Resignation Date, Employee shall receive an additional bonus ("Retention Bonus") totaling $930,000.00, which shall be paid on February 1, 2002.

3. SEVERANCE BENEFITS. Employee shall receive Severance Benefits in accordance with and subject to the terms and conditions of this Section 3.

(a) Amount of Severance Benefits. In addition to the Retention Payments referred to in Section 2, during 2002 Omega will pay the applicable premiums for Employee's eligible healthcare insurance benefits, less the Employee's contribution as required under the plan. Notwithstanding the foregoing, Employee's 125 Plan deductions for 2002 will be limited such that the actual amount of 125 Plan benefits will not exceed the actual contributions made by Employee during 2002. Furthermore, Employee will continue to be eligible to participate in Omega's 401k only through the Resignation Date.

(b) Eligibility for Severance Benefits. Employee shall not be eligible to receive Retention Payments and/or Severance Benefits unless the following conditions have been satisfied: (i) Employee remains employed until the Resignation Date; and (ii) Employee executes and delivers to Omega upon the Resignation Date a Release in the form of Exhibit B hereto; and (iii) the Release becomes irrevocable and enforceable in accordance with its terms. If Omega terminates Employee's employment for Cause, as defined in Section 16, Employee will not be entitled to any Retention Payments, Severance Benefits or any other compensation or benefits under this Agreement.

(c) Retention Payments and Severance Benefits. Omega shall undertake to make deductions, withholdings and tax reports with respect to the Retention Payments and Severance Benefits under this Agreement to the extent that it reasonably and in good faith believes that it is required to make such deductions, withholdings and tax reports. Payments under this Agreement shall be in amounts net of any such deductions or withholdings. Except as provided in Section 4(f) below, nothing in this Agreement shall be construed to require Omega to make any payments to compensate Employee for any adverse tax effect associated with any payments or benefits or for any deduction or withholding from any payment or benefit.

4. RELEASE.

(a) Employee, on behalf of himself and his successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally releases, acquits and forever discharges Omega, its subsidiaries, parents, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern Employee's employment or business relationship with the Releasees ("Claims"), which Employee has, has had or may have in the future against the Releasees as the result of any act or omission occurring from the beginning of time up to the date on which Employee executes this Agreement (to be reaffirmed through the Resignation Date in the Release), including, without limitation, all claims for: breach of express or implied contract; promissory estoppel; severance payments or benefits other than as expressly set forth in this Agreement; compensation of any sort other than ordinary wages due for work performed for the current pay period; fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any expressed or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; claims for defamation or damaged reputation; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, the Age Discrimination in Employment Act, as amended, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, The Fair Labor Standards Act, the Michigan Civil Rights Act; the Michigan Equal Pay Act; the Michigan Persons with Disabilities Civil Rights Act; and any other federal, state or local statute or ordinance. Nothing in this Section 4(a) shall be deemed to release the Releasees from any claims Employee may have (i) expressly arising under this Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes and the applicable terms of the charters, articles of organization or by-laws of Omega or its affiliates or under any indemnification agreements, (iii) vested retirement benefits under the terms of qualified employee benefit plans, (iv) for accrued benefits under the terms of applicable employee benefit plans identified on Exhibit C attached hereto, or (v) accrued but unpaid compensation regularly due during the current pay period.

(b) Employee represents and warrants that he has no claims against Omega for (i) compensation or severance payments, other than compensation regularly due during the current pay period and Retention Payment and Severance Benefits to the extent owing pursuant to this Agreement; (ii) benefits, other than as set forth on Exhibit C attached hereto; and (iii) accrued and unused vacation, except as in the amount as reflected in Omega's records, from time to time.

(c) Employee warrants and represents that he has not assigned or transferred to any person or entity any claims or causes of action, or any portion thereof, which he is releasing herein.

(d) Employee's release in Section 4(a) and in the Release does not apply to any rights of indemnification that Employee may have pursuant to the Indemnity Agreement dated November 13, 1998 between Omega and Employee (the "Indemnity Agreement"). Omega fully, finally and forever releases and discharges Employee of and from all claims, demands, actions, causes of action, suits, damages, losses, and expenses, but only to the extent that Employee is entitled to indemnification with respect to the same pursuant to the Indemnity Agreement.

(e) Omega hereby advises Employee to discuss all aspects of this Agreement with his attorney. Employee acknowledges that he has carefully read and fully understands all of the provisions of this Agreement and that he is voluntarily entering into this Agreement. Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Agreement for forty-five (45) days before executing it. In the event that Employee executes this Agreement within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary, that he had the opportunity to consider this Agreement for the entire forty-five (45) day period, and that he intentionally and voluntarily waived his right to take forty-five (45) days to review this Agreement. Employee retains the right for a period of seven (7) days from the date of the execution of this Agreement to revoke this Agreement by written notice to Taylor Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. None of Omega's obligations hereunder will take effect until the expiration of the seven (7) day period.

(f) Gross-Up Payment. In the event a Retention Payments are made to you under Sections 2 and/or 3 and it is determined that any payment (other than the Gross-Up Payments provided for herein) or distribution by the Company or any of its affiliates to or for your benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, or the lapse or termination of any restriction on, or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the

"Code") (or any successor provision thereto) by reason of being "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then you will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For purposes of calculating the Gross-Up Payment, it will be assumed that all taxable Retention Payments you receive are taxed at the highest marginal federal income tax rate and the highest state income tax rate in which you reside, but without regard to any reduction in personal exemptions or deductions associated with your level of income. All determinations required to be made under this paragraph 12, including whether an excise tax is payable by you and the amount of such excise tax and any Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants selected by the Company in its sole discretion.

5. CONFIDENTIALITY AND COOPERATION

(a) Confidentiality. Employee acknowledges and agrees that through his employment with Omega, he has had access to Confidential Information of Omega. Employee understands and agrees that Employee's employment creates a relationship of confidence and trust between Employee and Omega with respect to all Confidential Information. At all times, both during Employee's employment with Omega and for a period of two (2) years after his termination, Employee shall keep in confidence and trust all such Confidential Information, and shall not use or disclose any such Confidential Information without the written consent of Omega, as applicable, except as may be necessary in the ordinary course of performing Employee's duties for Omega, or as required by law after first providing Omega, as applicable, with advance notice and an opportunity to contest such requirement.

(b) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to Employee by Omega or are produced by Employee in connection with Employee's employment shall be and remain the sole property of Omega. Employee shall return to Omega all such materials and property, including any material or medium from which any Confidential Information may be ascertained or derived, as and when requested. In any event, Employee shall return all such materials and property immediately upon termination of Employee's employment for any reason or upon demand by Omega. Employee shall not retain with Employee any such material or property or any copies, compilations, or analyses thereof after such termination. Notwithstanding the foregoing, Omega acknowledges that Employee's desk chair is owned by Employee and may be removed by Employee on or before the Resignation Date. Furthermore, a copy of Employee's chronological desk files may be retained by Employee to the extent the same do not contain Confidential Information.

(c) Use of Corporate Opportunity. Employee acknowledges and agrees that through his employment with Omega he has access to and has become informed of Corporate Opportunities. While Employee remains employed by Omega and thereafter until the earlier of (i) the express abandonment by Omega, as applicable, of a Corporate Opportunity, (ii) the date on which such a Corporate Opportunity ceases to constitute Confidential Information, or (iii) two (2) years following the date of this Agreement, Employee shall not, directly or indirectly, in any capacity use or disclose a Corporate Opportunity for his own benefit or the benefit of any person or entity other than Omega.

(d) Acknowledgments. Employee acknowledges and agrees that the restrictions set forth in this Section 5 are intended to protect Omega's interest in its Confidential information and Corporate Opportunities.

(e) Litigation and Regulatory Cooperation. During and for up to a two (2) year period after Employee's employment, Employee shall cooperate fully with Omega in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Omega which relate to events or occurrences that transpired while Employee was employed by Omega. Employee's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and acting as a witness on behalf of Omega at mutually convenient times. During and after Employee's employment, Employee also shall cooperate fully with Omega in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Employee was employed by Omega. Omega shall reimburse Employee for any reasonable out-of-pocket expenses incurred in connection with Employee's performance of obligations pursuant to this Section 5(e).

(f) Injunction. Employee agrees that it would be difficult to measure any damages caused to Omega that might result from any breach by Employee of the

promises set forth in this Section 5, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly Employee agrees that if Employee breaches, or threatens to breach, any portion of Section 5 of this Agreement, Omega shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to Omega.

6. ARBITRATION. Any controversy or claim, other than a claim by Omega or its successors in interest, to obtain equitable relief to enjoin an actual or threatened violation of Section 5 above, arising out of or relating to this Agreement, or breach of this Agreement, shall be adjudicated in Michigan by arbitration in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association ("AAA"), and if permitted by the AAA, by one arbitrator. Judgment on any award rendered by the arbitrators may be entered in any court having jurisdiction. The prevailing party shall be entitled to its costs of enforcement in any arbitration or other proceeding regarding the subject matter of this Agreement, including without implication of limitation, reasonable attorneys' fees, the cost of any record or transcripts of the arbitration, administrative fees, the fees of all arbitrators, and all other reasonable enforcement-related fees and costs. Nothing contained in this Section 6 shall be deemed or applied to prohibit or bar Omega or their respective successors in interest from filing a claim in a court of competent jurisdiction to obtain equitable relief to enjoin an actual or threatened violation of Section 5 above.

7. INTEGRATION. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties with respect to any related subject matter.

8. NONDUPLICATION. This Agreement is not intended to duplicate any compensation or benefits to which Employee is entitled under any other plan, program, agreement or arrangement with Omega not specifically described herein. Employee represents that there are no such obligations of or agreements with Omega, except as expressly described in this Agreement. In the event Employee is entitled to any payments or benefits under the terms of any other plan, program, agreement, or arrangement with Omega dealing with the same employment periods or subject matter as this Agreement, your payments under this Agreement will be correspondingly reduced.

9. ASSIGNMENT: SUCCESSORS AND ASSIGNS, ETC. Neither Omega nor Employee may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party; provided that Omega shall assign its rights and obligations under this Agreement without the consent of Employee in the event that it shall effect a reorganization, consolidate with or merge into any other corporation, partnership, organization or other entity, or transfer all or substantially all of its properties or assets to any other corporation, partnership, organization or other entity, including the Sale. Any reference to Omega hereunder also shall be deemed to refer to its successors. This Agreement shall inure to the benefit of and be binding upon Omega and Employee, their respective successors, executors, administrators, heirs and permitted assigns.

10. ENFORCEABILITY/SEVERABILITY. If any portion or provision of this Agreement is to any extent declared illegal or unenforceable by a court of competent jurisdiction, then the court may amend such portion or provision so as to comply with the law in a manner consistent with the intention of this Agreement, and the remainder of this Agreement, or the application of such illegal or unenforceable portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of the Agreement shall be valid and enforceable to the fullest extent permitted by law. In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of excessive scope as to geographic, temporal or functional coverage, such provision shall be deemed to extend only over the maximum geographic, temporal and functional scope as to which it may be enforceable.

11. WAIVER. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

12. NOTICES. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to Employee at the last address Employee has filed in writing with Omega or, in the case of Omega, at its main offices, attention of the General Counsel, and shall be effective on the date of delivery in person or by courier or three (3) business days after the date mailed.

13. AMENDMENT. This Agreement may be amended or modified only by a written instrument signed by Employee and by duly authorized representatives of Omega.

14. GOVERNING LAW. This is a Michigan contract and shall be construed under and governed in all respects by the laws of the Michigan, without giving effect to the conflict of laws principles of such commonwealth. With respect to any disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Sixth Circuit.

15. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

16. DEFINITIONS.

The term "Cause" means: (i) willful refusal to follow a lawful written order of the Board of Directors of the Company; (ii) willful misconduct or reckless disregard of your duties or of the interest or property of the Company; (iii) intentional disclosure to an unauthorized person of Confidential Information, which causes material harm to the Company; (iv) any act of fraud, misappropriation, dishonesty or act involving moral turpitude; or (v) conviction of a felony.

The term "Confidential Information" means information, including any formula, pattern, compilation, program, device, method, technique or process, belonging to Omega or any of its subsidiaries, affiliates or shareholders ("Affiliates"), whether reduced to writing (or in a form from which such information can be obtained, translated, or derived into reasonably usable form), or maintained in any other manner not generally known to the public or other persons, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy, and includes such information of others with which Omega or the Affiliates have a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of Employee's duties under Section 5 (a).

The terms "Corporate Opportunity" and "Corporate Opportunities" mean material business opportunities and plans, business relationships, joint ventures, or business prospects or opportunities (such as possible management or lease arrangements, acquisitions or dispositions of businesses or facilities) analyzed or investigated by Omega while Employee is employed by Omega to the extent such business opportunities (such as possible management or lease arrangements, acquisitions or dispositions of business or facilities) constitute Confidential Information.

The term "Effective Date" means the eighth (8th) day next following Employee's execution of this Agreement, so long as Employee has not exercised his or her right to revoke this Agreement. If Employee revokes this Agreement within seven (7) days of his execution of this Agreement, this Agreement will not become effective and there will be no Effective Date.

The term "Release" means the Release in the form attached as Exhibit B hereto, to be executed and delivered by Employee to Omega on the Resignation Date.

The term "Retention Payments" means the payments and benefits described in Section 2.

The term "Severance Benefits" means the payments and benefits described in Section 3.

All references to he, him or his in this Agreement shall also include she, her or hers.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Omega by its duly authorized officers, and by Employee, as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ C. TAYLOR PICKETT

October 9, 2001

Date

EMPLOYEE

/s/ F. SCOTT KELLMAN

October 9, 2001

Date

EXHIBIT A

Performance Objectives

EXHIBIT B

RELEASE

THIS RELEASE, is made and entered into as of the Effective Date, by _____ ("Employee").

WHEREAS, the Employee is party to that certain Retention Incentive, Severance and Release Agreement, dated as of the ___ day of August, 2001 and effective as of the Effective Date as defined therein, by and among the Employee and Omega Healthcare Investors, Inc., a Maryland corporation, its successors and assigns ("Omega") (the "Agreement"); and

WHEREAS, the Employee has agreed to enter into and be bound by this Release as a condition precedent to the Employee becoming eligible to receive certain payments and benefits pursuant to the Agreement (except as expressly provided in Section 3(b) thereof);

NOW, THEREFORE, the Employee agrees as follows:

1. RELEASE.

(a) Employee, on behalf of himself and his successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally releases, acquits and forever discharges Omega, its subsidiaries, parents, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern Employee's employment or business relationship with the Releasees ("Claims"), which Employee has, has had or may have in the future against the Releasees as the result of any act or omission occurring from the beginning of time up to the date on which Employee executes this Release, including without limitation, express or implied, all claims for: breach of express or implied contract; promissory estoppel, fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any expressed or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; claims for defamation or damaged reputation; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, the Age Discrimination in Employment Act, as amended, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, The Fair Labor Standards Act, the Michigan Civil Rights Act; the Michigan Equal Pay Act; the Michigan Persons with Disabilities Civil Rights Act; and any other federal, state or local statute or ordinance. Nothing in this Section 4(a) shall be deemed to release the Releasees from any claims Employee may have (i) under the Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes and the applicable terms of the charters, articles of organization or by-laws of Omega or its affiliates or under any indemnification agreements, (iii) vested pension or retirement benefits under the terms of qualified employee pension benefit plans, (iv) and that have already been brought to Omega's attention by Employee, for accrued benefits under the terms of applicable employee benefit plans, or (v) accrued but unpaid wages.

(b) Employee represents and warrants that he has no claims against Omega for compensation, severance or ant other benefits other than compensation regularly due during the current pay period and those certain payments and benefits as specified pursuant to the Agreement.

(c) Employee warrants and represents that he has not assigned or transferred to any person or entity any claims or causes of action, or any portion thereof, that he is releasing herein.

(d) Omega hereby advises Employee to discuss all aspects of this Release with his attorney. Employee acknowledges that he has carefully read and fully understands all of the provisions of this Release and that he is

voluntarily entering into this Release. Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Release for forty-five (45) days before executing it. In the event that Employee executes this Release within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary, that he had the opportunity to consider this Release for the entire forty-five (45) day period, and that he intentionally and voluntarily waived his right to take forty-five (45) days to review this Release. Employee retains the right for a period of seven (7) days from the date of the execution of this Release to revoke this Release by written notice to Taylor Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. None of Omega's obligations hereunder will take effect until the expiration of the seven (7) day period.

2. The Employee represents that he has not filed any complaints or charges asserting any Claims against the Releasees with any local, state or federal agency or court. The Employee agrees that he shall not file any complaints asserting any Claims against the Releasees with any local, state or federal court. The Employee further warrants and represents that he has not assigned or transferred to any person or entity any Claims or any part or portion thereof.

3. The Releasees hereby advise the Employee to discuss all aspects of this Release with his attorney. The Employee acknowledges that he has carefully read and fully understands all of the provisions of this Release and that he is voluntarily entering into this Release. The Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Release for forty-five (45) days before executing it. In the event that the Employee executes this Release within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary and that he had the opportunity to consider this Release for the entire forty-five (45) day period. The Employee retains the right for a period of seven (7) days from the date of the execution of this Release to revoke this Release by written notice to Terry Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. This Release shall not become effective or enforceable until the expiration of such revocation period.

4. The Employee represents and acknowledges that in executing this Release he does not rely and has not relied upon any representation or statement made by any of the Releasees or by any of the Releasees' agents, representatives or attorneys with regard to the subject matter, basis or effect of this Release or the Agreement, other than the promises and representations made in this Release or the Agreement.

IN WITNESS WHEREOF, this Release has been executed as a sealed instrument by the Employee.

Date Employee

EXHIBIT C

Benefits

Exhibit 10.5

RETENTION, SEVERANCE AND RELEASE AGREEMENT

THIS RETENTION, SEVERANCE AND RELEASE AGREEMENT ("Agreement") is dated as of August 1, 2001 and effective as of the Effective Date, by and between Omega Healthcare Investors, Inc., a Maryland corporation, its successors and assigns ("Omega"), and Laurence D. Rich ("Employee").

INTRODUCTION

Employee is employed by Omega; and

Omega desires to provide Employee with incentives to remain available for employment in Ann Arbor through January 31, 2002, subject to the terms and conditions contained herein below.

NOW THEREFORE, in consideration of the covenants herein contained and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. RESIGNATION. Employee agrees to continue his employment with Omega through the Resignation Date. Upon the Resignation Date, Employee's employment with Omega shall end of its own accord, without the necessity of action by either party. "Resignation Date" means the earlier of (i) January 31, 2002 or (ii) the date specified by Omega that Employee's services shall no longer be needed (other than termination for Cause).

2. RETENTION PAYMENTS.

(a) Omega shall pay Employee his regular base salary through January 31, 2002.

(b) If Employee remains employed through the Resignation Date, Employee shall receive, on February 1, 2002, a minimum cash bonus of $117,500.00.

(c) If Employee achieves the performance objectives set for Employee by management of Omega (as attached hereto as Exhibit A), Employee shall have the opportunity to earn an additional performance bonus of up to $87,500.00, payable on February 1, 2002. The performance objectives for this additional performance bonus may include both objective and subjective elements.

(d) If Employee remains employed through the Resignation Date, Employee shall receive an additional bonus ("Retention Bonus") totaling $530,000.00, which shall be paid on February 1, 2002.

3. SEVERANCE BENEFITS. Employee shall receive Severance Benefits in accordance with and subject to the terms and conditions of this Section 3.

(a) Amount of Severance Benefits. In addition to the Retention Payments referred to in Section 2, during 2002 Omega will pay the applicable premiums for Employee's eligible healthcare insurance benefits, less the Employee's contribution as required under the plan. Notwithstanding the foregoing, Employee's 125 Plan deductions for 2002 will be limited such that the actual amount of 125 Plan benefits will not exceed the actual contributions made by Employee during 2002. Furthermore, Employee will continue to be eligible to participate in Omega's 401k only through the Resignation Date.

(b) Eligibility for Severance Benefits. Employee shall not be eligible to receive Retention Payments and/or Severance Benefits unless the following conditions have been satisfied: (i) Employee remains employed until the Resignation Date; and (ii) Employee executes and delivers to Omega upon the Resignation Date a Release in the form of Exhibit B hereto; and (iii) the Release becomes irrevocable and enforceable in accordance with its terms. If Omega terminates Employee's employment for Cause, as defined in Section 16, Employee will not be entitled to any Retention Payments, Severance Benefits or any other compensation or benefits under this Agreement.

(c) Retention Payments and Severance Benefits. Omega shall undertake to make deductions, withholdings and tax reports with respect to the Retention Payments and Severance Benefits under this Agreement to the extent that it reasonably and in good faith believes that it is required to make such deductions, withholdings and tax reports. Payments under this Agreement shall be in amounts net of any such deductions or withholdings. Except as provided in Section 4(f) below, nothing in this Agreement shall be construed to require Omega to make any payments to compensate Employee for any adverse tax effect associated with any payments or benefits or for any deduction or withholding from any payment or benefit.

4. RELEASE.

(a) Employee, on behalf of himself and his successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally releases, acquits and forever discharges Omega, its subsidiaries, parents, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern Employee's employment or business relationship with the Releasees ("Claims"), which Employee has, has had or may have in the future against the Releasees as the result of any act or omission occurring from the beginning of time up to the date on which Employee executes this Agreement (to be reaffirmed through the Resignation Date in the Release), including, without limitation, all claims for: breach of express or implied contract; promissory estoppel; severance payments or benefits other than as expressly set forth in this Agreement; compensation of any sort other than ordinary wages due for work performed for the current pay period; fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any expressed or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; claims for defamation or damaged reputation; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, the Age Discrimination in Employment Act, as amended, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, The Fair Labor Standards Act, the Michigan Civil Rights Act; the Michigan Equal Pay Act; the Michigan Persons with Disabilities Civil Rights Act; and any other federal, state or local statute or ordinance. Nothing in this Section 4(a) shall be deemed to release the Releasees from any claims Employee may have (i) expressly arising under this Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes and the applicable terms of the charters, articles of organization or by-laws of Omega or its affiliates or under any indemnification agreements, (iii) vested retirement benefits under the terms of qualified employee benefit plans, (iv) for accrued benefits under the terms of applicable employee benefit plans identified on Exhibit C attached hereto, or (v) accrued but unpaid compensation regularly due during the current pay period.

(b) Employee represents and warrants that he has no claims against Omega for (i) compensation or severance payments, other than compensation regularly due during the current pay period; (ii) benefits, other than as set forth on Exhibit C attached hereto; and (iii) accrued and unused vacation, except as in the amount as reflected in Omega's records, from time to time.

