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 March 31, 2002

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.)

9690 Deereco Road, Suite 100, Timonium, MD 21093
(Address of principal executive offices)

(410) 427-1700
(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 March 31, 2002

Common Stock, $.10 par value	37,127,456
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statement

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31, 2002	December 31, 2001
	(Unaudited)	(See Note)
ASSETS		
Real estate properties		
Land and buildings at cost	$ 686,953	$ 684,848
Less accumulated depreciation	(105,113)	(100,038)
Real estate properties - net	581,840	584,810
Mortgage notes receivable - net	191,252	195,193
	773,092	780,003
Other investments - net	50,179	50,791
	823,271	830,794
Assets held for sale - net	7,317	7,396
Total Investments	830,588	838,190
Cash and cash equivalents	44,559	11,445
Accounts receivable - net	1,667	4,565
Other assets	7,988	6,732
Operating assets for owned properties	30,156	29,907
Total Assets	$ 914,958	$ 890,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving lines of credit	$ 194,076	$ 193,689
Unsecured borrowings	161,910	197,526
Other long-term borrowings	35,591	21,957
Accrued expenses and other liabilities	14,177	16,790
Operating liabilities for owned properties	8,578	10,187
Total Liabilities	414,332	440,149
Preferred stock	212,342	212,342

Common stock and additional paid-in capital	484,695	440,071
Cumulative net earnings	170,348	165,891
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(116)	(142)
Accumulated other comprehensive loss	(989)	(1,818)
Total Stockholders' Equity	500,626	450,690
Total Liabilities and Stockholders' Equity	$ 914,958	$ 890,839

</TABLE>

Note - The balance sheet at December 31, 2001 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 for complete financial statements.

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
(In Thousands, Except Per Share Amounts)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2002	2001
<S>	<C>	<C>
Revenues		
Rental income	$ 15,431	$ 16,021
Mortgage interest income	5,412	5,678
Other investment income - net	1,103	1,258
Nursing home revenues of owned and operated assets	21,748	45,997
Miscellaneous	230	223
	43,924	69,177
Expenses		
Nursing home expenses of owned and operated assets	23,700	46,450
Depreciation and amortization	5,326	5,541
Interest	8,166	9,672
General and administrative	1,719	2,349
Legal	855	951
State taxes	129	106
Adjustment of derivatives to fair value	(400)	482
	39,495	65,551
Earnings before gain on assets sold and gain on early extinguishment of debt	4,429	

		3,626
Gain on assets sold - net	-	619
Gain on extinguishment of debt	28	248
Net earnings	4,457	4,493
Preferred stock dividends	(5,029)	(4,908)
Net loss available to common	$ (572)	$ (415)
Loss per common share:		
Net loss per share - basic	$ (0.02)	$ (0.02)
Net loss per share - diluted	$ (0.02)	$ (0.02)
Dividends declared and paid per common share	$ -	$ -
Weighted-Average Shares Outstanding, Basic	27,421	20,013
Weighted-Average Shares Outstanding, Diluted	27,421	20,013
Components of other comprehensive income:		
Unrealized gain on Omega Worldwide, Inc	$ 547	$ -
Unrealized gain (loss) on hedging contracts	$ 283	$ (354)
Total comprehensive income	$ 5,287	4,139

</TABLE>

See notes to consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2002	2001
<S>	<C>	<C>
Operating activities		
Net earnings	$ 4,457	$ 4,493
Adjustment to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	5,326	5,541
Gain on assets sold - net	-	(619)
Gain on early extinguishment of debt	(28)	(248)

Adjustment of derivatives to fair value	(400)	482
Other	630	603
Net change in accounts receivable for Owned and Operated assets - net	(1,398)	(1,702)
Net change in accounts payable for Owned and Operated assets	(1,658)	359
Net change in other Owned and Operated assets and liabilities	1,197	811
Net change in operating assets and liabilities	2,064	739
Net cash provided by operating activities	10,190	10,459
Cash flows from financing activities		
Proceeds from revolving lines of credit - net	387	10,000
Proceeds from long-term borrowings - net	13,635	-
Payments of long-term borrowings	(35,616)	(18,778)
Receipts from Dividend Reinvestment Plan	1	9
Proceeds from rights offering and private placement - net	44,600	-
Deferred financing costs paid	(1,547)	(370)
Other	23	(45)
Net cash provided by (used in) financing activities	21,483	(9,184)
Cash flow from investing activities		
Proceeds from sale of real estate investments - net