(c) Employee warrants and represents that he has not assigned or transferred to any person or entity any claims or causes of action, or any portion thereof, which he is releasing herein.

(d) Employee's release in Section 4(a) and in the Release does not apply to any rights of indemnification that Employee may have pursuant to the Indemnity Agreement dated January 19, 1999 between Omega and Employee (the "Indemnity Agreement"). Omega fully, finally and forever releases and discharges Employee of and from all claims, demands, actions, causes of action, suits, damages, losses, and expenses, but only to the extent that Employee is entitled to indemnification with respect to the same pursuant to the Indemnity Agreement.

(e) Omega hereby advises Employee to discuss all aspects of this Agreement with his attorney. Employee acknowledges that he has carefully read and fully understands all of the provisions of this Agreement and that he is voluntarily entering into this Agreement. Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Agreement for forty-five (45) days before executing it. In the event that Employee executes this Agreement within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary, that he had the opportunity to consider this Agreement for the entire forty-five (45) day period, and that he intentionally and voluntarily waived his right to take forty-five (45) days to review this Agreement. Employee retains the right for a period of seven (7) days from the date of the execution of this Agreement to revoke this Agreement by written notice to Taylor Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. None of Omega's obligations hereunder will take effect until the expiration of the seven (7) day period.

(f) Gross-Up Payment. In the event a Retention Payments are made to you under Sections 2 and/or 3 and it is determined that any payment (other than the Gross-Up Payments provided for herein) or distribution by the Company or any of its affiliates to or for your benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, or the lapse or termination of any restriction on, or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or any successor provision thereto) by reason of being "contingent on a change in ownership or control" of the Company, within the meaning of Section

280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then you will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For purposes of calculating the Gross-Up Payment, it will be assumed that all taxable Retention Payments you receive are taxed at the highest marginal federal income tax rate and the highest state income tax rate in which you reside, but without regard to any reduction in personal exemptions or deductions associated with your level of income. All determinations required to be made under this paragraph 12, including whether an excise tax is payable by you and the amount of such excise tax and any Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants selected by the Company in its sole discretion.

5. CONFIDENTIALITY AND COOPERATION

(a) Confidentiality. Employee acknowledges and agrees that through his employment with Omega, he has had access to Confidential Information of Omega. Employee understands and agrees that Employee's employment creates a relationship of confidence and trust between Employee and Omega with respect to all Confidential Information. At all times, both during Employee's employment with Omega and for a period of two (2) years after his termination, Employee shall keep in confidence and trust all such Confidential Information, and shall not use or disclose any such Confidential Information without the written consent of Omega, as applicable, except as may be necessary in the ordinary course of performing Employee's duties for Omega, or as required by law after first providing Omega, as applicable, with advance notice and an opportunity to contest such requirement.

(b) Documents, Records, etc. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, which are furnished to Employee by Omega or are produced by Employee in connection with Employee's employment shall be and remain the sole property of Omega. Employee shall return to Omega all such materials and property, including any material or medium from which any Confidential Information may be ascertained or derived, as and when requested. In any event, Employee shall return all such materials and property immediately upon termination of Employee's employment for any reason or upon demand by Omega. Employee shall not retain with Employee any such material or property or any copies, compilations, or analyses thereof after such termination.

(i)

(c) Use of Corporate Opportunity. Employee acknowledges and agrees that through his employment with Omega he has access to and has become informed of Corporate Opportunities. While Employee remains employed by Omega and thereafter until the earlier of (i) the express abandonment by Omega, as applicable, of a Corporate Opportunity, (ii) the date on which such a Corporate Opportunity ceases to constitute Confidential Information, or (iii) two (2) years following the date of this Agreement, Employee shall not, directly or indirectly, in any capacity use or disclose a Corporate Opportunity for his own benefit or the benefit of any person or entity other than Omega.

(d) Acknowledgments. Employee acknowledges and agrees that the restrictions set forth in this Section 5 are intended to protect Omega's interest in its Confidential information and Corporate Opportunities.

(e) Litigation and Regulatory Cooperation. During and for up to a two (2) year period after Employee's employment, Employee shall cooperate fully with Omega in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Omega which relate to events or occurrences that transpired while Employee was employed by Omega. Employee's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and acting as a witness on behalf of Omega at mutually convenient times. During and after Employee's employment, Employee also shall cooperate fully with Omega in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Employee was employed by Omega. Omega shall reimburse Employee for any reasonable out-of-pocket expenses incurred in connection with Employee's performance of obligations pursuant to this Section 5(e).

(f) Injunction. Employee agrees that it would be difficult to measure any damages caused to Omega that might result from any breach by Employee of the promises set forth in this Section 5, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly Employee agrees that if Employee breaches, or threatens to breach, any portion of Section 5 of this Agreement, Omega shall be entitled, in addition to all other remedies that it

may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to Omega.

6. ARBITRATION. Any controversy or claim, other than a claim by Omega or its successors in interest, to obtain equitable relief to enjoin an actual or threatened violation of Section 5 above, arising out of or relating to this Agreement, or breach of this Agreement, shall be adjudicated in Michigan by arbitration in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association ("AAA"), and if permitted by the AAA, by one arbitrator. Judgment on any award rendered by the arbitrators may be entered in any court having jurisdiction. The prevailing party shall be entitled to its costs of enforcement in any arbitration or other proceeding regarding the subject matter of this Agreement, including without implication of limitation, reasonable attorneys' fees, the cost of any record or transcripts of the arbitration, administrative fees, the fees of all arbitrators, and all other reasonable enforcement-related fees and costs. Nothing contained in this Section 6 shall be deemed or applied to prohibit or bar Omega or their respective successors in interest from filing a claim in a court of competent jurisdiction to obtain equitable relief to enjoin an actual or threatened violation of Section 5 above.

7. INTEGRATION. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements between the parties with respect to any related subject matter.

8. NONDUPLICATION. This Agreement is not intended to duplicate any compensation or benefits to which Employee is entitled under any other plan, program, agreement or arrangement with Omega not specifically described herein. Employee represents that there are no such obligations of or agreements with Omega, except as expressly described in this Agreement. In the event Employee is entitled to any payments or benefits under the terms of any other plan, program, agreement, or arrangement with Omega dealing with the same employment periods or subject matter as this Agreement, your payments under this Agreement will be correspondingly reduced.

9. ASSIGNMENT: SUCCESSORS AND ASSIGNS, ETC. Neither Omega nor Employee may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party; provided that Omega shall assign its rights and obligations under this Agreement without the consent of Employee in the event that it shall effect a reorganization, consolidate with or merge into any other corporation, partnership, organization or other entity, or transfer all or substantially all of its properties or assets to any other corporation, partnership, organization or other entity, including the Sale. Any reference to Omega hereunder also shall be deemed to refer to its successors. This Agreement shall inure to the benefit of and be binding upon Omega and Employee, their respective successors, executors, administrators, heirs and permitted assigns.

10. ENFORCEABILITY/SEVERABILITY. If any portion or provision of this Agreement is to any extent declared illegal or unenforceable by a court of competent jurisdiction, then the court may amend such portion or provision so as to comply with the law in a manner consistent with the intention of this Agreement, and the remainder of this Agreement, or the application of such illegal or unenforceable portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of the Agreement shall be valid and enforceable to the fullest extent permitted by law. In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of excessive scope as to geographic, temporal or functional coverage, such provision shall be deemed to extend only over the maximum geographic, temporal and functional scope as to which it may be enforceable.

11. WAIVER. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

12. NOTICES. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to Employee at the last address Employee has filed in writing with Omega or, in the case of Omega, at its main offices, attention of the General Counsel, and shall be effective on the date of delivery in person or by courier or three (3) business days after the date mailed.

13. AMENDMENT. This Agreement may be amended or modified only by a written instrument signed by Employee and by duly authorized representatives of Omega.

14. GOVERNING LAW. This is a Michigan contract and shall be construed under and governed in all respects by the laws of the Michigan, without giving effect to the conflict of laws principles of such commonwealth. With respect to any

disputes concerning federal law, such disputes shall be determined in accordance with the law as it would be interpreted and applied by the United States Court of Appeals for the Sixth Circuit.

15. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be taken to be an original; but such counterparts shall together constitute one and the same document.

16. DEFINITIONS.

The term "Cause" means: (i) willful refusal to follow a lawful written order of the Board of Directors of the Company; (ii) willful misconduct or reckless disregard of your duties or of the interest or property of the Company; (iii) intentional disclosure to an unauthorized person of Confidential Information, which causes material harm to the Company; (iv) any act of fraud, misappropriation, dishonesty or act involving moral turpitude; or (v) conviction of a felony.

The term "Confidential Information" means information, including any formula, pattern, compilation, program, device, method, technique or process, belonging to Omega or any of its subsidiaries, affiliates or shareholders ("Affiliates"), whether reduced to writing (or in a form from which such information can be obtained, translated, or derived into reasonably usable form), or maintained in any other manner not generally known to the public or other persons, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy, and includes such information of others with which Omega or the Affiliates have a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of Employee's duties under Section 5 (a).

The terms "Corporate Opportunity" and "Corporate Opportunities" mean material business opportunities and plans, business relationships, joint ventures, or business prospects or opportunities (such as possible management or lease arrangements, acquisitions or dispositions of businesses or facilities) analyzed or investigated by Omega while Employee is employed by Omega to the extent such business opportunities (such as possible management or lease arrangements, acquisitions or dispositions of business or facilities) constitute Confidential Information.

The term "Effective Date" means the eighth (8th) day next following Employee's execution of this Agreement, so long as Employee has not exercised his or her right to revoke this Agreement. If Employee revokes this Agreement within seven (7) days of his execution of this Agreement, this Agreement will not become effective and there will be no Effective Date.

The term "Release" means the Release in the form attached as Exhibit B hereto, to be executed and delivered by Employee to Omega on the Resignation Date.

The term "Retention Payments" means the payments and benefits described in Section 2.

The term "Severance Benefits" means the payments and benefits described in Section 3.

All references to he, him or his in this Agreement shall also include she, her or hers.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Omega by its duly authorized officers, and by Employee, as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ C. TAYLOR PICKETT

August 1, 2001

EMPLOYEE

/s/ LAURENCE D. RICH

Laurence D. Rich

August 1, 2001

EXHIBIT A

Performance Objectives

EXHIBIT B

RELEASE

THIS RELEASE, is made and entered into as of the Effective Date, by _____ ("Employee").

WHEREAS, the Employee is party to that certain Retention Incentive, Severance and Release Agreement, dated as of the ___ day ofAugust, 2001 and effective as of the Effective Date as defined therein, by and among the Employee and Omega Healthcare Investors, Inc., a Maryland corporation, its successors and assigns ("Omega") (the "Agreement"); and

WHEREAS, the Employee has agreed to enter into and be bound by this Release as a condition precedent to the Employee becoming eligible to receive certain payments and benefits pursuant to the Agreement (except as expressly provided in Section 3(b) thereof);

NOW, THEREFORE, the Employee agrees as follows:

1. RELEASE.

(a) Employee, on behalf of himself and his successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally releases, acquits and forever discharges Omega, its subsidiaries, parents, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern Employee's employment or business relationship with the Releasees ("Claims"), which Employee has, has had or may have in the future against the Releasees as the result of any act or omission occurring from the beginning of time up to the date on which Employee executes this Release, including without limitation, express or implied, all claims for: breach of express or implied contract; promissory estoppel, fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any expressed or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; claims for defamation or damaged reputation; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, the Age Discrimination in Employment Act, as amended, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, The Fair Labor Standards Act, the Michigan Civil Rights Act; the Michigan Equal Pay Act; the Michigan Persons with Disabilities Civil Rights Act; and any other federal, state or local statute or ordinance. Nothing in this Section 4(a) shall be deemed to release the Releasees from any claims Employee may have (i) under the Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes and the applicable terms of the charters, articles of organization or by-laws of Omega or its affiliates or under any indemnification agreements, (iii) vested pension or retirement benefits under the terms of qualified employee pension benefit plans, (iv) and that have already been brought to Omega's attention by Employee, for accrued benefits under the terms of applicable employee benefit plans, or (v) accrued but unpaid wages.

(b) Employee represents and warrants that he has no claims against Omega for compensation, severance or ant other benefits other than compensation regularly due during the current pay period and those certain payments and benefits as specified pursuant to the Agreement.

(c) Employee warrants and represents that he has not assigned or transferred to any person or entity any claims or causes of action, or any portion thereof, that he is releasing herein.

(d) Omega hereby advises Employee to discuss all aspects of this Release with his attorney. Employee acknowledges that he has carefully read and fully understands all of the provisions of this Release and that he is voluntarily entering into this Release. Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Release for forty-five (45) days before executing it. In the event that Employee executes this Release

within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary, that he had the opportunity to consider this Release for the entire forty-five (45) day period, and that he intentionally and voluntarily waived his right to take forty-five (45) days to review this Release. Employee retains the right for a period of seven (7) days from the date of the execution of this Release to revoke this Release by written notice to Taylor Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. None of Omega's obligations hereunder will take effect until the expiration of the seven (7) day period.

2. The Employee represents that he has not filed any complaints or charges asserting any Claims against the Releasees with any local, state or federal agency or court. The Employee agrees that he shall not file any complaints asserting any Claims against the Releasees with any local, state or federal court. The Employee further warrants and represents that he has not assigned or transferred to any person or entity any Claims or any part or portion thereof.

3. The Releasees hereby advise the Employee to discuss all aspects of this Release with his attorney. The Employee acknowledges that he has carefully read and fully understands all of the provisions of this Release and that he is voluntarily entering into this Release. The Employee acknowledges that he has been given the opportunity, if he so desired, to consider this Release for forty-five (45) days before executing it. In the event that the Employee executes this Release within less than forty-five (45) days of the date of its delivery to him, he acknowledges that such decision was entirely voluntary and that he had the opportunity to consider this Release for the entire forty-five (45) day period. The Employee retains the right for a period of seven (7) days from the date of the execution of this Release to revoke this Release by written notice to Taylor Pickett, CEO of Omega, 900 Victors Way, Suite 350, Ann Arbor, MI 48108. This Release shall not become effective or enforceable until the expiration of such revocation period.

4. The Employee represents and acknowledges that in executing this Release he does not rely and has not relied upon any representation or statement made by any of the Releasees or by any of the Releasees' agents, representatives or attorneys with regard to the subject matter, basis or effect of this Release or the Agreement, other than the promises and representations made in this Release or the Agreement.

IN WITNESS WHEREOF, this Release has been executed as a sealed instrument by the Employee.

Date Employee

EXHIBIT C

Benefits

AMENDED AND RESTATED
SECURED PROMISSORY NOTE

$59,688,449.83 Atlanta, Georgia
September 1, 2001

1. Promise to Pay. The undersigned, PROFESSIONAL HEALTH CARE MANAGEMENT, INC., a Michigan corporation (hereinafter, "Borrower"), promises to pay to OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation, at its principal office at 900 Victors Way, Suite 350, Ann Arbor, MI 48108 (hereinafter "Lender"), or at such other place as Lender may designate in writing, or to order, in lawful money of the United States of America, Fifty-Nine Million Six Hundred Eighty-Eight Thousand Four Hundred Forty-Nine and 83/100 Dollars ($59,688,449.83), with interest thereon as provided in Section 3 hereof and all other amounts which may become owing hereunder.

2. Definitions. For all purposes of this Amended and Restated Promissory Note ("Note"), except as otherwise expressly provided or unless the context otherwise requires, (i) the terms defined in this Section have the meanings assigned to them in this Section and include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles as at the time applicable, and (iii) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Note as a whole and not to any particular Section or other subdivision:

Accrued and Unpaid Interest: All interest which has accrued hereunder and not been paid.

Amended Omega Loan Agreement: The Amended and Restated Loan Agreement dated as of September 1, 2001, by and between Borrower and Lender, as the same may be amended, extended, renewed, restated or replaced from time to time.

Amended Omega Loan Documents: As defined in the Settlement Agreement.

Bedford Villa: As defined in the Settlement Agreement.

Business Day: Each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which national banks in Atlanta, Georgia, are authorized, or obligated, by law or executive order, to close.

Catch-Up Date: As defined in the Settlement Agreement.

Court: As defined in the Settlement Agreement.

Default Interest Rate: Subject to the limitations set forth in Section 5 of this Note, a per annum rate of interest equal to the Interest Rate plus three hundred (300) basis points (three percent (3%)).

Due Date: The date which is the earlier of: (a) the Maturity Date, subject to extension as provided below, or (b) the date upon which Lender, upon an Event of Default, duly accelerates the due date of all unpaid principal and interest owed by Borrower to Lender.

Event of Default: The occurrence of any of the following shall constitute an Event of Default: (i) Borrower fails to pay within five (5) Business Days of receipt of written notice from Lender any amount then due and payable under this Note, provided, however, that Borrower shall be entitled to written notice from Lender only two (2) times in any calendar year, after which time, Borrower's failure to pay when due any amount due under this Note shall constitute an Event of Default; or (ii) an Event of Default under any other Amended Omega Loan Document.

Interest Rate: Eleven and 57 /100ths percent (11.57%) per annum.

Majority Investor: Collectively, the third-party investor(s) acquiring the majority equity interest of Borrower on or about the Plan Effective Date.

Mariner Entities: Borrower, Living Centers -PHCM, Inc., a North Carolina corporation, GranCare, Inc. a Delaware corporation, Mariner Post-Acute Network, Inc, a Delaware corporation, and the Michigan Subsidiaries (as defined in the Settlement Agreement).

Maturity Date: August 31, 2010, unless Borrower has exercised

its Extension Right pursuant to Section 18 hereof, in which event the Maturity Date shall be August 31, 2021.

Maturity Equity Purchase Price: The amount, if any, paid by the MPAN Investor to the Majority Investor to exercise its option to purchase the equity interest of the Majority Investor prior to either (a) the payment of this Note at final maturity or upon acceleration, or (ii) prepayment of this Note pursuant to Section 10.2 hereof.

Maximum 2005 Prepayment Credit: The sum of (a) $350,000, plus (b) 50% of the amount by which the 2004 Equity Purchase Price exceeds $700,000.

Minimum Monthly Payment: As defined in the Settlement Agreement.

MPAN Investor: GranCare, Inc., or any other subsidiary of Mariner Post-Acute Network, Inc., which owns a minority equity interest in Borrower.

Original Omega Note: The Mortgage Note dated August 14, 1992, as heretofore amended, issued by Borrower and payable to the order of Lender in the original principal amount of $58,800,000.

Past Due Interest: As defined in the Settlement Agreement.

Past Due Interest Payment Date: The earlier of (i) the date on which all Past Due Interest, and any interest which has accrued thereon, is paid in full and (ii) September 30, 2002. If there is no Past Due Interest following the date of this Note, the Past Due Interest Payment Date shall be deemed to be the date of this Note.

Plan Effective Date: As defined in the Settlement Agreement.

Settlement Agreement: The Settlement Agreement dated August 1, 2001 entered into by and among Lender and the Mariner Entities.

2004 Equity Purchase Price: The amount, if any, paid by the MPAN Investor to the Majority Investor to exercise its option to purchase the equity interest of the Majority Investor prior to such prepayment of this Note pursuant to Section 10.1 hereof.

3. Interest; Accrual and Payments

3.1 Accrual of Interest: So long as no Event of Default exists, interest shall accrue at the Interest Rate on the principal balance hereof from time to time outstanding, and such interest (to the extent not paid) shall be compounded monthly. Interest shall be calculated based on a 360 day year and charged for the actual number of days elapsed.

3.2 Payments: Although interest shall accrue from the date hereof as elsewhere set forth herein, payments shall be as follows:

(1) From the date hereof until the earlier of the Due Date or the Past Due Interest Payment Date, no payments shall be due hereunder.

(2) On the first day of the first calendar month beginning after the Past Due Interest Payment Date, and continuing thereafter on the first day of each calendar month until the earlier of the Catch-Up Date or the Due Date, Accrued and Unpaid Interest hereon shall be due and payable from the Minimum Monthly Payments. To the extent the amount of the Minimum Monthly Payments exceed the amount of Accrued and Unpaid Interest then due and payable, the excess portion of the Minimum Monthly Payment shall be applied as provided in Section 13.6(ii) of the Settlement Agreement.

(3) On the first day of the first calendar month after the calendar month in which the Catch-Up Date occurs, and continuing on the first day of each calendar month thereafter until the Due Date, Borrower shall pay to Lender all Accrued and Unpaid Interest owing hereunder.

3.3 Default Interest. Notwithstanding anything to the contrary contained in this Note, if an Event of Default occurs hereunder, interest shall accrue and shall be due and payable at the Default Interest Rate on the outstanding principal balance from the date of such Event of Default until the Event of Default is fully cured or waived.

4. Method of Payment. All payments to be paid by Borrower to Lender under this Note shall, unless otherwise specified in writing by Lender to Borrower, be paid by immediately collectible funds in lawful money of the United States of America by electronic funds transfer debit transactions and shall be initiated for payment by Borrower for payment on or before the first day of each calendar month in which a payment is due hereunder, provided, however, if such day is not a Business Day, then payment shall be made on the next succeeding day which is a Business Day. Lender shall provide Borrower in writing with appropriate wire transfer information. Once given, such information shall remain in effect until changed by subsequent written instructions. Borrower shall inform Lender of payment by sending to Lender a facsimile transmission of Borrower's wire transfer confirmation as soon as reasonably practicable.

5. Usury Not To Be Collected. All agreements between Borrower, and any other party liable for the payment of the indebtedness evidenced by this Note, and Omega, or any subsequent holder of this Note, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no event, whether by reason of demand or acceleration of the maturity of this Note or otherwise, shall the interest contracted for, charged, received, paid or agreed to be paid to the holder of this Note exceed the maximum amount permissible under applicable law. If, from any circumstance whatsoever, interest would otherwise be payable to the holder of this Note in excess of the maximum lawful amount, the interest payable to the holder of this Note shall be reduced to the maximum amount permitted by applicable law; and if from any circumstance the holder of this Note shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal of this Note and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of the principal of this Note, such excess shall be refunded to Borrower or to another party, or parties, liable for the payment of the indebtedness evidenced by this Note, as applicable. All interest paid or agreed to be paid to the holder of this Note shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread through the full period of this Note (including the period of any renewal or extension hereof) until payment in full of the principal so that the interest for such full period shall not exceed the maximum permitted by applicable law. This Section 5 shall control all agreements between Borrower and the holder of this Note.

6. Late Charge. Lender shall have the right, in Lender's discretion, to charge Borrower with a late charge of not more than two cents ($.02) for each dollar of any payment under this Note or the other Loan Documents which is not paid on or before the date which is five (5) days after the date that Borrower receives written notice that the payment was not received when due to defray the costs involved in processing and collecting a late payment and to compensate Lender for amounts which it may be required to pay to its financing sources. Borrower shall pay such late charge to Lender immediately upon receipt of notice of same.

7. Payment on Due Date. Notwithstanding any other provisions contained herein, the entire unpaid principal balance hereof not yet paid, together with all accrued and unpaid interest under Section 3, and any other amounts owing to Lender under this Note, shall be due and payable on the Due Date. Notwithstanding anything to the contrary contained herein, (1) if the Due Date occurs on the Maturity Date, whether or not extended as provided below, instead of as a result of the acceleration of the Due Date upon an Event of Default, the Lender agrees to accept as full and final payment hereunder pursuant to this paragraph, an amount equal to (a) the principal then outstanding hereunder, plus (b) Accrued and Unpaid Interest, minus, in the event the MPAN Investor shall have exercised its option to acquire the equity interest of the Majority Investor in Borrower, (c) the lesser of (i) the Maturity Equity Purchase Price and (ii) $350,000; and (2) if the Due Date occurs as a result of the acceleration of the Due Date upon an Event of Default, the Lender agrees to accept as full and final payment hereunder pursuant to this paragraph, an amount equal to (a) the principal then outstanding hereunder, plus (b) Accrued and Unpaid Interest, plus (c) any Prepayment Premium or Amendment Fee Premium due in connection with such acceleration, minus, in the event the MPAN Investor shall have exercised its option to acquire the equity interest of the Majority Investor in Borrower, (d) the lesser of (i) the Maturity Equity Purchase Price and (ii) $350,000.

8. Balloon Payment. Borrower acknowledges that the payments required hereunder will not amortize the indebtedness evidenced hereby by the Due Date, and that the final payment due hereunder at maturity will be a balloon payment of all then outstanding principal and accrued interest due hereunder.

9. Payments to be Made Without Regard to Setoffs and Counterclaims. All payments by Borrower shall be paid in full without setoff or counterclaim and without reduction for any and all taxes, levies, imposts, duties, fees, charges, deductions or withholdings of any type or nature imposed by any government or any political subdivision or taxing authority thereof.

10. Prohibition on Prepayment. This Note may not be prepaid in whole or in part except as specifically provided herein or in the Amended Omega Loan Agreement:

10.1 Early Payment. Provided that Borrower has given Lender written notice of its intent do so (a "Prepayment Notice") on or prior to December 31, 2004, Borrower shall have the right to pay this Note in full, but not in part, upon payment of a prepayment premium as provided below at any time between February 1, 2005 and July 31, 2005. Any Prepayment Notice given by Borrower shall create a binding obligation on the part of Borrower to pay the Note in full and not in part between February 1, 2005 and July 31, 2005. The amount required to be paid in connection with such prepayment shall be an amount equal to (a) the principal then outstanding hereunder, plus (b) a prepayment premium equal to three percent (3%) of such outstanding principal, plus (c) Accrued and Unpaid Interest, minus, in the event the MPAN Investor shall have exercised its option to acquire the equity interest of the Majority Investor in Borrower, (d) the lesser of (i) the 2004 Equity Purchase Price and (ii) the Maximum 2005 Prepayment Credit.

10.2 Prepayment Within Six Months of Maturity. Borrower shall have the right to prepay this Note in full but not in part without premium or penalty upon at least ten (10) days prior written notice at any time during the one hundred and eighty (180) day period ending on the Maturity Date, unless Borrower has elected to extend the term of this Note for an additional eleven (11) years pursuant to Section 18 hereof. If Borrower makes such an election, Borrower shall have the right to prepay this Note in full but not in part without premium or penalty upon at least ten (10) days prior written notice at any time within one hundred and eighty (180) days prior to the end of the eleven (11) year extension period. The amount required to be paid in connection with any prepayment described in this Section 10.2 shall be an amount equal to (a) the principal then outstanding hereunder, plus (b) Accrued and Unpaid Interest, minus, in the event the MPAN Investor shall have exercised its option to acquire the equity interest of the Majority Investor in Borrower, (c) the lesser of (i) the Maturity Equity Purchase Price and (ii) $350,000.

10.3 Certain Other Prepayments. No premium or penalty shall be due in connection with any of the following payments:

(i) any partial prepayment of the indebtedness evidenced by this Note that is required by the Amended Omega Loan Agreement and made with casualty insurance or a condemnation award with respect to a Facility (as defined in the Amended Omega Loan Agreement);

(ii) any partial prepayment of the indebtedness evidenced by this Note with the proceeds from the sale of Bedford Villa; and

(iii) any prepayment of Accrued and Unpaid Interest.

11. Payment of Amendment Fee. Simultaneously with paying off this Note, Borrower shall pay Lender its good faith estimate of the Amendment Fee owing to Lender for the period ending on the date of payment. Within ninety (90) days of the payoff, Borrower shall do a final calculation of the Amendment Fee for the period ending on the date of payment; and promptly after such calculation, Borrower shall pay Lender, or Lender shall pay Borrower, the difference between the actual Amendment Fee and the estimated Amendment Fee previously paid.

12. Acceleration Upon Event of Default. Upon the occurrence of any Event of Default, the entire principal balance owing under this Note together with all accrued and unpaid interest (including, but not limited to, Default Interest), and any other amounts owing under this Note and any other Amended Omega Loan Document, at Lender's option, will become immediately due and payable, all without formal demand or presentment, which are expressly waived. Lender shall notify Borrower of its election of this remedy in writing. Lender's demand or a notice from Lender to the effect that the entire unpaid balance is due and payable shall constitute notification of such election.

13. No Waiver. Acceptance by Lender of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and Lender's acceptance of any such partial payment shall not constitute a waiver of Lender's right to receive the entire amount due. Upon any Event of Default, neither the failure of the Lender to promptly exercise its right to declare the outstanding principal and accrued unpaid interest hereunder to be immediately due and payable, nor the failure of Lender to demand strict performance of any other obligation of Borrower or any other person who may be liable hereunder, shall constitute a waiver of any such rights, nor a waiver of such rights in connection with any future default on the part of Borrower or any other person who may be liable hereunder.

14. Prepayment Premium Following Acceleration.

14.1 If Lender accelerates the amount due on this Note as a consequence of an Event of Default, and if Borrower subsequently pays the amount owing under this Note, such payment shall conclusively be treated as an evasion of the prohibition on prepayment set forth in Section 10 hereof; and Borrower

shall pay Lender with the payment, and in addition to any accrued and unpaid interest as of the date of payment under Section 3 hereof, a prepayment premium (the "Prepayment Premium") calculated as follows:

(a) First, there shall be calculated the interest payments which would have become due under Section 3 of this Note if the Note had not been prepaid. In calculating such interest payments, it shall be assumed that Borrower would have paid the Note in full one hundred and eighty (180) days prior to the Maturity Date (which Maturity Date shall be the initial maturity date unless extended prior to acceleration pursuant to Section 18).

(b) Second, there shall be deducted from each interest payment that would have become due under the Note determined as set forth in clause (a) above the interest that would become due to Lender on the date of each such interest payment if the entire principal amount prepaid is reinvested by Lender on the date of the prepayment in an instrument bearing interest at the Reference Rate (as hereafter defined) payable on the first date of each month following such reinvestment with a maturity on the Maturity Date. Each such difference is hereinafter referred to as a "Monthly Payment Differential."

(c) Third, each Monthly Payment Differential shall be discounted at an interest rate equal to the Reference Rate to determine its present value from the date that such Monthly Interest Differential would have occurred to the date of the prepayment of this Note, so as to determine the present value of the Monthly Interest Differential as of the date of prepayment.

(d) Fourth, the Prepayment Premium shall be calculated by adding together the present value of each Monthly Payment Differential determined as set forth in clause (c).

14.2 The Reference Rate shall be equal to one hundred (100) basis points in excess of the current yield, on the date five (5) days prior to prepayment, of the U.S. Treasury security closest in maturity to the remaining term of the loan. If there is more than one (1) U.S. Treasury security with such a maturity date, the selection shall be at the sole option of Lender. There shall be no discount if the Reference Rate exceeds the Interest Rate and thus no Prepayment Premium shall be due.

14.3 The Prepayment Premium required to prepay this Note following an acceleration is intended to preserve the yield on this Note, and to serve as liquidated damages, because the costs, expenses and losses caused by a prepayment are difficult or impossible to estimate.

15. Application of Payments; Partial Payments. Unless an Event of Default has occurred and not been fully cured or waived, all payments received by Lender hereunder shall be applied first against interest and then to principal, with the balance applied against any other amounts which may be owing to Lender hereunder. Following the occurrence and during the continuation of an Event of Default, Lender may apply any payment which it receives, whether directly from Borrower or as a consequence of realizing upon any security which it holds, in its sole and absolute discretion, to any amount owing to it under this Note or any other Amended Omega Loan Documents.

16. Security for Note. This Note is executed and delivered pursuant to the Settlement Agreement, and is secured by the Amended Omega Loan Documents and all other security interests, liens, assignments and encumbrances previously granted, granted concurrently herewith and/or from time to time hereafter granted by Borrower or any of the Mariner Entities to Lender to secure the Amended Omega Note. Reference is hereby made to the Amended Omega Loan Documents for a complete description of the collateral securing this Note and for additional terms and conditions concerning this Note.

17. Choice of Law; Venue; Jurisdiction.

17.1 Choice of Law. This Note shall be deemed to have been made and delivered by Borrower to Lender at Borrower's principal place of business in Atlanta, Georgia. This Note shall be governed and controlled as to validity, enforcement, interpretation, construction, effect and in all other

respects, including, but not limited to, the legality of the interest charged hereunder, by the statues, laws and decisions of the State of Georgia.

17.2 Venue; Jurisdiction. Until the Plan Effective Date, to the maximum extent permitted by applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Note shall be brought and prosecuted in the U.S. Bankruptcy Court for the District of Delaware. Notwithstanding the foregoing, if prior to the Plan Effective Date such action cannot be brought and prosecuted in the Court for any reason, then such action shall be brought and prosecuted in the state or federal courts located in the State of Michigan or, if necessary with respect to the exercise of remedies regarding liens and security interests on real and personal property collateral securing this Note located in the State of North Carolina, in the State of North Carolina, in each case as is provided by law. Following the Plan Effective Date, all such actions shall be brought and prosecuted in the state or federal courts located in the State of Michigan or, if necessary with respect to the exercise of remedies regarding liens and security interests on real and personal property collateral securing this Note located in the State of North Carolina, in the State of North Carolina, in each case as is provided by law. The parties consent to the jurisdiction of said court or courts located in the States of Michigan and North Carolina and to service of process by registered mail, return receipt requested, or by any other manner provided by applicable law. Borrower hereby waives any right Borrower may have to transfer or change the venue of any litigation brought against Borrower by Lender in accordance with this Section.

18. Extension of Maturity Date. Borrower shall have the right to extend (the "Extension Right") the Maturity Date of this Note for an additional term of eleven (11) years by giving written notice to Lender at least one year prior to the initial scheduled maturity date; provided, however, that if such notice is not given, Lender shall promptly give Borrower written notice that it did not receive notice from Borrower exercising the Extension Option by such date ("Notice of Failure to Exercise Extension Right"), whereupon (1) the Maturity Date shall be automatically extended to a date which is forty-five days after delivery of the Notice of Failure to Exercise Extension Right and (2) Borrower may exercise the Extension Right by giving written notice of exercise to Lender within forty-five (45) days after delivery of the Notice of Failure to Exercise Extension Right. Once given, a notice of extension shall be irrevocable. Borrower's right to extend the Maturity Date as herein provided is conditioned upon there being no Event of Default on the date of giving of the notice of extension.

19. Miscellaneous Provisions.

19.1 This Note may not be amended or modified, and revision hereto shall not be effective, except by an instrument in writing executed by both Borrower and Lender.

19.2 Any notice to be given hereunder shall be given in the manner provided in the Settlement Agreement.

19.3 Nothing contained in this Note or in any other Amended Omega Loan Document shall be deemed or construed as creating a partnership or joint venture between Borrower and Lender or between Lender and any other person, or cause the holder hereof to be responsible in any way for the debts or obligations of Borrower or any other person.

19.4 Borrower hereby waives presentment, protest and demand, notice of protest, dishonor and nonpayment of this Note (other than any notices expressly required herein), and expressly agrees that, without in any way affecting the liability of Borrower hereunder, Lender may extend the time for payment of any amount due hereunder, accept additional security, release any party liable hereunder and release any security now or hereafter securing this Note without in any other way affecting the liability and obligation of Borrower.

19.5 Every provision of this Note is intended to be severable. In the event any term or provision hereof is declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

19.6 Headings at the beginning of each numbered Section of this Note are intended solely for convenience of reference and are not to be deemed or construed to be a part of this Note.

19.7 Borrower, and any other person who may be liable hereunder in any capacity, agree(s) to pay all costs of collection, including reasonable attorneys' fees actually incurred, in case the principal of this Note or any payment of interest thereon is not paid as it becomes due, or in case it becomes necessary to protect the security for this Note, whether suit is brought or not.

19.8 Notwithstanding anything to the contrary contained herein, if, at any time, Borrower disagrees with the amounts owed by Borrower

indicated on Lender's records, it may inspect Lender's records at Borrower's sole cost and expense, and Lender will make adjustments to its records to correct any actual errors discovered by Borrower's inspection if Lender has received notice from Borrower of such errors and has confirmed such errors.

20. No Novation; Amendment and Restatement: This Note is an amendment and restatement of the Original Omega Note. It is the intent of the parties that no novation of the obligations of Borrower under the Original Omega Note shall occur, and that the obligations of Borrower under the Original Omega Note shall continue in full force and effect, except as modified by this amendment and restatement. Upon execution and delivery of this Note, Lender shall return the Original Omega Note to Borrower with a notation thereon that it has been replaced by this Note.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Borrower has executed this Note as of the date first set forth above.

"BORROWER"

PROFESSIONAL HEALTH CARE MANAGEMENT, INC., a Michigan corporation

By: /s/ BOYD P. GENTRY

Its: President

CONFIDENTIAL: THIS DOCUMENT IS PROVIDED FOR SETTLEMENT PURPOSES ONLY AND IS SUBJECT TO THE PROTECTIONS OF FEDERAL RULE OF EVIDENCE 408 AND ALL SIMILAR PROVISIONS AND SUPPORTING AUTHORITIES.

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (this "Agreement") is made as of this first day of August, 2001, by and among (a) OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation ("Omega"), (b) PROFESSIONAL HEALTH CARE MANAGEMENT, INC., a Michigan corporation ("PHCM"), (c) each of the Michigan subsidiaries of PHCM listed on the signature page hereto (the "Michigan Subsidiaries"), (d) LIVING CENTERS - PHCM, INC., a North Carolina corporation ("LC-PHCM"), (e) GRANCARE, INC., a Delaware corporation formerly known as New GranCare, Inc. ("GranCare"), and (f) MARINER POST-ACUTE NETWORK, INC., a Delaware corporation formerly known as Paragon Health Network, Inc. ("Mariner," and, together with PHCM, the Michigan Subsidiaries, LC-PHCM and GranCare, and New PHCM (after its formation), collectively, the "Mariner Entities").

W I T N E S S E T H:

WHEREAS, PHCM is the owner of nine (9) skilled nursing facilities located in the State of Michigan and identified more particularly in Part I of Schedule A hereto attached and incorporated herein by reference (the "Michigan Facilities"), and leases each Michigan Facility to the Michigan Subsidiary indicated opposite the name of such Michigan Facility in Part I of Schedule A under separate facility leases (as amended, collectively, the "Michigan Facility Leases"); and

WHEREAS, Omega and PHCM are parties to that certain Michigan Loan Agreement dated as of June 7, 1992 (as heretofore amended, the "Omega Loan Agreement"), pursuant to which Omega made a loan to PHCM in the original principal amount of $58,800,000 (the "Omega Loan"); and

WHEREAS, the Omega Loan is evidenced by that certain Mortgage Note dated August 14, 1992 (as heretofore amended, the "Omega Note"), issued by PHCM and payable to the order of Omega in the original principal amount of $58,800,000; and

WHEREAS, the Omega Loan is secured by that certain Mortgage, Security Agreement, Assignment of Rents and Leases, and Fixture Filing dated as of August 14, 1992 (as heretofore amended, the "Omega Mortgage"), executed by PHCM in favor of Omega and encumbering, among other things, the Michigan Facilities; and

WHEREAS, the Omega Loan is further secured by that certain Security Agreement dated as of August 14, 1992 (as heretofore amended, the "PHCM Security Agreement"), executed by PHCM in favor of Omega; by that certain Letter of Credit Pledge Agreement dated as of August 14, 1992 (as heretofore amended, the "Deposit Agreement"), between Omega and PHCM; by that certain Cash Collateral Escrow Agreement dated as of August 14, 1992 (the "Escrow Agreement") by and among Omega, PHCM and LaSalle National Trust, N.A., as escrow agent; by that certain Assignment of Leases dated as of August 14, 1992 (as heretofore amended, the "Assignment of Leases") given by PHCM to Omega; and by that certain Supplementary Letter of Credit and Cash Collateral Escrow Agreement dated as of March __, 1996 (as heretofore amended, the "Supplementary Collateral Agreement") by and among Omega, PHCM and GranCare; and

WHEREAS, each of the Michigan Subsidiaries has heretofore guaranteed the obligations of PHCM in connection with the Omega Loan pursuant to that certain Omega-PHCM Subsidiary Guaranty dated as of February 12, 1997 (as heretofore amended, the "Subsidiary Guaranty"), and the obligations of the Michigan Subsidiaries under the Subsidiary Guaranty are secured by that certain Omega-PHCM Subsidiary Security Agreement dated as of February 12, 1997 (as heretofore amended, the "Subsidiary Security Agreement"), executed by each of the Michigan Subsidiaries in favor of Omega; and

WHEREAS, LC-PHCM is the owner of the three (3) North Carolina skilled nursing facilities more particularly identified in Part II of Schedule A (the "North Carolina Facilities", and together with the Michigan Facilities, the "Facilities" and individually, a "Facility") and has leased the North Carolina Facilities to PHCM, which operates the North Carolina Facilities under facility leases between LC-PHCM, as lessor, and PHCM, as lessee (collectively, the "North Carolina Facility Leases", and together with the Michigan Facility Leases, the "Facility Leases"); and

WHEREAS, LC-PHCM has joined in the Subsidiary Guaranty and has secured its obligations under the Subsidiary Guaranty by granting a mortgage on the North Carolina Facilities to Omega pursuant to that certain Fee Simple Deed of Trust, Security Agreement, and Fixture Filing dated as of July 31, 1998 (as heretofore amended, the "LC-PHCM Mortgage") from LC-PHCM in favor of David J.

Witheft, Esq., as Trustee for the benefit of Omega, and has entered into that certain Security Agreement dated as of July 31, 1998 (as heretofore amended, the "LC-PHCM Security Agreement") from LC-PHCM in favor of Omega; and

WHEREAS, the Omega Loan is also secured by that certain Leasehold Interest Deed of Trust, Security Agreement, and Fixture Filing dated as of July 31, 1998 (as heretofore amended, the "NC Leasehold Mortgage") from PHCM in favor of David J. Witheft, Esq., as Trustee for the benefit of Omega, conveying security title to PHCM's leasehold interest in the North Carolina Facilities; and

WHEREAS, the Omega Loan Agreement, the Omega Note, the Omega Mortgage, the PHCM Security Agreement, the Deposit Agreement, the Escrow Agreement, the Assignment of Leases, the Supplementary Collateral Agreement, the Subsidiary Guaranty, the Subsidiary Security Agreement, the LC-PHCM Mortgage, the LC-PHCM Security Agreement, the NC Leasehold Mortgage and all UCC financing statements filed in connection with the security interests securing the Omega Loan, are hereinafter collectively referred to as the "Omega Loan Documents"; and

WHEREAS, the Mariner Entities have filed voluntary petitions under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. ss.ss.101 et seq., as amended (the "Bankruptcy Code"), on January 18, 2000 (the "Petition Date"), before the United States Bankruptcy Court for the District of Delaware (the "Court"), bearing the case numbers set forth on Schedule B hereto attached and incorporated herein by this reference (collectively, the "Cases"), which Cases are currently pending and are being jointly administered; and

WHEREAS, with the consent of Omega and the approval of the Bankruptcy Court, PHCM and the Ciena Facility Subsidiaries have previously sold the Ciena Facilities to Midtown Real Estate Company LLC, an affiliate of Ciena Healthcare Management, Inc, (the "Ciena Buyer") free and clear of the lien and interest of Omega under the Omega Loan Documents (the "Ciena Transaction"), in exchange for, among other things, the Ciena Purchase Money Financing Documents; and

WHEREAS, with the approval of the Bankruptcy Court, effective as of February 1, 2001, PHCM assigned, transferred and set over to Omega an undivided fifty percent (50%) interest in the Ciena Purchase Money Financing Documents in exchange for a $4,500,000 credit against the outstanding Omega Loan Obligations; and

WHEREAS, no payments have been made on or with respect to the Omega Loan and applied to such obligations since the Petition Date, except by virtue of the credit received by PHCM in connection with the Ciena Transaction; and

WHEREAS, various disputes have arisen and continue exist between Omega and the Mariner Entities with respect to the Omega Loan, Omega's ability to foreclose on the Facilities and related matters; and

WHEREAS, Omega and the Mariner Entities wish to resolve their remaining disputes and, in connection therewith, to modify and restructure the obligations of the Mariner Entities to Omega under the Omega Loan Documents; and

WHEREAS, Omega is willing to consent to the modification and restructuring of the Omega Loan and to release the Mariner Entities from any liability in connection with the Omega Loan, other than liabilities set forth in the Settlement Documents, all subject to, and upon, the terms and conditions set forth herein and therein.

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1. The following capitalized terms shall have the meanings set forth below:

"Agreement" shall mean this Settlement Agreement, including all Schedules and Exhibits thereto, as it and they may be amended from time to time as herein provided.

"Amended Facility Leases" shall mean Amended and Restated Facility Leases in substantially the form of Exhibit W attached hereto and incorporated herein by this reference, between, in the case of the Michigan Facilities, PHCM, as lessor, and the respective Subsidiary Lessees, as lessees, and in the case of the North Carolina Facilities, LC-PHCM, as lessor, and PHCM, as lessee.

"Amended Omega Note Balance" shall mean $59,688,449.83, less any prepayments prior to Closing from insurance proceeds or condemnation awards.

"Base Management Fee" means, for any period, an amount equal to five

percent (5%) of Gross Revenues during such period, which shall be the agreed upon base management fee payable to Manager for the operation of the Facilities.

"Business Day" shall mean any day other than a Saturday, Sunday, or any other day on which banking institutions in the State of Georgia are authorized by law or executive action to close.

"Catch-Up Date" shall mean the first day following the Closing on which (1) all Past Due Interest and any accrued interest thereon shall have been paid in full, (2) all principal of and accrued interest on the Maintenance Obligation Note shall have been paid in full, (3) Deferred Omega Note Interest and interest thereon shall have been paid in full, and (4) all outstanding principal and interest on any Deferred Amendment Fee Note shall have been paid in full. If, after giving effect to the application of all Available Closing Cash paid by PHCM to Omega at Closing, all Post-December 31, 1999 Interest and all principal of, and accrued interest on, the Maintenance Obligation Note shall have been paid in full, the Closing Date shall be deemed to be the Catch-Up Date.

"Ciena Facilities" shall mean the four (4) skilled nursing facilities located in the State of Michigan and identified more particularly in Part III of Schedule A hereto.

"Ciena Loan Year" shall mean, so long as the Ciena Note is outstanding, each twelve (12)-month period commencing February 1 and ending January 31 (or for any Ciena Loan Year in which the Ciena Note ceases to be outstanding, ending as of the date the Ciena Note ceased to be outstanding). The first Ciena Loan Year commenced on February 1, 2001.

"Ciena Note" shall mean the $9,000,000 Promissory Note dated February 1, 2001, executed by the Ciena Buyer in favor of PHCM which is part of the Ciena Purchase Money Financing Documents.

"Ciena Purchase Agreement" shall mean that certain Asset Purchase Agreement dated as of December 22, 2000, by and among PHCM, the Ciena Subsidiaries and the Ciena Buyer, pursuant to which PHCM sold the Ciena Facilities to the Ciena Buyer on or about February 1, 2001.

"Ciena Purchase Money Financing Documents" shall mean all documents evidencing, guaranteeing and securing the $9,000,000 purchase money financing for the Ciena Transaction, including, but not limited to all promissory notes, guaranties, mortgages, security agreements, pledge agreements, and UCC financing statements.

"Ciena Restructuring Agreement" shall mean that certain Ancillary Restructuring Agreement dated as of December 22, 2000, by and among Omega, PHCM, the Michigan Subsidiaries party thereto, LC-PHCM, GranCare and Mariner, as amended from time to time.

"Ciena Subsidiaries" shall mean the subsidiaries of PHCM formerly operating the Ciena Facilities identified in Part III of Schedule A hereto.

"Contracts" shall mean, with respect to any Facility, each instrument, contract and agreement to which the Mariner Operator of such Facility is a party that directly benefits, relates to or affects (i) such Facility, or (ii) the operation of or the provision of services in conjunction with such Facility.

"Deferred Amendment Fee Note" shall mean a promissory note, in substantially the form of Exhibit A attached hereto, or in such other form as may be acceptable to Omega and PHCM, delivered by PHCM to Omega pursuant to Article 9 hereof, as the same may be amended from time to time.

"Event of Default" shall have the meaning given to it in the Amended Omega Loan Agreement.

"Escrow Agent" shall mean the Title Company, its successors and assigns, as escrow agent under the Restructuring Escrow Agreement.

"Escrow Bill of Sale" shall mean, (i) with respect to each Michigan Facility, a limited bill of sale executed by PHCM, and a separate limited bill of sale executed by the Operator of the Facility, and (ii) with respect to the North Carolina Facilities, a limited bill of sale executed by a LC-PHCM, and a separate limited bill of sale executed by PHCM, in each case to be delivered to the Escrow Agent at Closing and to be held and delivered in accordance with the terms of the Escrow Agreement, pursuant to Article 10 hereof, together with any replacement bills of sale executed by New PHCM and delivered to the Escrow Agent pursuant to Section 15.2 hereof. Each Escrow Bill of Sale shall be in favor of a nominee of Omega to be designated by Omega prior to the Closing.

"Escrow Deed" shall mean, with respect to each Facility, a limited warranty deed in lieu of foreclosure executed by PHCM, in the case of the Michigan Facilities, and by LC-PHCM, in the case of the North Carolina Facilities, to be delivered to the Escrow Agent at Closing and to be held and delivered in accordance with the terms of the Escrow Agreement, pursuant to Article 10 hereof, together with any replacement deeds executed by New PHCM and delivered to the Escrow Agent pursuant to Section 15.1. Each Escrow Deed shall

be in favor of a nominee of Omega to be designated by Omega prior to the Closing.

"Escrow Documents" shall mean, with respect to each Facility, the Escrow Bill of Sale, the Escrow Deed and the Escrow Lease Termination Agreement.

"Escrow Lease Termination Agreement" shall mean a lease termination agreement with respect to each of the Amended Facility Leases.

"Final Audit Report" shall mean the final audit reports issued to PHCM by the applicable Governmental Authorities of the States of Michigan and North Carolina, respectively, for the Facilities (including the Ciena Facilities, for this purpose) located in those States, with respect to Medicaid cost reports for the years 1998 and 1999.

"Governmental Authority" shall mean all agencies, authorities, bodies, boards, commissions, courts, instrumentalities, legislatures and offices of any nature whatsoever, of any government unit or political subdivision, whether federal, state, county, district, municipal, city or otherwise, and whether now or hereafter in existence.

"GranCare Keep-Well Obligation" shall mean the obligation of GranCare, as set forth in that certain Second Amendment to Michigan Loan Agreement dated as of February 12, 1997, by and among Omega, PHCM, GranCare and the Michigan Subsidiaries, to provide additional capital to PHCM to the extent necessary to enable PHCM to remain in compliance with the minimum tangible net worth test contained in the Omega Loan Agreement.

"Gross Revenues" means all revenues received or receivable from or by reason of the operation of the Facilities, or any other use of the Facilities, including without limitation (but without duplication) all patient revenues received or receivable for the use of or otherwise by reason of all rooms, beds, and other facilities provided, meals served, services performed, space or facilities subleased or goods sold at the Facilities and, except as provided below, any consideration received for any sublease, license or other arrangement with an unrelated third party in possession, or using, any portion of the Facilities. Gross Revenues shall not, however, include:

(A) revenue from professional fees or charges by physicians when and to the extent such charges are paid over to such physicians or are accompanied by separate charges for use of a Facility or any portion thereof;

(B) non-operating revenues such as interest income or income from the sale of assets not sold in the ordinary course of business;

(C) contractual allowances and reasonable reserves for billings not paid by or received from the appropriate governmental agencies, third party providers or other payors;

(D) all proper patient billing credits and adjustments according to generally accepted accounting principles relating to health care accounting, and

(E) federal, state or local sales or excise taxes and any tax based upon or measured by said revenues which is added to or made a part of the amount billed to the patient or other recipient of such services or goods, whether included in the billing or stated separately.

Without limiting the foregoing, Gross Revenues include all revenues received or receivable by the Michigan Subsidiaries from their use of the Facilities and by PHCM from its use of the North Carolina Facilities, including any rent or equivalent payment paid by any sublessee or licensee and received or receivable by the Michigan Subsidiaries or PHCM (as the case may be) from such sublessee or licensee (including, but not limited to, rent or any equivalent payment for a sublease of space for the placement or erection of antennae or similar device).

"Interest Rate" shall mean eleven and 57/100ths percent (11.57%) per annum.

"Investor" shall mean any Person or Persons, other than GranCare or any other wholly owned subsidiary of Mariner to which GranCare may assign its equity interest in PHCM or New PHCM, as the case may be, who are unrelated to either Omega or any of the Mariner Entities, and who own capital stock in PHCM or, if the Merger occurs, who have a membership interest in New PHCM.

"Investor Guaranty" shall mean a guaranty agreement substantially in the form of the Amended and Restated LC-PHCM Guaranty, to be executed and delivered by the Investor upon consummation of the Majority Equity Sale, pursuant to Section 15.1 hereof.

"LC-PHCM Stock Transfer" shall mean the transfer of the issued and

outstanding capital stock of LC-PHCM to PHCM (and any intermediate transfers thereof determined to be necessary or advisable by MPAN and its advisors), in connection with the Majority Equity Sale, as a result of which LC-PHCM would become a wholly owned subsidiary of PHCM.

"Liquidity Deposit" shall mean the liquidity deposit required under the Omega Loan Documents and any liquidity deposit which may, under certain circumstances, be required under the Amended Loan Documents.

"Liquidity Deposit Installments" shall mean the installments, each in the amount of $525,000, required to be paid by PHCM to Omega in the seventh (7th), thirteenth (13th) and nineteenth (19th) months after Closing, pursuant to the Amended Omega Loan Agreement.

"Maintenance Obligation Note" shall mean the promissory note of PHCM dated February 1, 2001, in the principal amount of Seven Hundred Thousand Dollars ($700,000), given in exchange for the assumption by Omega of the deferred maintenance obligations of PHCM and the Ciena Facility Subsidiaries with respect to the Ciena Facilities, as such promissory note may be amended, extended, renewed, restated or replaced from time to time.

"Majority Equity Sale" shall mean the sale by GranCare (or any affiliate of GranCare to which GranCare may have assigned its equity interest in PHCM or New PHCM, as the case may be) to one or more Investors, in the aggregate, of a majority equity interest in PHCM or, if the Merger shall have occurred, in New PHCM.

"Manager" shall mean Mariner or any wholly owned subsidiary of Mariner identified as "Manager" under the Mariner Management Agreements.

"Mariner Entity Released Obligations" shall mean (a) the GranCare Keep-Well Obligation and (b) any and all other obligations and liabilities of, and claims against, the Mariner Entities heretofore, now or hereafter arising or existing under or in connection with the Omega Loan Documents or the Omega Loan other than those obligations arising under the Settlement Documents, whether known or unknown, contingent or fixed, liquidated or unliquidated, matured or unmatured, asserted or unasserted, however arising.

"Mariner Entities Release" shall mean a release of the Mariner Entities to be executed and delivered by Omega at the Closing, in the form of Exhibit B hereto attached and incorporated herein by this reference.

"Mariner Management Agreement" shall mean the management agreement by and among PHCM, LC-PHCM, the Michigan Subsidiaries and Manager in substantially the form of Exhibit T attached hereto, relating to the Facilities, as the same may be amended, extended, renewed, restated or replaced from time to time.

"Mariner Operator" shall mean, with respect to any Facility, the Mariner Entity that operates such Facility and holds the Permits for such Facility as of the Closing.

"Medicaid Overpayment Claims" shall mean all claims for overpayment under the Medicaid programs for the States of Michigan and North Carolina asserted in the Final Audit Report by any Governmental Authority of either State against PHCM or the Michigan Subsidiaries, less any amount thereof which has been waived or forgiven by the applicable Governmental Authority or repaid by PHCM or the Michigan Subsidiaries.

"Merger" shall mean the merger of PHCM with and into New PHCM pursuant to the Merger Agreement, with New PHCM as the survivor.

"Merger Agreement" shall mean any agreement and plan of merger between PHCM and New PHCM, pursuant to which PHCM may merge with and into New PHCM, with New PHCM being the surviving entity, as such agreement may be amended, extended or restated from time to time.

"Net Fair Market Value" shall mean, with respect to any Facility, the Escrowed Documents for which shall have been delivered to Omega or its designee pursuant to the Escrow Agreement and Article X hereof, the greater of (a) the value of such Facility as a going concern (based on a then current market multiple of the average EBITDA of such Facility for the previous three years), and (b) the liquidation value of such Facility, in either case as determined by appraisal prepared for Omega by an appraiser or valuation firm not affiliated with Omega and who or which has significant experience in appraising skilled nursing facilities in the United States, and in either case reduced by (i) amounts secured by Liens (other than Liens in favor of Omega) on such Facility and (ii) out-of-pocket costs reasonably incurred by Omega in transitioning such Facility to a new operator (excluding management fees, operating losses, capital expenditures and the like).

"New PHCM" shall mean a single-purpose limited liability company to be formed by GranCare under the laws of the State of Delaware and into which PHCM shall be merged on the effective date of the Merger, if the Merger is consummated.

"Omega Loan Obligations" shall mean the obligations of the Mariner Entities to Omega under the Omega Loan Documents.

"Omega Released Obligations" shall mean any and all obligations and liabilities of, and claims against, Omega heretofore, now or hereafter arising or existing, under or in connection with the Omega Loan Documents, other than those obligations arising under the Settlement Documents, whether known or unknown, contingent or fixed, liquidated or unliquidated, matured or unmatured, asserted or unasserted, however and whenever arising.

"Omega Release" shall mean a release of Omega to be executed and delivered by the Mariner Entities at the Closing, in the form of Exhibit C hereto attached and incorporated herein by this reference.

"Operators" shall mean PHCM, LC-PHCM (so long as it owns any of the North Carolina Facilities) and the Michigan Subsidiaries.

"Permits" shall mean, with respect to any Facility, all licenses, approvals, certificates of need, determinations of need, franchises, accreditations, certificates, certifications, consents, permits and other authorizations benefiting, relating to or affecting the operation of such Facility or the operation of programs or provision of services in conjunction with such Facility, issued by or entered into with any Governmental Authority, Third Party Payor or accreditation body (including, without limitation, the Provider Agreements), and all renewals, replacements and substitutions therefor.

"Permitted Encumbrances" shall mean, with respect to any Facility, all Permitted Personal Property Encumbrances and all Permitted Real Property Encumbrances for such Facility.

"Permitted Personal Property Encumbrances" shall mean, with respect to any personal property present at or used in connection with the operation of any Facility, the liens and security interests created under the Omega Loan Documents, and any other liens, security interests or encumbrances affecting such personal property that are permitted under the Omega Loan Documents, including, without limitation, the Amended Facility Leases (but specifically excluding, without limitation, any security interests and liens arising by, through or under any Mariner Entity which secures the debtor-in-possession financing that has been approved by order of the Court).

"Permitted Real Property Encumbrances" shall mean, with respect to any Facility, those liens and encumbrances affecting such real property and improvements (i) existing at the time the Omega Mortgage (in the case of the Michigan Facilities) or the LC-PHCM Mortgage (in the case of the North Carolina Facilities) were executed and delivered, (ii) otherwise permitted under the Omega Loan Documents, including, without limitation, the Amended Facility Leases (but specifically excluding, without limitation, any security interests and liens arising by, through or under any Mariner Entity which secures the debtor-in-possession financing that has been approved by order of the Court), (iii) arising from the acts or omissions of Omega, (iv) the Facility Subleases, or (v) any other matters that are otherwise acceptable to, and to which no objection is made by, Omega.

"Person" shall mean all individuals, corporations, general and limited partnerships, limited liability companies, stock companies or associations, joint ventures, unincorporated associations, companies, trusts, banks, trust companies, land trusts, business trusts, Governmental Authorities and other entities of every kind and nature.

"Plan Effective Date" shall mean the effective date of the Plan of Reorganization.

"Plan of Reorganization" A plan of reorganization for the Mariner Entities in the Cases which has been confirmed pursuant to 11 U.S.C. ss.ss.1129 and 1141, the effective date of which has occurred.

"Post-Closing Interest and Maintenance Paydowns" means, as of any date of determination, the aggregate amount of the payments made by PHCM, if any, in respect of Past Due Interest, and interest thereon, the Maintenance Obligation Note and the Deferred Omega Interest Note, in excess of the aggregate amount of the Minimum Monthly Payments made by PHCM to Omega for application to the items for which Minimum Monthly Payments are to be applied pursuant to Section 13.6 hereof.

"Provider Agreements" shall mean, with respect to any Facility, all participation, provider and reimbursement agreements or arrangements in effect for the benefit of or relating to or affecting the operation of any Facility, or the operation of programs or provision of services therein, relating to any right of payment or other claim arising out of or in connection with such Facility's participation in any Third Party Payor Program.

"Residual Ciena Interest" shall mean the undivided fifty percent (50%) interest in the Ciena Purchase Money Financing Documents retained by PHCM and pledged to Omega as additional security for the Omega Loan Obligations.

"Restructuring Escrow Agreement" shall mean that certain Escrow Agreement to be dated as of the Closing Date, by and among Omega, PHCM, LC-PHCM and the Escrow Agent, in substantially the form attached hereto as Exhibit D.

"Settlement Documents" shall mean, collectively, this Agreement, the Ciena Restructuring Agreement, and each agreement, undertaking or instrument delivered pursuant to Article 3, Article 5, Article 6 and Article 15 hereof.

"Stay" shall mean an order of a court of competent jurisdiction staying any of the Approval Orders pending appeal.

"Subsidiary Guarantors" shall mean the Michigan Subsidiaries and LC-PHCM, as guarantors under the Subsidiary Guaranty.

"Subsidiary Lessees" shall mean, with respect to the Michigan Facilities, the Michigan Subsidiaries identified on Schedule A opposite the name of the corresponding Michigan Facility, and with respect to the North Carolina Facilities, PHCM.

"Third Party Payor Programs" shall mean all third party payor programs in which any Facility participates, including, without limitation, Medicare, Medicaid, CHAMPUS, Blue Cross and/or Blue Shield, TriCare, managed care plans, other private insurance programs, workers compensation and employee assistance programs.

"Third Party Payors" shall mean Medicare, Medicaid, CHAMPUS, Blue Cross and/or Blue Shield, TriCare, private insurers and any other Person which maintains Third Party Payor Programs.

"Transition Agreement" shall mean an agreement substantially in the form attached hereto as Exhibit E which the Operators and Omega shall enter into at Closing and which shall govern the transition of one or more Facilities as to which Omega, its nominee or a third party acquires title either by delivery of the Escrow Documents or as the purchaser at a foreclosure sale.

1.2. The following terms shall have the meanings set forth in the sections of this Agreement referred to below:

Defined Term:	Defined In:
Agreement	Introduction
Amended LC-PHCM Guaranty	Section 5.2
Amended LC-PHCM Security Agreement	Section 5.2
Amended Lease Subordination Agreement	Section 5.2
Amended Omega Loan Agreement	Section 5.2
Amended Omega Loan Documents	Section 3.2
Amended Omega Mortgage	Section 5.2
Amended Omega Note	Section 5.2
Amended PHCM Security Agreement	Section 5.2
Amended Subsidiary Guaranty	Section 5.2
Amendment Fee	Section 9.1
Annual Amendment Fee	Section 9.1
Approval Motion	Section 2.1
Approval Order	Section 2.1
Assignment of Leases	Recitals
Authorized Investor Representative	Section 15.1
Available Closing Cash	Section 13.4
Bankruptcy Code	Recitals
Cases	Recitals
Cash Collateral Order	Section 13.7
Chase	Section 5.9
Ciena Buyer	Recitals
Ciena Transaction	Recitals
Closing	Section 4.1
Closing Date	Section 4.1
Court Recitals Delivery	Section 5.7
Deposit Agreement	Recitals
Escrow Account	Section 12.2
Escrow Agreement	Recitals
Exchange Act	Section 16.9
Excess Ciena Interest Payment	Section 3.3
Excess Ciena Principal Payment	Section 3.3
Facilities	Recitals
Facility Leases	Recitals
GranCare	Introduction
LC-PHCM	Introduction
LC-PHCM Security Agreement	Recitals
Liquidity Deposit Agreement	Section 5.2
Mariner	Introduction
Mariner Entities	Introduction
Mariner Liabilities	Section 11.2
Michigan Facilities	Recitals
Michigan Facility Leases	Recitals
Michigan Subsidiaries	Introduction
Minimum Monthly Payments	Section 13.6

Modified Available Closing Cash	Section 13.4
Monthly Amendment Fee	Section 9.1
Net Condemnation Award	Section 12.12
Net Income	Section 9.2
Net Proceeds	Section 12.2
North Carolina Facilities	Recitals
North Carolina Facility Leases	Recitals
North Carolina Leasehold Mortgage	Recitals
NYSE Requirements	Section 14.9
Omega	Introduction
Omega Liabilities	Section 11.1
Omega Loan	Recitals
Omega Loan Agreement	Recitals
Omega Loan Amount	Section 13.1
Omega Loan Documents	Recitals
Omega Mortgage	Recitals
Omega Note	Recitals
Operators'EBITDARM	Section 9.2
Operators' Free Cash Flow	Section 9.2
Partial Interest Repayment Amount	Section 12.3
Past Due Interest	Section 13.5
PHCM Security Agreement	Recitals
Petition Date	Recitals
Petition Date Omega Debt	Section 13.1
Post-December 31, 1999 Interest	Section 13.3
Subsequent Bankruptcy Case	Section 10.11
Title Company	Section 5.5

ARTICLE 2

PROCEDURAL MATTERS

2.1. Court Approval. Promptly following execution of this Agreement by all parties and otherwise no later than August 2, 2001 (or such later date as Omega may agree to in writing), the Mariner Entities will file a motion with the Court seeking authority to proceed with the transactions and other matters provided for in this Agreement (the "Approval Motion"), together with a proposed form of order (the "Approval Order"). The Approval Order shall satisfy the applicable requirements of Section 5.7 hereof, and shall otherwise be in a form, and include such other provisions, as Omega and the Mariner Entities may deem appropriate under the circumstances. The Mariner Entities and Omega shall exercise good faith efforts to obtain the Approval Order from the Court.

2.2. Effectiveness. Those provisions of this Agreement which require the exercise of good faith efforts by the Parties hereto shall be effective immediately while all other provisions of this Agreement shall be effective upon entry of the Approval Orders, unless implementation is stayed by appeal.

ARTICLE 3

TRANSACTIONS TO OCCUR AT CLOSING

At the Closing, the parties hereto shall effect the following transactions:

3.1. Amendment of Maintenance Obligation Note. The Maintenance Obligation Note, if not then paid in full, shall be amended to (a) acknowledge that PHCM's obligation to pay Contingent Principal (as defined therein) and interest thereon are no longer contingent, (b) provide for mandatory prepayments thereon out of the Minimum Monthly Payments to the extent provided in Section 13.6 hereof, (c) provide that, if not sooner paid, the Maintenance Obligation Note will become due and payable in full at the time the Omega Note becomes due and payable in full, whether at scheduled maturity, upon acceleration, prepayment in full or otherwise, and (d) provide that PHCM will have the right to prepay the Maintenance Obligation Note in whole or in part at any time, without penalty or premium.

3.2. Amendment and Restatement of Omega Loan Documents. The Omega Loan Documents shall be amended and restated in substantially the forms set forth in Exhibits F through S attached hereto (collectively, the "Amended Omega Loan Documents").

3.3. Assignment of the Residual Ciena Interest. At the Closing, PHCM shall assign, set over and transfer to Omega (without recourse of any kind), and Omega shall accept, the Residual Ciena Interest. In consideration therefor, Omega shall pay to PHCM, by official bank check representing immediately available funds, the sum of $3,500,000 multiplied by a fraction, the numerator of which is the outstanding principal amount of the Ciena Note at the close of business on the date preceding the Closing Date, and the denominator of which is $9,000,000, plus (b) 50% of the accrued and unpaid interest on the Ciena Note as of the Closing Date. At the Closing, PHCM shall represent and warrant to Omega that it owns the Residual Ciena Interest free and clear of any claims and

security interests, except for the security interest in favor of Omega.

3.4. Delivery of Mariner Entities Release. In consideration of the mutual covenants and agreements set forth herein, Omega agrees that, at the Closing, it shall execute and deliver the Mariner Entities Release to the Mariner Entities.

3.5 Delivery of Omega Release. In consideration of the mutual covenants and agreements set forth herein, each of the Mariner Entities agrees that, at the Closing, it shall execute and deliver the Omega Release to Omega.

3.6 Mariner Management Agreement. At the Closing, Manager, PHCM, LC-PHCM and the Michigan Subsidiaries shall execute and deliver the Mariner Management Agreement.

3.7 Transition Agreement. At the Closing, Omega and the Operators shall execute and deliver the Transition Agreement.

3.8 Escrow Documents. At the Closing, PHCM, LC-PHCM and the Operators shall execute and deliver the Escrow Documents to the Escrow Agent, to hold in escrow pursuant to the Escrow Agreement, and the Mariner Entities, Omega and the Escrow Agent shall execute and deliver the Escrow Agreement.

ARTICLE 4

CLOSING

4.1. Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall be held at the offices of Powell, Goldstein, Frazer & Murphy LLP, 16th Floor, 191 Peachtree Street, N.E., Atlanta, Georgia 30303, or at such other location as the parties may agree upon in writing, on the first Business Day as of which all of the conditions precedent set forth in Articles 5 and 6 hereof shall have been satisfied (the "Closing Date"); provided, however, that, in the event that either (a) the Approval Order shall not have been entered by the Court within sixty (60) days following the filing of the Approval Motion with the Court, or (b) the conditions set forth in Articles 5 and 6 hereof shall not have been satisfied within ninety (90) days following the date of execution and delivery of this Agreement, then Omega or the Mariner Entities shall have the right, by notice in writing to the other, to terminate this Agreement. All Settlement Documents executed and delivered at or prior to Closing, other than (i) this Agreement (which shall be effective as provided in Section 2.2 hereof) and (ii) the Escrow Documents, shall be deemed to take effect as of 12:01 a.m. (Eastern time) on the Closing Date, notwithstanding the actual time on such date at which the transactions contemplated herein are consummated.

ARTICLE 5

CONDITIONS PRECEDENT TO OBLIGATIONS OF OMEGA

The obligation of Omega to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the conditions set forth in this Article 5.

5.1. Board Approval. This Agreement and each of the transactions contemplated hereby shall have been approved by the respective Boards of Directors of Omega and each of the Mariner Entities. Omega shall notify the Mariner Entities if its Board of Directors does not approve this Agreement and each of the transactions contemplated hereby before the filing of the Approval Motion.

5.2. Documentation. All documentation evidencing or implementing the transactions contemplated by this Agreement must be in form and substance reasonably satisfactory to Omega and its counsel, such documentation to include the following:

(i) a certificate signed by the Secretary or Assistant Secretary of each Mariner Entity, confirming the incumbency of the officers of the Mariner Entities executing the Settlement Documents to which they are a party, and to which are attached the following:

(A) a copy of the articles of incorporation or certificate of incorporation of each Mariner Entity, as amended, and certified by the Secretary of State of the jurisdiction of incorporation as of a recent date; ; (B) a true, correct and complete copy of the current bylaws of each Mariner Entity, as amended;

(C) a true, correct and complete copy of the resolutions adopted by the Board of Directors of each Mariner Entity, authorizing the execution and delivery of this Agreement and the consummation of the transactions contemplated herein;

(D) a certificate of good standing for each Mariner Entity, issued as of a recent date by the Secretary of State of the jurisdiction of its incorporation; and

(E) in the case of PHCM, a certificate of authority issued by the Secretary of State of North Carolina as of a recent date, confirming that PHCM is authorized to transact business as a foreign corporation in the State of North Carolina;

(ii) the Amended Omega Loan Documents, executed by the appropriate Mariner Entities and New PHCM, as follows:

(A) an amended and restated Omega Loan Agreement in substantially the form attached hereto as Exhibit F (the "Amended Omega Loan Agreement");

(B) an amended and restated Omega Note in substantially the form attached hereto as Exhibit G (the "Amended Omega Note");

(C) an amendment to the Omega Mortgage for each of the Facilities, in substantially the form attached hereto as Exhibit H (the Omega Mortgage, as so amended, "Amended Omega Mortgage");

(D) an amendment to the LC-PHCM Mortgage for each of the North Carolina Facilities, in substantially the form attached hereto as Exhibit I (the LC-PHCM Mortgage, as so amended, "Amended LC-PHCM Mortgage");

(E) an amendment to the NC Leasehold Mortgage for each of the North Carolina Facilities, in substantially the form attached hereto as Exhibit J (the NC Leasehold Mortgage, as so amended, "Amended NC Leasehold Mortgage");

(F) an amendment to the Assignment of Leases for each of the Facilities, in substantially the form attached hereto as Exhibit K (the "Amended Assignment of Leases");

(G) an amended and restated Subsidiary Guaranty in substantially the form attached hereto as Exhibit L (the "Amended Subsidiary Guaranty");

(H) an amended and restated LC-PHCM Guaranty in substantially the form attached hereto as Exhibit M (the "Amended LC-PHCM Guaranty");

(I) an amended and restated Subsidiary Security Agreement in substantially the form attached hereto as Exhibit N (the "Amended Subsidiary Security Agreement");

(J) an amended and restated PHCM Security Agreement in substantially the form attached hereto as Exhibit O (the "Amended PHCM Security Agreement");

(K) an amended and restated LC-PHCM Security Agreement in substantially the form attached hereto as Exhibit P (the "Amended LC-PHCM Security Agreement");

(L) an amended and restated Lease Subordination Agreement in substantially the form attached hereto as Exhibit Q (the "Amended Lease Subordination Agreement");

(M) an amended and restated Subordination of Management Agreement and Incentive Management Fees in substantially the form attached hereto as Exhibit R ; and

(N) the Cross Default Cross Collateral Agreement in substantially the form attached hereto as Exhibit S .

(O) A Liquidity Deposit Agreement in form and substance mutually acceptable to Omega and the PHCM Debtors (the "Liquidity Deposit Agreement").

(iii) a pledge agreement executed by PHCM in favor of Omega in substantially the form attached hereto as Exhibit U, pledging the capital stock held by it in each of the Michigan Subsidiaries as security for the payment and performance of its obligations under the Amended Omega Loan Documents;

(iv) the original stock certificates evidencing the shares of capital stock pledged pursuant to the pledge agreements referred to in paragraph (iii) of this Section 5.2, together with appropriate stock powers, executed in blank, for delivery to Omega;

(v) a pledge agreement executed by GranCare in favor of Omega in substantially the form attached hereto as Exhibit V, pledging the capital stock held by it in PHCM as security for the payment and performance of

PHCM's obligations under the Amended Omega Loan Documents;

(vi) the original stock certificate evidencing the shares of capital stock pledged pursuant to the pledge agreement referred to in paragraph (v) of this Section 5.2, together with an appropriate stock power, executed in blank, for delivery to Omega;

(vii) the Mariner Management Agreement, executed by the parties thereto;

(viii) the Restructuring Escrow Agreement, duly executed on behalf of PHCM, LC-PHCM and the Escrow Agent;

(ix) Escrow Documents for each of the Facilities, to be deposited into escrow and delivered under the circumstances provided in Article 10 hereof and the Escrow Agreement;

(x) the Transition Agreement, executed by the parties thereto other than Omega;

(xi) one or more instruments of assignment (including, but not limited to UCC assignments), executed by PHCM, assigning (without recourse) the Residual Ciena Interest to Omega, together with any additional endorsement (without recourse) of the Ciena Note to the order of Omega that is reasonably requested by Omega for the purpose of further evidencing such assignment;

(xii) a certificate of an authorized officer of each of the Mariner Entities, confirming satisfaction of the requirements Section 5.6 hereof;

(xiii) the Omega Release, executed by the Mariner Entities;

(xiv) the Amended Facility Leases, executed by the Mariner Entities party thereto; and

(xv) such other documents, instruments and agreements as Omega may reasonably request for the purpose of consummating the transactions contemplated by this Agreement.

5.3. Lien Reports. With respect to each of the Facilities, Omega shall have received a satisfactory lien report showing that such Facility is not subject to any liens, claims or encumbrances other than the Permitted Encumbrances.

5.4. [RESERVED]

5.5. Title Commitments. With respect to each of the Facilities, Omega shall have received a commitment to endorse its existing mortgagee's title insurance from Commonwealth Land Title Insurance Company or such other nationally-recognized title insurer as may be reasonably acceptable to Omega (the "Title Company"), subject to standard exceptions but to no special exceptions for any liens or encumbrances other than Permitted Encumbrances, which commitment shall have been marked to show the satisfaction of all requirements and shall be based on an updated survey of each such Facility (but only if obtained by Omega). Such title insurance shall be issued at prevailing market rates, on ALTA Owner's Policy Form B (1992), and at the sole cost and expense of Omega.

5.6. True and Complete Representation. All representations and warranties of each of the Mariner Entities hereunder and under the Settlement Documents shall be true, complete and correct in all material respects as of the date hereof and as of the Closing.

5.7. Approval Orders. The Court shall have entered the Approval Orders and no court of competent jurisdiction shall have entered a Stay of any or all of the Approval Orders pending appeal, or, in the event a Stay of any or all of the Approval Orders shall have been entered, then the Stay shall have been terminated. The Approval Orders as entered by the Court shall contain no modifications unacceptable to Omega, and the Approval Order shall include, without limitation, provisions substantially as follows (or as otherwise agreed in writing by Omega):

(i) Findings determining that notice of the Approval Motion and hearing thereon have been adequate under the circumstances;

(ii) Findings that the consideration provided to the Mariner Entities by Omega is adequate;

(iii) Findings that proceeding with those matters provided for in the Agreement is in the best interest of the Mariner Entities and their respective creditors;

(iv) The occurrence of a Delivery Event in accordance with the terms and conditions of Article 10 of this Agreement and the Escrow Agreement,

but not otherwise, will be a legal, valid, and effective transfer of all of the remaining right, title, and interest of PHCM, LC-PHCM and their respective estates in the Facilities, and will vest in Omega or its nominee fee simple title to the Facilities, subject to all liens, encumbrances, covenants and restrictions of record, but free and clear of the Amended Facility Leases.

(v) Upon the delivery of the Escrow Documents by the Escrow Agent to Omega or its nominee as to one, more than one, or all of the Facilities (a "Delivery"), New PHCM shall be entitled to a credit against the amount owed by it under the Amended Omega Loan Documents in an amount equal to the fair market value of the Facility or Facilities covered by the delivered Escrow Documents. A Delivery shall be in satisfaction of PHCM's obligations under the Amended Omega Loan Documents only to the extent of the fair market value of the Facilities covered by the delivered Escrow Documents: and following a Delivery, the Amended Omega Loan Documents shall continue in full force and effect and Omega shall have the right to pursue collection of the remaining balance owing to it and the enforcement of any other rights and remedies which Omega may have thereunder. In particular, and not in limitation of the foregoing, Omega's security interest in the accounts and other intangible property relating to the Facilities shall continue in full force and effect, to the extent that the Omega Loan Obligations have not then been satisfied.

(vi) The acceptance by Omega or its nominee of the Escrow Documents as to one, more than one, or all of the Facilities will not result in the merger of title; and Omega shall continue to have the right to foreclose on any liens created or continued by the Amended Omega Loan Documents.

(vi) Neither Omega nor its nominee by acceptance of one or more of the Escrow Documents shall be deemed to have assumed or agreed to pay any of the debts or obligations of any of the Mariner Entities.

(vii) Omega would not have entered into this Agreement and would not have consummated the transactions contemplated herein, without the protections and findings included within the Approval Order.

(viii) The transactions proposed under this Agreement are fair and reasonable to the Mariner Entities. The value to be received thereunder by the Mariner Entities for the terms and remedies of this Agreement are fair and reasonable. The consideration provided to the Mariner Entities by Omega is fair and adequate.

(ix) This Agreement is in the best interests of the Mariner Entities and their respective estates, creditors and holders of equity interests.

(x) The Mariner Entities and their officers and directors are sophisticated commercial actors, and have been represented by counsel in negotiating this Agreement, including the provisions relating to the escrow, and the termination of the protections of the automatic stay in future cases under the Bankruptcy Code under certain circumstances.

(xi) Creditors and other interested parties in the present case have had adequate notice and opportunity to object to this Agreement, including the provisions regarding the escrow and the termination of the automatic stay in future cases under the Bankruptcy Code under certain circumstances, and will be bound by the terms of this Agreement, and such escrow and termination provisions in subsequent bankruptcy cases in which the Mariner Entities or any of them are debtors.

(xii) The Mariner Entities have articulated good and sufficient reasons for approving this Agreement, including without limitation, (A) the provisions regarding prospective relief from the automatic stay under certain circumstances that may be imposed in future bankruptcy cases; (B) the provisions relating to 11 U.S.C. ss. 108; and (C) the forum selection or venue provision governing any future bankruptcy cases. The Court finds that these provisions, by making the settlement possible, provide a significant benefit to the estate, and are enforceable.

(xiii) With respect to prospective relief from the automatic stay under certain circumstances, the Court finds good cause for this aspect of the parties' bargain, for at least the following reasons. This aspect of the transaction is essential to the bargain struck between the parties, as it was in part the quid pro quo for Omega's agreement to forego seeking such relief in this proceeding and to make the other substantial concessions that Omega is making under this Agreement in this proceeding. These concessions provide significant benefit to the Mariner Entities, their estates, and their creditors.

(xiv) The provisions granting prospective relief from the automatic stay under certain circumstances do not prevent the Mariner Entities from seeking the protection of the Bankruptcy Code, but involve only limited aspects of that protection, namely the automatic stay only as it pertains to the delivery of the Escrow Deeds out of escrow upon specified, limited conditions. If injunctive relief becomes necessary to protect the Mariner

Entities in such future proceedings, the Bankruptcy Code and Rules provide an appropriate mechanism.

(xv) Under the circumstances of this case, the Mariner Entities or their subsequent estates should not be permitted to invoke 11 U.S.C.ss.108(b) in any subsequent bankruptcy cases in which PHCM, LC-PHCM, or both, are debtors, with respect to PHCM's cure rights, rights of redemption or similar rights regarding the Facilities, in those limited circumstances where such bankruptcy cases have been filed after the occurrence of a prepetition Delivery Event. In view of the waiver by PHCM and LC-PHCM of redemption and related rights upon the occurrence of a prepetition Delivery Event prior to such subsequent bankruptcy cases, the inapplicability ofss.108(b) under such limited circumstances works no injustice to the Mariner Entities because, upon the occurrence of a future prepetition Delivery Event, they will have no right, title, or interest in the Facilities. Moreover, in the limited circumstances in which a prepetition Delivery Event has occurred and the Mariner Entities no longer have any right, title or interest in the Facilities, the application ofss.108(b) should not be permitted to delay the swift transfer of the Facilities to Omega or its designee.

(xvi) The Court also finds that the provisions of the Agreement pertaining to the venue of any subsequent bankruptcy case for PHCM, LC-PHCM and the Michigan Subsidiaries are reasonable and enforceable. Requiring such future cases to be conducted in the Court advances the interests of judicial economy, because the Court has devoted substantial time to these cases and has familiarized itself with the issues unique to these debtors and their industry.

(xvii) Nursing home bankruptcies present extremely complex issues affecting not only the parties before the Court, but also a particularly vulnerable class of interested parties whose interests are not necessarily presented to the Court, namely the residents and patients. Requiring future cases to be conducted in this Court will likely expedite the resolution of many issues, and also relieve some other court of the burden of familiarizing itself with the issues and parties.

(xviii) Venue, unlike subject matter jurisdiction, may be waived by agreement or conduct, and the "venue provisions relating to bankruptcy are not more sacred." Hunt v. Bankers Trust Co., 799 F.2d 1060 (5th Cir. 1986) (upholding consent order requiring debtor to file bankruptcy case in particular district). Therefore, the provisions requiring that any future bankruptcy case involving PHCM, LC-PHCM or the Michigan Subsidiaries as debtors be filed in the Court are enforceable.

(xix) The use of the funds in the PHCM Debtors' Account for the purposes contemplated herein is approved and, to the extent necessary, the Cash Collateral Order is modified accordingly.

(xx) During the pendency of the Cases, any breach of the Settlement Documents by the PHCM Debtors will give rise to an administrative claim in the Cases of the PHCM Debtors (and only of the PHCM Debtors) in favor of Omega.

5.8. Notice. Within a reasonable time following the filing with the Court of the Approval Motions, and prior to the hearing and relevant objection date, the Mariner Entities shall have served notice of the Approval Motions in a form acceptable to Omega upon those persons entitled to such notice under the terms of the notice procedures order entered by the Court on or about the Petition Date.

5.9. Chase/Lender Approval. Omega shall have received evidence satisfactory to it that The Chase Manhattan Bank, in its capacity as administrative agent for the Mariner Entities' pre-petition senior secured lenders and as administrative agent for the Mariner Entities' debtor-in-possession lender (individually and in its capacity as agent as aforesaid, "Chase"), has approved and consented to the transactions contemplated under this Agreement and all related documents, and has agreed that Chase shall not seek to set aside the contemplated transactions or any part thereof.

ARTICLE 6

CONDITIONS PRECEDENT TO THE OBLIGATIONS OF THE MARINER ENTITIES

The obligation of each Mariner Entity to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the conditions set forth in this Article 6.

6.1. Receipt of Certain Permits. The Mariner Entities shall have received all Permits (if any) from, and shall have given all notices to, all federal, state and local regulatory agencies necessary to enable them to carry out the intents and purposes of this Agreement.

6.2. Documentation. All documentation evidencing or implementing the transactions contemplated by this Agreement shall be in form and substance reasonably satisfactory to the Mariner Entities and their counsel, such documentation to include the following:

(i) a certificate signed by the Secretary or Assistant Secretary of Omega, confirming the incumbency of the officers of Omega executing the Settlement Documents to which it is a party, and to which are attached the following:

(A) a copy of the articles of incorporation of Omega, as amended, and certified by the Secretary of State of Omega's jurisdiction of incorporation as of a recent date;

(B) a true, correct and complete copy of the current bylaws of Omega, as amended;

(C) a true, correct and complete copy of the resolutions adopted by the Board of Directors of Omega, authorizing the execution and delivery of this Agreement and the consummation of the transactions contemplated herein; and

(D) a certificate of good standing for Omega, issued as of a recent date by the Secretary of State of the jurisdiction of its incorporation;

(ii) the Amended Omega Loan Documents, executed by Omega;

(iii) the original Omega Note, marked "replaced by renewal note" by Omega;

(iv) the Mariner Entities Release, executed by Omega;

(v) the Transition Agreement, executed by Omega; { and}

(vi) a certificate of an authorized officer of Omega, confirming satisfaction of the requirements of Section 6.3 hereof; and

(vii) such other documents, instruments and agreements as the Mariner Entities may reasonably request for the purpose of consummating the transactions contemplated by this Agreement.

6.3. True and Complete Representations. All representations and warranties of Omega shall be true, complete and correct in all material respects as of the date hereof and as of the Closing.

6.4. Chase/Lender Approval. The Mariner Entities shall have received evidence satisfactory to them that Chase has approved and consented to the transactions contemplated under this Agreement and all related documents, and has agreed that Chase, individually and as agent as aforesaid, shall not seek to set aside the contemplated transactions or any part thereof.

6.5. Approval Orders. The condition set forth in Section 5.7 shall have been satisfied.

ARTICLE 7

REPRESENTATIONS AND WARRANTIES OF OMEGA

7.1. Reliance. Omega hereby makes the representations and warranties set forth in this Article 7 as of the date of this Agreement and as of the date of Closing. Omega expressly acknowledges and agrees that, notwithstanding any provision to the contrary in this or in any other agreement between or among the Parties: (i) the Mariner Entities and their affiliates are relying, may rely and are and shall be justified in relying, on the following representations and warranties in entering into this Agreement and the other agreements and instruments referred to in, contemplated by, or executed in connection with this Agreement and the other Settlement Documents; and (ii) each of the following representations and warranties is made to induce the Mariner Entities to enter into and consummate the transactions contemplated by this Agreement and the other agreements referred to in or contemplated by this Agreement and the other Settlement Documents, and the Mariner Entities and their affiliates are and shall be beneficiaries of these representations and warranties.

7.2. Organization. Omega is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland. Omega has all requisite power and authority to carry on its business as such business is presently being conducted and, subject to approval of its Board of Directors, to enter into this Agreement and to consummate the transactions contemplated hereby.

7.3. Required Consents. No material consent, approval or other authorization of, or registration, declaration or filing with, any court or Governmental Authority which has not been heretofore obtained or which will not

be obtained prior to the Closing is required for the due execution, delivery or performance of this Agreement and the other Settlement Documents by Omega, for the consummation of the transactions contemplated herein or for the validity or enforceability thereof against Omega.

7.4. Authorization; Enforceability. The execution and delivery of this Agreement and each other Settlement Document to which Omega is a party, and the performance of its obligations thereunder, have been duly authorized by all necessary corporate and stockholder action on the part of Omega. This Agreement has been duly executed by Omega and constitutes the valid and binding obligation of Omega, enforceable in accordance with its terms, except as enforceability thereof may be limited by general principles of equity.

7.5. Brokerage. Omega has not used the services of any broker or finder in connection with the transactions contemplated by this Agreement or the Ciena Transaction, and it will indemnify and hold harmless the Mariner Entities from and against all claims, actions, causes of action, costs, expenses, including attorneys' fees, and liabilities arising in or out of, or related to any broker or finder claiming any compensation or fee by reason of an alleged agreement or understanding with Omega.

7.6. No Actions. There are no actions, proceedings, investigations or audits pending or threatened against Omega, before or by any court, arbitrator, administrative agency or other Governmental Authority seeking to, or which are expected, in the reasonable judgment of the executive officers of Omega, to enjoin, prevent or delay the consummation of the transactions contemplated in this Agreement.

7.7. No Violations. The execution and delivery of this Agreement, the compliance with the provisions hereof and the consummation of the transactions herein contemplated by Omega, will not result in a breach or violation of (i) any material law or governmental rule or regulation now in effect and applicable to Omega, (ii) any provision of the articles of organization or by-laws of Omega, (iii) any judgment, order or decree of any court, arbitrator, administrative agency or other Governmental Authority binding upon Omega, or (iv) any agreement or instrument to which Omega is a party and by which it is bound or by which it or any of its properties is bound.

ARTICLE 8

REPRESENTATIONS AND WARRANTIES OF THE MARINER ENTITIES

8.1. Reliance. Each of the Mariner Entities hereby makes the representations and warranties set forth in this Article 8 as of the date of this Agreement and as of the date of Closing. Each of the Mariner Entities expressly acknowledges and agrees that, notwithstanding any provision to the contrary in this or in any other agreement between or among the parties: (i) Omega and its affiliates are relying, may rely and are and shall be justified in relying, on the following representations and warranties in entering into this Agreement and the other agreements and instruments referred to in, contemplated by, or executed in connection with this Agreement and the other Settlement Documents; and (ii) each of the following representations and warranties is made to induce Omega to enter into and consummate the transactions contemplated by this Agreement and the other agreements referred to in or contemplated by this Agreement and the other Settlement Documents, and Omega and its affiliates are and shall be beneficiaries of these representations and warranties.

8.2. Organization. Each of the Mariner Entities is a corporation, duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Subject to the entry of the Approval Orders, each of the Mariner Entities has full power, authority and legal right to execute, deliver and perform under this Agreement, to enter into the Settlement Documents to which they are a party and to take all other actions necessary to carry out the intents and purposes of this Agreement.

8.3. Authorization; Enforceability. The execution and delivery by the Mariner Entities of this Agreement and each other Settlement Document to which they are a party and which is to be delivered at or prior to Closing, and the performance of their respective obligations thereunder, have been duly authorized by all necessary corporate and stockholder action on the part of the Mariner Entities. This Agreement has been duly executed by each Mariner Entity and, subject to the entry of the Approval Orders, constitutes the valid and binding obligation of each Mariner Entity, enforceable in accordance with its terms, except as enforceability thereof may be limited by general principles of equity.

8.4. Required Consents. No material consent, approval or other authorization of, or registration, declaration or filing with, any court or Governmental Authority which has not been heretofore obtained or which will not be obtained prior to the Closing is required for the due execution, delivery or performance of this Agreement and the other Settlement Documents, the transactions contemplated herein or for the validity or enforceability thereof against any of the Mariner Entities, except for any such consent, approval, authorization, registration, declaration or filing required in connection with

the LC-PHCM Stock Transfer, the Merger and the Majority Equity Sale, which are not required to be obtained until the Plan Effective Date.

8.5. No Violations. The execution and delivery of this Agreement, the compliance with the provisions hereof and the consummation at Closing of the transactions herein contemplated by each of the Mariner Entities, will not result in a breach or violation of (i) any material law or governmental rule or regulation now in effect and applicable to any of the Mariner Entities, (ii) any provision of the articles of organization, certificate of incorporation, or by-laws of any of the Mariner Entities, (iii) subject to the satisfaction of the conditions described in Sections 5.7, 5.9 and 6.5 hereof, any judgment, order or decree of any court, arbitrator, administrative agency or other Governmental Authority binding upon any of the Mariner Entities, or (iv) subject to the satisfaction of the conditions described in Sections 5.9 and 6.5 hereof, any agreement or instrument to which any of the Mariner Entities is a party and by which it is bound as a debtor in possession.

8.6. Non-Foreign Status. No Mariner Entity is a "foreign person" within the meaning of Section 1445(f) of the Internal Revenue Code.

8.7. No Litigation. Except for the Cases, there is no suit, claim, action, or legal, administrative, arbitration or other proceeding or governmental investigation or audit pending, or to the best knowledge of each Mariner Entity, threatened by or against any Mariner Entity, or any of the Facilities, seeking to enjoin, prevent or delay the consummation of the transactions contemplated by this Agreement.

8.8. Brokerage. Each of the Mariner Entities represents that it has not used the services of any broker or finder in connection with the transactions contemplated by this Agreement and each of the Mariner Entities will indemnify and hold harmless Omega from and against all claims, actions, causes of action, costs, expenses, including attorneys' fees, and liabilities arising in or out of, or related to any broker or finder claiming any compensation or fee by reason of an alleged agreement or understanding with any of the Mariner Entities.

8.9. Payment of Taxes and Other Charges. All outstanding taxes, water, sewer and other utility bills that would, if unpaid, become a lien on the Facilities have been paid or will be paid at the time of Closing.

ARTICLE 9

AMENDMENT FEE

9.1 Amendment Fee. In consideration for Omega's agreeing to extend the maturity of the Omega Loan, to lower the interest rate from pre-petition levels, to waive claims with respect to, among other things, default interest, late fees, and the reimbursement of costs and expenses, to accept the Residual Ciena Interest on the terms and conditions set forth herein, and to modify certain other provisions of the Omega loan documents, PHCM agrees to pay to Omega, in arrears, an amendment fee (the "Amendment Fee") consisting of the Annual Amendment Fee (as hereinafter defined) and the Monthly Amendment Fee (as hereinafter defined), as follows. PHCM agrees to pay to Omega, (a) on the first day of the eighth (8th) calendar month after Closing, and (b) thereafter on or before the 90th day after the end of each of its fiscal years during the term of the Omega Loan, an annual amendment fee (the "Annual Amendment Fee") for each fiscal year ending after the Closing Date (or partial year with respect to the fiscal year in which the Omega Loan is paid in full), in an amount equal to twenty-five percent (25%) of Operators' Free Cash Flow for such fiscal year or period; provided, however, that until the Catch-Up Date, and until all Liquidity Deposit Installments required to have been made prior to such time pursuant to the Liquidity Deposit Agreement and the Amended Omega Loan Agreement have been paid, PHCM shall pay any Amendment Fee with respect to the first fiscal year for which an Amendment Fee would otherwise be due and payable, by executing and delivering the Deferred Amendment Fee Note to Omega, and with respect to any subsequent fiscal year for which an Amendment Fee would otherwise be due and payable, by executing and delivering to Omega an amendment to the Deferred Amendment Fee Note. In addition, PHCM agrees to pay to Omega, on the first day of each month after Closing, unless and until the Majority Equity Sale shall have been consummated, an amount equal to 50% of the "return on equity" portion of the Medicaid reimbursement for the North Carolina Facilities received by PHCM, if any, during the second preceding calendar month (the "Monthly Amendment Fee"). The Amendment Fee obligations shall be secured by the same security that secures the Amended Omega Note.

9.2 Amendment Fee Definitions.

(i) The term "Operators' Free Cash Flow" shall mean, for any period, Operators' EBITDARM for such period, plus any Liquidity Deposits and Additional Liquidity Deposits refunded to PHCM during such period, less, without duplication, the following expenditures incurred by the Operators relating to the operation of the Facilities: (a) interest (including, without limitation, payments in the nature of interest) added to the Operators' Net Income in computing Operators' EBITDARM; (b) the Base

Management Fee, to the extent that the Base Management Fee has been added back in the calculation of Operators' EBITDARM pursuant to clause (b)(6) of the definition of that term hereinbelow; (c) all capital expenditures (subject to a maximum amount of $600 per bed for the Facilities); (d) income taxes (or, if greater, income tax actually paid during the period); (e) all pre-petition real property taxes, critical vendor payments and other expenses relating to the Facilities actually paid by or for the account of the Operators after the Petition Date; (f) all expenses incurred and payments made by the Mariner Entities in closing the sale of the Ciena Facilities (whether paid prior to, at or after Closing), including, without limitation, closing costs, and amounts paid to Ciena to cover accrued and unpaid wages and fringe benefits; and (g) any portion of the Operators' Free Cash Flow used to fund the Liquidity Deposit Installments and, if applicable, any Additional Liquidity Deposits, required under the Amended Omega Loan Documents. Payments of principal and interest on the Maintenance Obligation Note are not related to the operation of the Facilities and therefore shall not be deducted in determining Operators' Free Cash Flow. Post-December 31, 1999 Interest and Past Due Interest (without duplication) shall be added back to Operators' Net Income in computing Operators' EBITDARM only for the fiscal years ending September 30, 2001 and September 30, 2002, and therefore shall be deducted in determining Operators' Free Cash Flow only for those fiscal years. Interest on Past Due Interest shall be deducted in determining Operators' Free Cash Flow for the applicable periods during which it is deducted in computing Net Income.

(ii) The term "Operators' EBITDARM" shall mean, for any period, the sum of (a) Net Income of the Operators for the applicable period plus (b) the amounts deducted in computing the Operators' Net Income for the period for (1) depreciation, (2) amortization, (3) interest expense (including, without limitation, interest on the Amended Omega Note, the Maintenance Obligation Note and Past Due Interest, payments in the nature of interest under capitalized leases and interest on any purchase money financing), (4) any rent or other amount paid to LC-PHCM and deducted from Net Income for any fiscal period ending prior to consummation of the LC-PHCM Stock Transfer, (5) income taxes (or, if greater, income tax actually paid during the period) and (6) the Base Management Fee, to the extent deducted in the calculation of Net Income, all of the foregoing (a) through (b)(6) to be determined on a consolidated basis for the Operators (and notwithstanding the Majority Equity Sale). For purposes of computing Operator's EBITDARM, Post-December 31, 1999 Interest and Past Due Interest (without duplication) shall be added back for the fiscal years ending September 30, 2001 and September 30, 2002 (whichever is the year in which such amounts are actually paid). Interest on Past Due Interest shall be added back for the applicable periods during which it is deducted in computing Net Income.

(iii) The term "Net Income" means, for any period, the net income (or loss) of the Operators arising solely from the operation of the Facilities for such period, determined on a consolidated basis in accordance with GAAP, provided, however, that Net Income shall not include:

(A) any after-tax gains or losses attributable to returned surplus assets of any pension-benefit plan;

(B) any extraordinary gains or losses or nonrecurring gains or losses;

(C) any gains or losses realized upon the sale or other disposition of property which is not sold or otherwise disposed of in the ordinary course of business;

(D) any gains or losses realized upon the sale or other disposition of any capital stock of any Person;

(E) any gains or losses from the disposal of a discontinued business;

(F) amounts included in computing such net income (or loss) in respect of the write-up or write-down of any asset or the write-down of any debt at less than face value after the date on which such asset or debt was first properly included on such Operator's balance sheet; or

(G) any non-cash income or loss resulting from "fresh-start accounting" upon the confirmation and effective date of a Plan of Reorganization.

For purposes of computing Net Income, Post-December 31, 1999 Interest and Past Due Interest (without duplication) shall be a deduction for the fiscal years ending September 30, 2001 and September 30, 2002. Interest on Past Due Interest shall be deducted in the fiscal year during which it accrues. Net Income shall not include any capital contributions made to PHCM by the shareholders thereof, or to New PHCM by the members thereof.

(iv) The term "Operators" as used in this Section 9.2 shall be deemed

to include the operators of the Ciena Facilities and the term "Facilities" shall be deemed to include the Ciena Facilities.

9.3 The Deferred Amendment Fee Note. If a Deferred Amendment Fee Note is executed and delivered as provided in Section 9.1, the following shall be applicable: (i) the Deferred Amendment Fee Note shall be in the form of Exhibit A attached hereto; (ii) the outstanding principal amount of the Deferred Amendment Fee Note, and any accrued and unpaid interest thereon, will bear interest at the Interest Rate; (iii) repayment of the Deferred Amendment Fee Note shall be guaranteed by each of the Operators and secured by all collateral securing the Amended Omega Note, (iv) the Deferred Amendment Fee Note shall be due and payable in full on the date the Amended Omega Note becomes due and payable in full, whether on maturity, acceleration or otherwise, (v)the Deferred Amendment Fee Note shall be prepaid from Minimum Monthly Payments to the extent provided in Section 13.6 hereof, and (vi) the Deferred Amendment Fee Note may be prepaid, in whole or in part, at PHCM's option, without premium or penalty.

ARTICLE 10

SPECIAL POST-DEFAULT REMEDIES; SPECIAL PROVISIONS IN APPROVAL ORDER

10.1 Intent of Special Remedies. The parties intend to provide Omega with rights and remedies similar to those that Omega would have enjoyed as lessor with respect to the Facilities if the Facilities were owned by Omega and subject to a master lease, rather than owned by PHCM and LC-PHCM and subject to a mortgage in favor of Omega.

10.2 Escrow Deeds. At Closing, PHCM and LC-PHCM, as applicable, will deliver the Escrow Documents in escrow to the Escrow Agent. As provided in the Escrow Agreement, the Escrow Documents will either be delivered to Omega only following the occurrence of a Delivery Event, or upon repayment of the Omega Loan in full will be returned to PHCM or LC-PHCM, as the case may be. In the event of a conflict between the provisions of the Escrow Agreement and this Agreement, the Escrow Agreement shall control.

10.3 Delivery Event. As used herein, the term "Delivery Event" shall mean either of the following: (a) the expiration of ten (10) Business Days after PHCM receives notice that an Event of Default under the Amended Omega Loan Documents has occurred and is continuing, and that Omega intends to demand delivery of the Escrow Documents as to one or more of the Facilities from the Escrow Agent (a "Delivery Event Notice"); or (b) the failure of PHCM to perform when due (after giving effect to any applicable grace or cure period) any obligation under the Amended Omega Loan Documents first arising on or after the filing of a future petition under the Bankruptcy Code for a bankruptcy case in which PHCM is debtor, the performance of which would have been required under 11 U.S.C. ss.365(d)(3) if the Amended Omega Note were a lease and ss.365(d)(3) applied, within ten (10) Business Days after the entry of an order of the bankruptcy court in such future bankruptcy case determining that the obligation in question arose post-petition and would have been required to be performed under 11 U.S.C.ss.365(d)(3) if the Amended Omega Note were a lease and ss.365(d)(3) applied.

10.4 Delivery Event Notice. The Escrow Agent shall deliver to Omega the Escrow Documents in accordance with, and subject to the terms and conditions, set forth in the Restructuring Escrow Agreement. Effective immediately upon the occurrence of a Delivery Event in accordance with the terms of this Agreement, PHCM and LC-PHCM will cease to have any right, title or interest (either legal or equitable) in the Facilities theretofore owned by them, or in the Escrow Documents, regardless of any subsequent bankruptcy cases in which PHCM or LC-PHCM, is the debtor.

10.5 Waiver of Equity of Redemption. Conditioned upon and effective only upon the occurrence of a Delivery Event in accordance with this Agreement, PHCM and LC-PHCM hereby waive any and all rights of redemption with respect to the Facilities, effective immediately upon the receipt by the Escrow Agent of a Delivery Event Notice duly given, in accordance with the terms hereof and the Escrow Agreement, and each of them acknowledges new value in exchange for this waiver.

10.6 Credit Against Omega Loan Balance; Reservation of Remedies. Upon the occurrence of a Delivery as to one, more than one, or all of the Facilities, PHCM shall be entitled to a credit against the amount owed by it under the Amended Omega Loan Documents in an amount equal to the Net Fair Market Value of the Facility or Facilities covered by the delivered Escrow Documents. A Delivery shall be in satisfaction of PHCM's obligations under the Amended Omega Loan Documents only to the extent of the Net Fair Market Value of the Facilities covered by the delivered Escrow Documents; and following a Delivery, the Omega Amended Loan Documents shall continue in full force and effect and Omega shall have the right to pursue collection of the remaining balance owing to it and the enforcement of any other rights and remedies which Omega may have thereunder. In particular, and not in limitation of the foregoing, Omega's security interest in the accounts and other intangible property relating to the Facilities shall continue in full force and effect.

10.7 No Merger of Title. The acceptance by Omega or its nominee of the Escrow Documents as to one, more than one, or all of the Facilities will not result in the merger of title; and Omega shall have the right to foreclose on any liens created or continued by the Amended Omega Loan Documents in accordance with the terms thereof.

10.8 No Waiver of Other Remedies. Neither the delivery of the Escrow Documents into escrow nor a Delivery shall preclude Omega from exercising any or all other remedies granted to it under the Amended Omega Loan Documents or by applicable law.

10.9 No Assumption of Debt. Neither Omega nor its nominee by acceptance of one or more of the Escrow Documents shall be deemed to have assumed or agreed to pay any of the debts or obligations of any of the Mariner Entities.

10.10 Delivery Event During Pendancy of Cases. In the event that a Delivery Event occurs after Closing but while the Debtors' Cases are still pending, then to the extent that the automatic stay provided by 11 U.S.C. ss.362 is applicable, such stay shall be deemed annulled, lifted and modified as to Omega and the Escrow Agent with respect to the Facilities and the Escrow Documents, upon the occurrence of a Delivery Event, for the sole purpose of either (a) permitting Omega and the Escrow Agent to deliver any Escrow Documents demanded by Omega in accordance with the Escrow Agreement and this Agreement, or (b)permitting Omega to exercise its rights to foreclose its mortgages on any or all of the Facilities, and to foreclose its security interests in related personal property of the PHCM Debtors located at such Facilities, or any combination of the remedies described in clauses (a) and (b), but not for any other purpose. In such circumstances, PHCM will not oppose relief from the automatic stay to the extent set forth above, and, if so requested in accordance with the Escrow Agreement, the Escrow Agent will deliver the Escrow Documents to Omega in accordance with Omega's instructions.

10.11 Subsequent Bankruptcy Case. In the event that bankruptcy cases in which PHCM, LC-PHCM or the Operators are the debtors, are filed subsequent to the Closing (a "Subsequent Bankruptcy Case") and subsequent to the occurrence of a Delivery Event, and to the extent that the automatic stay provided by 11 U.S.C. ss. 362 is applicable, such stay shall be deemed annulled, lifted, and modified in the event a prepetition Delivery Event (i.e., a Delivery Event occurring prior to the filing of a Subsequent Bankruptcy Case) shall have occurred, for the purposes of either (a) allowing the Escrow Agent to deliver to Omega the Escrow Documents demanded by Omega with respect to any or all of the Facilities, or, at Omega's sole election, (b) to permit Omega to exercise its foreclosure rights under the Amended Omega Mortgage, the Amended LC-PHCM Mortgage, the Amended NC Leasehold Mortgage and, in connection with such real estate foreclosures, to exercise its foreclosure rights under the Amended PHCM Security Agreement, the Amended Subsidiary Security Agreement and the Amended LC-PHCM Security Agreement. In such circumstances, PHCM will not oppose relief from the automatic stay to the extent set forth above, and the Escrow Agent will deliver to Omega the Escrow Documents to the Facilities as provided in Section 10.4 hereof.

10.12 Venue for Subsequent Bankruptcy Case. PHCM and LC-PHCM each agree that any Subsequent Bankruptcy Case in which either or both of them are the debtor will be filed in the District of Delaware, and that such debtors will use its best efforts (including moving for change of venue or supporting a motion to change venue in the event that a petition is filed elsewhere) to ensure that venue of any Subsequent Bankruptcy Case in which it is the debtor will be only in the District of Delaware.

10.13 Inapplicability of Section 108(b) of Bankruptcy Code to Delivery Event. PHCM and LC-PHCM each agree to the inclusion in the Approval Order of a provision that 11 U.S.C. ss.108(b) shall be inapplicable in any Subsequent Bankruptcy Case in which PHCM or LC-PHCM is the debtor which is filed after the occurrence of a prepetition Delivery Event only with respect to PHCM's and LC-PHCM's cure rights, rights of redemption, or similar right (to the extent not waived) relating to the Facilities.

ARTICLE 11

DAMAGE TO PROPERTY FROM CASUALTY OR TAKING

11.1. Controlling Provisions. The provisions of this Article 11, subject to the approval of the Bankruptcy Court, shall control over any contrary provisions of the Omega Mortgage and the other Omega Loan Documents with respect to any Facility that is partially or wholly damaged, destroyed or taken by Condemnation (as that term is defined in Section 11.10 hereof) prior to the Closing.

11.2. Net Proceeds Held in Escrow. All proceeds, net of any costs incurred by Omega in obtaining such proceeds (collectively, the "Net Proceeds"), payable by reason of any loss or damage to any Facility, or any portion thereof, and insured under any policy of insurance required by Paragraph 5 of the Omega

Mortgage, shall be paid to Omega and held by Omega in escrow in an interest-bearing account (the "Escrow Account"), subject to the terms of this Agreement. The Net Proceeds, together with any earnings thereon while the Net Proceeds are held in the Escrow Account, shall be made available for the restoration or repair, as the case may be, of any damage to or destruction of the affected Facility, or any portion thereof, as provided in Sections 11.3 and 11.5 hereof.

11.3. Total Destruction. If any Facility is totally or partially damaged or destroyed from a risk covered by the insurance described in Paragraph 5 of the Omega Mortgage, and the Facility affected thereby is, in the sole judgment of PHCM, rendered Unsuitable for Its Primary Intended Use (as that term is defined in the Omega Mortgage), PHCM shall, within sixty (60) days of the receipt of the Net Proceeds by Omega, either, after consultation with Omega (but at PHCM's option) (a) commence the restoration of the Facility to substantially the same (or better) condition which existed immediately prior to such damage or destruction, or (b) make a mandatory, partial repayment under the Omega Note (or Amended Omega Note, as applicable) equal to the amount of the Net Proceeds applicable to such casualty, together with interest earned thereon while such Net Proceeds are being held in the Escrow Account pending application as provided herein (the aggregate amount of such partial repayment being herein referred to as the "Partial Repayment Amount"). PHCM's failure to commence to rebuild or restore within such sixty (60) day period shall be deemed to be an automatic and irrevocable election to make a partial repayment of the Omega Note equal to the Partial Repayment Amount. In the event PHCM makes a timely election under clause (a) of this Section 11.3, then PHCM shall with due diligence restore such Facility to substantially the same condition (or better) as existed immediately before the damage or destruction. Notwithstanding the foregoing provisions of this paragraph, as a condition to making an election under Section 11.3(a), PHCM shall deliver to Omega evidence reasonably satisfactory to Omega, that (i) PHCM has or will be able to obtain all necessary Permits in order to be able to perform all required repair and restoration work and operate the damaged or destroyed Facility for its Primary Intended Use (as that term is defined in the Omega Mortgage) in substantially the same manner as existed immediately prior to such damage or destruction and (ii) the Net Proceeds plus any interest earned thereon, plus any additional amounts contributed by PHCM, LC-PHCM or (if different) the applicable Operator and deposited in the Escrow Account to defray costs of reconstruction, will be sufficient to rebuild or restore the Facility to the condition required hereunder. If PHCM is unable to provide such reasonably satisfactory evidence, then the election under Section 11.3(b) shall be mandatory. Notwithstanding Omega's receipt of the Partial Repayment Amount with respect to the damaged or destroyed Facility, the lien of the Omega Mortgage and the provisions thereof and of all other Omega Loan Documents as to the affected Facility and related personal property shall remain in full force and effect.

11.4. Partial Destruction. If any Facility is partially destroyed from a risk covered by the insurance described in Paragraph 5 of the Omega Mortgage, but such Facility is not thereby rendered Unsuitable for Its Primary Intended Use, PHCM shall give Omega Notice of such damage or destruction within ten (10) Business Days of the occurrence thereof. Within sixty (60) days of the receipt by Omega of the Net Proceeds from such insurance, PHCM shall commence to restore the Facility to substantially the same (or better) condition as existed immediately before such damage or destruction. PHCM shall deliver to Omega evidence reasonably satisfactory to Omega that PHCM has or will be able to obtain all necessary Permits in order to be able to perform all required repair and restoration work and operate the damaged Facility for its Primary Intended Use in substantially the same manner as existed immediately prior to such damage or destruction. If PHCM is unable to provide such reasonably satisfactory evidence, then PHCM shall, within the later of (a) one hundred twenty (120) days of the occurrence of such damage and (b) sixty (60) days after receipt of the Net Proceeds in respect of such casualty, be obligated to make a mandatory partial repayment of the Omega Loan equal to the Prepayment Loan Amount (as that term is defined in the Omega Mortgage) of the applicable Facility.

11.5. Net Proceeds Available for Restoration. Absent an election by PHCM not to repair or restore any Facility or portion thereof that is damaged or destroyed in accordance with the provisions of this Article 11, or a requirement herein that PHCM pay Omega the Partial Repayment Amount or the Prepayment Loan Amount with respect to any such Facility, all Net Proceeds and earnings thereon held from time to time by Omega in the escrow account shall be made available to PHCM to pay the costs of repair or restoration in accordance with the provisions of Paragraph 6(i) of the Omega Mortgage, without regard, however, for the $250,000 minimum threshold for the applicability of such Paragraph and also without regard for any provisions authorizing Omega not to make such Net Proceeds available to PHCM if an Event of Default (as defined in the Omega Mortgage) exists.

11.6. Net Proceeds Relating to Personal Property. All insurance proceeds payable by reason of any loss of or damage to any of the personal property located at the Facilities shall be paid directly to PHCM, and PHCM shall hold such insurance proceeds in trust to pay the cost of repairing or replacing such lost or damaged personal property.

11.7. Restoration of Alterations and Improvements. If PHCM is required

or elects to restore a damaged or destroyed Facility as provided in this Article 11, PHCM shall also restore all alterations and improvements made by PHCM and all personal property.

11.8 Application to Omega Note Principal, in Certain Circumstances. In the event that, pursuant to the terms of this Article 11, Net Proceeds (and any earnings thereon while held in the Escrow Account) or any Prepayment Loan Amounts are paid over to Omega, such amount (a) shall be applied by Omega against the principal amount of the Omega Loan, and (b) shall reduce the interest payments coming due under the Amended Omega Note by an amount equal to the amount so paid to Omega for application against the Omega Loan, multiplied by the Interest Rate, effective beginning with the first calendar month after the date on which such Net Proceeds (and earnings thereon) or Prepayment Loan Amounts are paid to Omega.

11.9. Effect of Releasing Destroyed Facility from Omega Mortgage. Upon the release of any damaged or destroyed Facility from the lien of the Omega Mortgage, such Facility shall cease to be a Facility for purposes of this Agreement and shall not be subject to any of the Omega Loan Documents.

11.10. Condemnation-Related Terms. The terms "Condemnation," "Date of Taking," "Award" and "Condemnor," as used herein, shall have the meanings assigned to such terms in Paragraph 8(a) of the Omega Mortgage.

11.11. Condemnation Awards Held in Escrow. The total Award made with respect to all or any portion of a Facility, or for a loss of business, shall be payable to Omega to be held in escrow in the Escrow Account, for application as set forth herein.

11.12. Total Taking. If title to the fee of the whole of any Facility shall be taken by Condemnation, then PHCM shall make a partial repayment of the Omega Loan in an amount equal to the amount of the Award received in connection with such taking, net of costs of collecting the same (the "Net Condemnation Award"). Upon receipt of such repayment, (i) Omega shall discharge the lien of the Omega Mortgage and the other Omega Loan Documents as to the Facility so taken by Condemnation, and (ii) (A) the Omega Loan shall be reduced by the amount of the Net Condemnation Proceeds, and (B) the interest payments coming due under the Omega Note shall be reduced by the amount of such Net Condemnation Award and earnings thereon paid to Omega, multiplied by the Interest Rate. Each such reduction (if any) in the outstanding principal amount of the Omega Note, or in interest payments with respect to the Omega Loan, shall take effect beginning with the first calendar month after the date on which such Net Condemnation Award (and earnings thereon) are paid to Omega.

11.13 Partial Taking; Facility Unsuitable for Primary Intended Use. If title to the fee of less than the whole of a Facility shall be so taken by Condemnation, which nevertheless renders such Facility, in the sole judgment of PHCM, Unsuitable for Its Primary Intended Use, then PHCM shall make a partial repayment of the Omega Loan in an amount equal to the amount of the Award received in connection with such taking, net of costs of collecting the same (the "Net Condemnation Award"). Upon receipt of such repayment (i) the Omega Loan shall be reduced by an amount equal to the amount of such Net Condemnation Award and earnings thereon so paid to Omega, and (ii) interest payments coming due under the Amended Omega Note shall be reduced by an amount equal to the amount so paid to Omega for application against the Omega Loan, multiplied by the Interest Rate. However, the lien of the Omega Mortgage and of the other Omega Loan Documents as to the affected Facility shall remain in full force and effect, notwithstanding such partial repayment of the Omega Loan. Each such reduction (if any) in the interest accruing on the Omega Note shall take effect beginning with the first calendar month after the date on which such Net Condemnation Award (and earnings thereon) are paid to Omega.

11.14. Partial Taking; Facility Not Unsuitable for Primary Intended Use. If title to the fee of less than the whole of a Facility shall be so taken or condemned, and such Facility is not Unsuitable for its Primary Intended Use, PHCM, at its own cost and expense, shall with all reasonable dispatch restore the untaken portion of any improvements on such Facility so that such improvements shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as the improvements existing immediately prior to such Condemnation or Taking. PHCM shall commence the restoration of such Facility within sixty (60) days of the receipt of the Award, and shall complete the restoration with due diligence. Omega shall contribute to the cost of restoration such portion of the Net Condemnation Award as is made therefor, if any, together with severance and other damages awarded for taken improvements. Omega shall make the Award available to PHCM in the same manner as is provided in Section 11.5 hereof for insurance proceeds. Omega's obligation to contribute an amount up to the Net Condemnation Award and earnings thereon to defray the cost of such restoration shall not be subject to the absence of an Event of Default under the Omega Loan Documents.

11.15. Temporary Taking. The taking of any Facility, or any part thereof, by military or other public authority will constitutes a temporary taking by Condemnation only when the use and occupancy by the Condemnor has continued for six (6) months or less. During such period, all provisions of the

Omega Loan Documents, as the same are modified or amended by this Agreement, shall apply to the affected Facility. In the event of any temporary Taking as contemplated in this Section, the entire amount of any Net Condemnation Award, whether paid by way of damages or otherwise, plus all earnings thereon in the Escrow Account, shall be paid to PHCM, irrespective of whether or not an Event of Default exists under the Omega Loan Documents. PHCM covenants that, upon the termination of any such period of temporary use or occupancy as contemplated in this paragraph, it will, at its sole cost and expense, restore the Property subject to such temporary Taking, as nearly as may be reasonably possible, to the condition existing immediately prior to such temporary Taking. If any temporary Taking continues for longer than six (6) months, such Taking shall be considered a total Taking for purposes of this Agreement, whereupon Section 11.12 hereof shall apply.

ARTICLE 12

RELEASES

12.1. Release of Omega. Subject to, and in consideration for, Omega entering into this Agreement and the occurrence of the Closing, each Mariner Entity, contemporaneously with the Settlement Documents (other than this Agreement and the Escrow Documents) becoming effective, releases and forever discharges Omega and its successors, assigns, agents, shareholders, directors, officers, employees, parent corporations, subsidiary corporations, affiliated corporations, affiliates, and each of them, from any and all claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action, of every nature and description, whether known or unknown, absolute, mature, or not yet due, liquidated or non-liquidated, contingent, non-contingent, direct or indirect or otherwise, which any Mariner Entity now has or at any time may hold, by reason of any matter, cause or thing occurred, done, omitted or suffered to be done prior to the Closing (collectively, "Omega Liabilities"), other than from Omega Liabilities arising out of this Agreement or any Settlement Document. Each Mariner Entity waives the benefits of any law, which may provide in substance: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor." Each Mariner Entity understands that the facts which it believes to be true at the time of making the release provided for herein may later turn out to be different than it believes now or at the time of granting such release, and that information which is not now or then known or suspected may later be discovered. Each Mariner Entity accepts this possibility, and each Mariner Entity assumes the risk of the facts turning out to be different and new information being discovered; and each Mariner Entity further agrees that the release provided for herein shall in all respects continue to be effective and not subject to termination or rescission because of any difference in such facts or any new information.

Notwithstanding anything to the contrary contained in this Section 12.1 or otherwise, this release shall only be effective on and as of the Closing and not otherwise.

None of the Mariner Entities is releasing Omega from any Omega Liabilities arising out of this Agreement, any other Settlement Document or the transactions contemplated hereby, except as expressly provided herein, or arising out of any acts, omissions or circumstances occurring from and after Closing.

12.2. Release of Mariner Entities. Subject to, and in consideration for each Mariner Entity entering into this Agreement and the occurrence of the Closing, Omega, contemporaneously with the Settlement Documents (other than this Agreement and the Escrow Documents) becoming effective, releases and forever discharges the Mariner Entities and their respective successors, assigns, agents, shareholders, directors, officers, employees, parent corporations, subsidiary corporations, affiliated corporations, affiliates, and each of them, from any and all claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action, of every nature and description, whether known or unknown, absolute, contingent, matured or not yet due, liquidated or unliquidated, direct or indirect, or otherwise, which Omega now has or at any time may hold, by reason of any matter, cause or thing occurred, done, omitted or suffered to be done prior to the Closing, including, without limitation, the GranCare Keep-Well Obligation and all other obligations arising under or in connection with the Omega Loan Documents, as amended (collectively, the "Mariner Liabilities"), other than from Mariner Liabilities arising out of this Agreement or any other Settlement Document. Omega waives the benefits of any law, which may provide in substance: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor." Omega understands that the facts which it believes to be true at the time of making the release provided for herein may later turn out to be different than it believes now or at the time of granting such release, and that information which is not now or then known or suspected may later be discovered. Omega accepts this possibility and assumes the risk of the facts turning out to be different and new information being discovered; and Omega further agrees that the release provided for herein shall in all respects continue to be effective

and not subject to termination or rescission because of any difference in such facts or any new information.

Notwithstanding anything to the contrary contained in this Section 12.2 or otherwise, this release shall only be effective on and as of the Closing and not otherwise.

Omega is not releasing any Mariner Entity from any Mariner Liabilities arising out of this Agreement, any other Settlement Document or the transactions contemplated hereby, except as expressly provided herein or in the Mariner Entities Release, or arising out of any acts, omissions or circumstances occurring from and after Closing.

12.3. No Further Commitments by Omega. Each Mariner Entity further acknowledges that, from and after the Closing, Omega has no existing commitments, obligations or agreements to advance credits or loans, or to lease property, or make financial or other accommodations to any Mariner Entity, except as may be specifically set forth in this Agreement or the Settlement Documents. This Agreement may not be assigned by any party hereto without the prior written consent of each of the parties hereto.

ARTICLE 13

RESTRUCTURING OF OMEGA INDEBTEDNESS

13.1 Agreements Subject to Contingency. The agreements set forth in this Article 13 are subject to the consummation of the transactions contemplated in this Agreement.

13.2 Agreements Regarding Indebtedness to Omega as of December 31, 1999. As of December 31, 1999, the principal balance owing to Omega under the Omega Note, over and above all claims and setoffs, was $63,736,108.97, and the interest owing thereon was $759,154.97.

13.3 Accrual of Interest Post-December 31, 1999. For the period from January 1, 2000 to but not including the Closing Date, interest shall be deemed to have accrued on the Omega Loan (a) at the compromise amount of $525,000 per month (prorated for any partial month), irrespective of the higher rate at which interest otherwise would have accrued under the terms of the Omega Note as in effect on the date hereof, plus (b) an additional $300,000 (aggregate, not monthly), representing interest at the rate of 11.25% per annum on the $8,000,000 principal of the Omega Loan excluded in the parties' calculation of the $525,000 compromise monthly interest amount, for the four (4)-month period between the originally anticipated closing date of the Ciena Transaction and the actual closing date of the Ciena Transaction. The interest which accrued on the Omega Note as set forth in the first sentence of this Section 13.3 for the period from January 1, 2000 to, but not but not including, the Closing Date is herein referred to as "Post-December 31, 1999 Interest". All payments of the Post-December 31, 1999 Interest received by Omega, whether before or after the Closing, shall be applied to the oldest Post-December 31, 1999 Interest first. Upon Closing, Omega shall be deemed to have waived any and all amounts owing to it by the Mariner Debtors other than amounts expressly owing from time to time under the Settlement Documents (including in such waiver, without limitation, claims for late fees or default interest with respect to the period prior to and including the Closing Date, as well as interest on the principal amount of any credits given by Omega in connection with the assignment to Omega of an undivided 50% interest in the Ciena Purchase Money Loan Documents from and after January 1, 2000 through the dates of the giving of such credits, other than that referred to in clause (b) of this Section).

13.4 Payments Received and To Be Received By Omega from January 1, 2000 through the Closing Date. This Section 13.4 sets forth the payments which Omega has received and anticipates receiving, and the application thereof, with respect to the Omega Loan and the Maintenance Obligation Note from January 1, 2000 through and including the Closing Date:

(i) On January 13, 2000, Omega applied the Liquidity Deposit, which totaled $2,359,095.00, to the balance owing to Omega. Of the Liquidity Deposit, $759,154.97 was applied to the interest owing as of December 31, 1999, thereby paying such interest in full. The remaining balance, $1,559,940.03, was applied to the principal balance owing to Omega on the Omega Note, thereby reducing such principal balance to $62,176,168.94.

(ii) In connection with its acquisition on February 1, 2001 of an undivided fifty percent (50%) interest in the Ciena Purchase Money Loan Documents, Omega gave PHCM a $4,500,000 credit against the amount owing on the Omega Loan. This credit was applied as follows: (x) $452,340.86 was applied against Post-December 31, 1999 Interest accruing prior to the Petition Date, and (y) $4,047,659.14 was applied against principal, thereby reducing the principal balance to $58,128,509.80.

(iii) Omega agrees to restore $1,559,940.03 of the Liquidity Deposit previously applied to the principal balance owing on the Omega Note by paying such restored amount to PHCM on the Closing Date by wire transfer of immediately available funds. Assuming no other adjustments to the principal

balance between the date hereof and the Closing Date, such restoration will increase the principal balance owing on the Omega Note to $59,688,449.83, which the parties anticipate will be the Amended Omega Note Balance, in the absence of the application of any insurance proceeds or condemnation awards to reduce the outstanding principal amount of the Omega Loan prior to Closing .

(iv) Omega is currently receiving payments on the Residual Ciena Interest pledged to Omega. These amounts have not been applied, pending completion of negotiations regarding this Agreement and entry of the Approval Order. Omega agrees to refund such payments to PHCM on the Closing Date by wire transfer of immediately available funds.

(v) In April, 2001, PHCM paid Omega $300,000. This amount has not been applied, pending completion of negotiations regarding this Agreement and entry of the Approval Order. Omega agrees to refund such payment to PHCM on the Closing Date by wire transfer of immediately available funds.

(vi) At the Closing, PHCM shall pay to Omega, by official bank check representing immediately available funds, all of its Available Closing Cash, for application (1) first, against Post-December 31, 1999 Interest (oldest interest first) to the extent accrued and unpaid as of the Closing Date, (2) second, against any accrued and unpaid interest on the Maintenance Obligation Note, including without limitation, interest owing on the Contingent Principal as defined therein,, and (3) third, against the outstanding principal of the Maintenance Obligation Note, including, without limitation, the Contingent Principal. Any Available Closing Cash in excess of the aggregate amounts necessary to satisfy in full the obligations described in the foregoing clauses (1), (2) and (3) may be retained by PHCM and used for any lawful business purpose not expressly prohibited under the Settlement Documents.

The term "Available Closing Cash" shall mean, without duplication, all cash held in the PHCM Debtors' Account as of the last day of the most recently ended calendar month that is at least 30 days prior to the Closing, plus (1) all amounts paid by Omega to PHCM at Closing for the purchase of the Residual Ciena Interest, (2) the portion of the prepetition liquidity deposit ($1,599,940.03) restored to PHCM at Closing pursuant to clause (iii) of this Section 13.4, and (3) without duplication, all other amounts paid to Omega by PHCM since the Petition Date and not yet applied to the Omega obligations, including, without limitation, the amounts referred to in paragraphs (iv) and (v) of this Section 13.4, minus (A) a $500,000 retainage for working capital, (B) any portion of such cash representing insurance proceeds or condemnation awards (such proceeds or awards to be retained and applied for the purposes required in this Agreement), and (C) any Medicaid Overpayment Claims.

(vii) Within 60 days after the Closing, PHCM will determine the amount by which Modified Available Closing Cash (as hereinafter defined) exceeded Available Closing Cash, if at all (the "Excess Cash"), and will deliver a certificate to Omega setting forth the calculation of Modified Available Closing Cash and Excess Cash. Unless (a) all Past Due Interest and accrued interest thereon, plus (b) the Maintenance Obligation Note and accrued interest thereon, plus (c) all Deferred Omega Note Interest (as that term is defined in the Amended Omega Loan Agreement), if any, and accrued interest thereon shall have been paid in full, PHCM shall contemporaneously with the delivery of such certificate (but no later than 60 days after Closing) pay to Omega an amount equal to the lesser of (i) the amount of the Excess Cash and (ii) the sum of the amounts described in clauses (a), (b) and (c) of this paragraph, to the extent then outstanding, for application against the amounts described in such clauses, in that order of priority.

The term "Modified Available Closing Cash" shall means, Available Closing Cash plus the additional amount of cash, if any, required by the Cash Collateral Order to be deposited in the PHCM Debtors' Account as at the end of the calendar month preceding the calendar month in which the Closing occurred. If the Debtors were not required to deposit any additional cash in the PHCM Debtors' Account as of the end of such month or would have been entitled to remove cash, Modified Available Cash shall be deemed to equal Available Closing Cash, and Excess Cash shall be zero.

13.5 Payment of Past Due Interest. All Post-December 31, 1999 Interest not paid on or before the Closing Date is referred to herein as the "Past Due Interest". The following shall govern the payment of the Past Due Interest:

(i) From and after the Closing Date, the amount of the Past Due Interest unpaid from time to time shall bear interest at the Interest Rate.

(ii) Commencing on the first day of the first month following the Closing Date, and on the first day of each month thereafter until the Past Due Interest and all interest thereon is paid in full, accrued interest on Past Due Interest, then Past Due Interest itself (beginning with the oldest Past Due Interest) shall be due and payable out of the Minimum Monthly Payments made by PHCM pursuant to Section 13.6 hereof.

(iii) Each of the Operators shall be jointly and severally liable for repayment of the Past Due Interest. Repayment of the Past Due interest shall be secured by the Amended Omega Loan Documents.

(iv) In no event shall the interest rate in effect from time to time under this Section 13.5 exceed the highest rate allowed by law. If Omega shall reasonably determine that the interest rate under this Section 13.5 has been adjudicated to be usurious or is otherwise limited by statute, interest in excess of the applicable legal rate paid or collected by Omega shall be deemed to have been automatically and immediately credited by Omega to the Past Due Interest under this Section 13.5 and shall not be charged to interest, it being the intention of Omega and the Operators that no interest in excess of the legal rate shall be taken or received.

13.6 Minimum Monthly Payments.

(i) Until the Catch-Up Date, PHCM shall pay to Omega on the first day of each month an amount equal to the Minimum Monthly Payment (as hereinafter defined). After the Catch-Up Date, PHCM shall not be obligated to pay the Minimum Monthly Payments, but rather shall pay to Omega the amounts which become due under the Amended Omega Loan Documents when and as such amounts become due.

"Minimum Monthly Payment" shall mean the sum of the following:

(i) One-twelfth (1/12th) of the amount obtained by multiplying the original Amended Omega Note Balance by the Interest Rate ;

(ii) One-twelfth (1/12th) of the amount obtained by multiplying the Past Due Interest outstanding on the Closing Date (after the application of Available Closing Cash) by the Interest Rate; and

(iii) One-twelfth (1/12th) of the amount obtained by multiplying the principal amount of the Maintenance Obligation Note outstanding on the Closing Date (after the application of Available Closing Cash) by 11.25%.

(ii) The Minimum Monthly Payments will be applied to PHCM's obligations to Omega in the following order of priority: (1) accrued and unpaid interest on Past Due Interest; (2) Past Due Interest (oldest interest first); (3) accrued and unpaid interest on Deferred Omega Note Interest; (4) Deferred Omega Note Interest; (5) other accrued and unpaid interest on the Amended Omega Note; (6) accrued and unpaid interest on the Maintenance Obligation Note; (7) accrued and unpaid interest on Deferred Amendment Fee Note; (8) outstanding principal of the Maintenance Obligation Note; (9) outstanding principal of Deferred Amendment Fee Note; and (10) outstanding principal of Amended Omega Note. Until the Catch-Up Date, Omega agrees to provide PHCM, within 30 days after the end of each calendar month, a statement setting forth the amounts applied to each of the foregoing categories of obligations and the amount of each such category of obligation remaining outstanding.

(iii) Promptly after the Catch-Up Date, Omega shall provide PHCM with written notice that the Catch-Up Date has occurred and specifying the amount of the monthly payment due under the Amended Omega Note beginning on the first day of the next calendar month. In the event Omega shall fail to provide such notice and PHCM continues to pay the Minimum Monthly Payments, the excess of such Minimum Monthly Payment shall not be applied to the outstanding principal of the Amended Omega Note, but rather shall be credited against the interest payment(s) next coming due and payable thereunder.

(iv) As more particularly specified in the Amended Omega Loan Documents, following the Closing Date (1) all interest on the Amended Omega Note shall accrue until the Past Due Interest and any interest which accrues thereon has been paid in full, (2) any installment of the Amendment Fee which becomes due prior to the Catch-Up Date shall be paid by the issuance of a Deferred Amendment Fee Note or an amendment thereto; and (3) no principal shall be paid on the Maintenance Obligation Note until the Past Due Interest and any interest thereon and all Deferred Omega Note Interest and any interest accrued thereon have been paid in full.

(v) The Minimum Monthly Payments relate only to amounts which will after the Closing become due to Omega under (1) this Article 13, (2) the Amended Omega Note, (3) Article 9 hereof, and (4) the Maintenance Obligation Note. The payment of the Minimum Monthly Payments shall not relieve the Mariner Entities from the obligation to make other payments (such as, without limitation, insurance or condemnation proceeds), if any, which from time to time may become due to Omega under other provisions of this Agreement or the Amended Omega Loan Documents. Further, nothing in this Article 13 shall be construed as prohibiting Omega, following an Event of Default, from accelerating any amounts due it in accordance with the terms of the Amended Omega Loan Documents.

13.7 The Cash Collateral Order. Section 7 of the Final Order (i)

Authorizing Use of Cash Collateral of Real Estate Lenders and (ii) Granting Adequate Protection Therefor (the "Cash Collateral Order") entered by the Court on March 20, 2000 requires that to the extent that PHCM Debtors' Cash Flow (as defined in the Cash Collateral Order) is positive, the cumulative amount thereof shall be segregated in a separate account (the "PHCM Debtors' Account") for the PHCM Debtors (as defined in the Cash Collateral Order) on a monthly basis. The parties hereto agree that the proper amount to be deposited into the PHCM Debtors' Account as of March 31, 2001 was $3,242,319. The Mariner Entities represent that the foregoing amount has in fact been deposited into a segregated account and that they continue to comply with the requirements of Section 7 of the Cash Collateral Order. The Mariner Entities shall continue to comply with Section 7 of the Cash Collateral Order modified, if approved by the Court, in the following two respects:

(i) The PHCM Debtors' may use their funds, or the funds in the PHCM Debtors' Account, to pay any amounts which are deducted in determining Operators' Free Cash Flow as defined in Section 9.2 hereof; and

(ii) The funds in the PHCM Debtors' Account may be used to pay any amounts which the Mariner Entities are authorized or required to pay Omega hereunder.

ARTICLE 14

SHARING OF EXCESS CIENA NOTE PAYMENTS

14.1 Sharing of Excess Ciena Note Payments. From and after the Closing, Omega agrees that if (a) the interest paid to Omega under the Ciena Note for any Ciena Loan Year exceeds $960,000 (any such excess amount being an "Excess Ciena Interest Payment"), or (b) Omega receives principal payments in excess of $8,000,000 on the Ciena Note (any such payment being an "Excess Ciena Principal Payment"), 50% of the amount of each Excess Ciena Interest Payment and 50% of the amount of each Excess Ciena Principal Payment shall be deemed to have been received by Omega on behalf of PHCM, and shall be applied, at PHCM's option, to either (i) fund the liquidity deposit payments due in the seventh (7th), thirteenth (13th) and nineteenth (19th) months after the Closing pursuant to the Liquidity Deposit Agreement or (ii) pay any Past Due Interest or interest thereon, any interest owing on the Amended Omega Note, any interest and then principal owing on the Maintenance Obligation Note, or any interest and then principal owing on the Deferred Amendment Fee Note, if issued. If all amounts described in clauses (i) and (ii) of the immediately preceding sentence shall have been paid in full, and provided that no "event of default" then exists under the Amended Omega Loan Documents, Omega shall promptly pay to PHCM, if, as and when received by Omega, PHCM's 50% share of Excess Ciena Interest Payments and Excess Ciena Principal Payments, and PHCM may retain such amounts for its own use.

14.2 Application of Proceeds of Ciena Accounts. PHCM shall utilize the net collections from accounts receivable at the Ciena Facilities, after payment of expenses, to either (a) make prepayments of Past Due Interest and accrued interest thereon, (b) make prepayments on the Maintenance Obligation Note (applied first to accrued, unpaid interest, then to principal), (c) pay interest on the Amended Omega Note, (d) fund all or a portion of the Liquidity Deposit Installments, (e) make prepayments on the Deferred Amendment Fee Note, if any (applied first to accrued, unpaid interest, then to principal), or (f) reduce the outstanding principal balance of the Omega Loan, or for a combination of these purposes, at its option.

ARTICLE 15

ANCILLARY TRANSACTIONS

Section 15.1 Consent to Ancillary Transactions. Omega hereby consents to the LC-PHCM Stock Transfer and the Majority Equity Sale (the consummation of which shall be at the option of the applicable Mariner Entities), subject only to the satisfaction of the following conditions precedent:

(i) Omega shall have received a certificate signed by the Secretary or Assistant Secretary of LC-PHCM and of each intermediate transferee of the LC-PHCM capital stock, setting forth the names, titles and signatures of the officers of LC-PHCM and each such intermediate transferee after giving effect to the LC-PHCM Stock Transfer, and to which certificate(s) are attached a true and complete copy of the resolutions adopted by LC-PHCM and each such intermediate transferee, and all necessary shareholder action, authorizing the LC-PHCM Stock Transfer;

(ii) Omega shall have received a certificate signed by an authorized officer, manager or other representative (an "Authorized Investor Representative") of the Investor, confirming the incumbency of the Authorized Investor Representatives and the authority of the Investor to execute and deliver the Investor Guaranty and each of the other Settlement Documents to which it is a party, and to which certificate are attached the following:

(A) a copy of the articles of incorporation, partnership certificate, articles of organization or other charter document pursuant to which the Investor was incorporated, formed or organized, as amended, and as certified by the Secretary of State of the jurisdiction of its incorporation, formation or organization as of a recent date; (B) a true, correct and complete copy of the bylaws, partnership agreement or operating agreement of the Investor, as amended;

(C) a true and complete copy of the resolutions or other authorizing action adopted by all of the shareholders, partners or members of the Investor, authorizing the transactions contemplated herein, and the execution, delivery and performance of the Investor Guaranty and the other Settlement Documents to which the Investor is to be a party;

(D) a certificate of good standing for the Investor, issued as of a recent date by the Secretary of State of the jurisdiction of its incorporation, formation or organization; and

(E) a certificate of authority issued by the Secretary of State of any jurisdiction in which the Investor is required to be qualified as a foreign corporation, partnership or limited liability company, as the case may be;

(iii) Omega shall have received a certificate signed by the Secretary or Assistant Secretary of PHCM, setting forth the names, titles and signatures of the officers of PHCM after giving effect to the Majority Equity Sale, and to which certificate are attached the following:

(A) a copy of any amendments to the articles of incorporation of PHCM adopted since the Closing Date, as certified by the Secretary of State of the jurisdiction of its incorporation as of a recent date, including an amendment providing that PHCM cannot file any plan of reorganization in any future case under the Bankruptcy Code in which PHCM is a debtor that impairs the claim of Omega as set forth in the Settlement Documents, within the meaning of 11 U.S.C. ss. 1124, without the approval of 100% of its shareholders; and ; (B) a true, correct and complete copy of any amendments to the bylaws of PHCM adopted since the Closing Date, including an amendment providing that PHCM cannot file any plan of reorganization in any future case under the Bankruptcy Code in which PHCM is a debtor that impairs the claim of Omega as set forth in the Settlement Documents, within the meaning of 11 U.S.C. ss. 1124, without the approval of 100% of its shareholders;

(iii) Omega shall have received the Investor Guaranty, duly executed and delivered by the Investor;

(iv) The pledge agreement executed by PHCM in favor of Omega pursuant to Section 5.2(iii) hereof shall have been modified to include a pledge of the shares in LC-PHCM held by PHCM, and the certificates evidencing the shares of LC-PHCM capital stock pledged pursuant to such amendment, together with appropriate powers, executed in blank, shall have been delivered to Omega; and

(v) Omega shall have received a pledge agreement executed by the Investor in favor of Omega, in substantially the form attached to the pledge agreement from GranCare referred to in Section 5.2(v) hereof, pledging the shares in PHCM (or the membership interests in New PHCM, as applicable) held by the Investor as security for the payment and performance of the Investor's obligations under the Investor Guaranty; and

Omega shall have received the certificates evidencing the Investor's shares or membership interests pledged pursuant to the pledge agreement referred to in paragraph (iv) of this Section 15.1, together with appropriate powers, executed in blank, for delivery to Omega.;

15.2 Consent Needed for Merger. PHCM shall not enter into a Merger Agreement or consummate the Merger without the prior written consent of Omega and the Investor, which consent shall not be unreasonably withheld, delayed or conditioned. Omega shall have the right to condition its consent to the Merger upon the execution and deliver of such replacement equity pledge agreements, certificates evidencing membership interests in New PHCM, and officer's certificates as it may reasonably request, and generally consistent with the form and substance of comparable documents executed and delivered by the Mariner Entities in connection with the transactions contemplated in this Agreement. If the Merger, as so approved, is consummated, then from and after the effective time thereof, all rights and obligations of PHCM under and in connection with the Settlement Documents shall inure to the benefit of, and be binding on, New PHCM.

15.3 Return of Certain Settlement Documents. Upon satisfaction of the

conditions precedent set forth in Sections 15.1 and (if applicable) 15.2, Omega shall cause to be returned to New PHCM the Escrow Documents executed by PHCM and delivered to the Escrow Agent at Closing, and shall cause to be returned to GranCare the original pledge agreement from GranCare referred to in Section 5.2(v) hereof, and all stock certificates and stock powers delivered by GranCare pursuant to Section 5.2(vi) hereof (such Settlement Documents having been replaced as provided in Sections 15.1 or 15.2 hereof).

ARTICLE 16

GENERAL PROVISIONS

16.1. MUTUAL WAIVER OF RIGHT TO JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS AGREEMENT, OR ANY OF THE AGREEMENTS, INSTRUMENTS OR DOCUMENTS REFERRED TO HEREIN; OR (ii) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN OR AMONG THEM; OR (iii) ANY CONDUCT, ACTS OR OMISSIONS OF ANY PARTY HERETO OR ANY OF THEIR DIRECTORS, TRUSTEES, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH THEM; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

16.2. Survival. Except as otherwise provided by this Agreement, all covenants, agreements, representations and warranties made by Omega or any Mariner Entity herein and in all certificates delivered pursuant to this Agreement shall survive the Closing of the transactions contemplated hereby for a period of one (1) year from the date of this Agreement or of the applicable certificate. If and to the extent the Mariner Entities shall emerge from the Cases pursuant to a confirmed plan of reorganization prior to the expiration of such period, then the obligations provided herein shall be a continuing obligation of the reorganized Mariner Entities and any plan confirmed in the Cases shall so provide.

16.3. Notices. All notices, demands and other communications hereunder shall be in writing and delivered by nationally recognized overnight courier service, by facsimile transmission or by first class registered or certified U.S. Mail, (with postage or courier charges prepaid) addressed as follows:

(a) if to Omega:

OMEGA HEALTHCARE INVESTORS, INC.
900 Victors Way, Suite 350
Ann Arbor, MI 48108
Attention: Chief Operating Officer
Fax No. (734) 887-0326

with copies to:

DYKEMA GOSSETT PLLC
39577 Woodward Avenue, Suite 300
Bloomfield Hills, MI 48304-2820
Attention: Fred J. Fechheimer, Esq.;
Fax No. (248) 203-0763; and prior to the Plan Effective Date

CONNOLLY BOVE LODGE & HUTZ LLP
220 Market Street
Wilmington, DE 19899-2207
Attention: Jeffrey C. Wisler, Esq.
Fax No. (302) 658-5614

(b) if to any Mariner Entity:

MARINER POST-ACUTE NETWORK, INC.
One Ravinia Drive
Atlanta, GA 30346
Attention: Senior Vice President and Treasurer
Fax No. (678) 443-6874

with copies to:

MARINER POST-ACUTE NETWORK, INC.
One Ravinia Drive
Atlanta, GA 30346
Attention: Associate General Counsel
Fax No. (678) 443-6778; and

POWELL, GOLDSTEIN, FRAZER & MURPHY LLP
191 Peachtree Street, N.E., 16th Floor
Atlanta, GA 30303
Attention: Robert C. Lewinson, Esq.
Fax No. (404) 572-6999; and, on or prior to the Plan Effective Date,

STUTMAN, TREISTER & GLATT PROFESSIONAL CORPORATION
3699 Wilshire Boulevard, Suite 900
Los Angeles, CA 90010
Attention: Isaac M. Pachulski, Esq.
Fax No. (213) 251-5288;

or to such other address as may hereafter be designated by any party for such other purpose, and shall be effective upon receipt if hand delivered or sent by overnight courier service, or upon receipt of transmission confirmation if sent by facsimile transmission, upon the expiration of the fifth Business Day after the day of mailing by certified or registered U.S. Mail.

16.4. Governing Law. This Agreement shall be governed by, interpreted, construed, applied and enforced in accordance with the Bankruptcy Code and the laws of the State of Georgia applicable to contracts between residents of the State of Georgia which are to be performed entirely within the State of Georgia, regardless of (i) where this Agreement is executed or delivered; or (ii) where any payment or other performance required by this Agreement is made or required to be made; or (iii) where any breach of any provision of this Agreement occurs, or any cause of action otherwise accrues; or (iv) where any action or other proceeding is instituted or pending; or (v) the nationality, citizenship, domicile, principal place of business or jurisdiction of organization or domestication of any party; or (vi) whether the laws of the forum jurisdiction otherwise would apply the laws of the jurisdiction other than the State of Georgia; or (vii) any combination of the foregoing.

To the maximum extent permitted by applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Agreement shall be brought and prosecuted in the Court. If and only if such action cannot be brought and prosecuted in the Court, then such action may be brought and prosecuted in such court or courts located in the State of Michigan as is provided by law; and the parties consent to the jurisdiction of said court or courts located in the State of Michigan and to service of process by registered mail, return receipt requested, or by any other manner provided by applicable law.

16.5. Successors and Assigns. This Agreement shall be binding upon each party thereto and its successors and assigns. The rights and obligations of any party hereto under this Agreement may not be assigned by any party hereto without the prior written consent of each of the parties hereto. Without limiting the generality of the foregoing, upon consummation of the Merger, New PHCM shall succeed to the rights and obligations of PHCM hereunder. In addition, MPAN has informed Omega that it is considering a corporate restructuring which would, among other things, potentially involve transferring the capital stock of GranCare to another wholly owned subsidiary of MPAN (whether now existing or to be formed) and converting GranCare into a limited liability company, by merger. Omega hereby consents to such transactions; in the event GranCare becomes a limited liability company, GranCare shall cause such limited liability company to assume in writing GranCare's obligations under the Settlement Documents to which GranCare is a party and to execute and deliver to Omega such additional UCC financing statements, replacement stock certificates (evidencing its equity interest in PHCM or New PHCM, as applicable) and other documents or instruments and agreements as Omega reasonably requests for the purpose of maintaining the perfection of the pledge of such equity interests in PHCM or New PHCM.

16.6. Entire Agreement. This Agreement, together with the exhibits and schedules hereto and such other documents as are referred to herein, constitute the entire agreement of the parties in respect of the subject matter described herein. This Agreement may not be changed or modified except by an agreement in writing signed by the parties hereto.

16.7. Severability. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby and the Agreement shall thereupon be reformed and construed and enforced to the maximum extent permitted by applicable law.

16.8. Attorneys' Fees. If any legal action is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable and documented attorneys' fees and other costs actually incurred in that action in addition to any other relief to which it or they may be entitled.

16.9. Non-Disclosure. Until this Agreement is publicly announced by Omega (i) the Mariner Entities and Omega, and each of their officers, directors, employees, agents, consultants and advisors, shall keep confidential all terms hereof and information contained herein (except to the extent required either (a) in connection with the satisfaction of the conditions contained herein (including, without limitation, providing such information to its creditors and their advisors), (b) by the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), or (c) reporting requirements, if any, of the New York Stock Exchange ("NYSE

Requirements"), and (ii) no Mariner Entity nor any persons or entities affiliated with any of them or their officers, directors, employees, agents, consultants and advisors (within the meaning of Rule 405 under the Securities Act of 1933, as amended) shall trade in Omega's stock. In addition, Omega, on the one hand, and the Mariner Entities, on the other hand, shall obtain the approval of each other, which approval shall not be unreasonably withheld, prior to making any public announcements concerning this Agreement or the transactions contemplated hereby. Each Mariner Entity, however, acknowledges that Omega may disclose the existence of this Agreement and the transactions contemplated hereby in appropriate public filings under the Exchange Act, or pursuant to the NYSE Requirements.

16.10. Required Disclosure. Notwithstanding Section 16.9 hereof, each party hereby may and shall give all required notices of the existence of this Agreement and the pending consummation of the transactions contemplated hereby to any and all appropriate Governmental Authorities.

16.11. Costs and Expenses. Except as expressly provided to the contrary herein, each party to this agreement shall pay its own expenses incurred in connection with the negotiation and consummation of this Agreement and the related documents.

16.12. Confidentiality. The parties agree not to disclose or permit their respective representatives, attorneys, auditors or agents to disclose, except as may be required by law or performance hereunder, any confidential, non-public information of the others which is obtained by any of them in connection with the transactions contemplated by this Agreement.

16.13 Reservation of Rights. Each party hereto acknowledges that it and the other parties hereto have entered into this Agreement in order to settle and compromise certain potential claims between them and that the execution, delivery and performance of this Agreement by the parties hereto is not an admission of any party's obligations or liabilities whatsoever. This document is subject to the protections of Federal Rule of Evidence 408 and all similar provisions and supporting authorities.

16.14 Third Party Beneficiaries. This Agreement and all other instruments executed and delivered in connection herewith are not intended to benefit any third parties, including, without limitation, any such parties that may have claims against any of the Mariner Entities or Omega.

16.15 Certain Consents and Further Assurances. Omega hereby agrees to execute and deliver such additional documents, instruments and agreements as the Mariner Entities may reasonably request to provide further assurances of the consents granted by Omega herein, consistent with the provisions of this Agreement. In addition, in light of the fact that the Ciena Facilities have been sold, Omega further consents to the liquidation and dissolution of the Ciena Subsidiaries after the Closing and agrees to execute such releases of the Ciena Facilities (and only the Ciena Subsidiaries) from their obligations under the Settlement Documents in connection with such liquidation and dissolution as Mariner or PHCM may reasonably request, it being expressly understood and agreed, however, that any such releases shall in no way diminish or impair the obligations of the Mariner Entities other than the Ciena Subsidiaries under the Settlement Documents.

16.16. Ratification. Each of the Mariner Entities hereby ratifies and approves the transactions described in the Settlement Documents and all lawful actions previously taken by officers and representatives of the Mariner entities in furtherance thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written and their respective seals to be hereunto affixed and attested by their respective duly authorized officers.

OMEGA: OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ F. SCOTT KELLMAN

Name: F. Scott Kellman
Title: Chief Operating Officer

PHCM: PROFESSIONAL HEALTH CARE MANAGEMENT, INC.

By: /s/ BOYD P. GENTRY

Name: Boyd P. Gentry
Title: President

MICHIGAN SUBSIDIARIES: CAMBRIDGE BEDFORD, INC., CAMBRIDGE EAST, INC., CAMBRIDGE NORTH, INC., CAMBRIDGE SOUTH, INC., CLINTONAIRE NURSING HOME, INC., CRESTMONT HEALTH CENTER, INC., HERITAGE NURSING HOME, INC., NIGHTINGALE EAST NURSING CENTER, INC., MIDDLEBELT - HOPE NURSING HOME, INC., MADONNA NURSING HOME, INC., FRENCHTOWN NURSING HOME, INC., ST. ANTHONY NURSING HOME, INC. and MIDDLEBELT NURSING HOME, INC.

By: /s/ BOYD P. GENTRY
Name: Boyd P. Gentry
Title: President

LC-PHCM: LIVING CENTERS - PHCM, INC.

By: /s/ BOYD P. GENTRY
Name: Boyd P. Gentry
Title: President

GRANCARE: GRANCARE, INC.

By: /s/ BOYD P. GENTRY
Name: Boyd P. Gentry
Title: President

MARINER: MARINER POST-ACUTE NETWORK, INC.

By: /s/ BOYD P. GENTRY
Name: Boyd P. Gentry
Title: President

SCHEDULE A

List of Facilities

<TABLE>
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I. MICHIGAN FACILITIES

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

	Name of Facility	Subsidiary Lessee/Operator
1.	Bedford Villa Healthcare Center Southfield, MI	Cambridge Bedford, Inc.
2.	Cambridge East Healthcare Center Madison Heights, MI	Cambridge East, Inc.
3.	Cambridge North Healthcare Center Clawson, MI	Cambridge North, Inc.
4.	Cambridge South Healthcare Center Beverly Hills, MI	Cambridge South, Inc.
5..	Clinton-Aire Healthcare Center Inc.	ClintonAire Nursing Home, Clinton Township, MI
6.	Crestmont Health Care Center Fenton, MI	Crestmont Health Center, Inc.
7.	Heritage Manor Nursing Center Flint, MI	Heritage Nursing Home, Inc.
8.	Nightingale Healthcare Center Warren, MI	Nightingale East Nursing Center, Inc.

9.	Hope Healthcare Center Home, Inc.	Middlebelt-Hope Nursing Westland, MI

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II. North Carolina Facilities

Name of Facility	Subsidiary Lessee/Operator
<S> <C> <C> <C> <C> <C> <C>	
1. Brian Center Health and Rehabilitation Center - Statesville Statesville, NC	PHCM
2. Brian Center Health and Rehabilitation Center - Goldsboro Goldsboro, NC	PHCM
3. Brian Center Health and Rehabilitation Center -Durham Durham, NC	PHCM

III. CIENA FACILITIES (all located in Michigan)

Name of Facility	Subsidiary Lessee/Operator
1. Frenchtown Healthcare Center Inc.	Frenchtown Nursing Home, Monroe, MI
2. St. Anthony Health Care Center Inc.	St. Anthony Nursing Home, Warren, MI
3. Madonna Healthcare Center Detroit, MI	Madonna Nursing Home, Inc.
4. Middlebelt Healthcare Center Inc.	Middlebelt Nursing Home, Livonia, MI

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SCHEDULE B

Cases

Name of Entity	Case No.
Mariner	00-00113
PHCM	00-00198
Cambridge Bedford, Inc.	00-00134
Cambridge East, Inc.	00-00135
Cambridge North, Inc.	00-00136
Cambridge South, Inc.	00-00137
ClintonAire Nursing Home, Inc.	00-00138
Crestmont Health Center, Inc.	00-00141
Heritage Nursing Home, Inc.	00-00172
Nightingale East Nursing Center, Inc.	00-00196

Middlebelt-Hope Nursing Home, Inc.	00-00193
Frenchtown Nursing Home, Inc.	00-00148
St. Anthony Nursing Home, Inc.	00-00202
Madonna Nursing Home, Inc.	00-00190
Middlebelt Nursing Home, Inc.	00-00192
LC-PHCM	00-00183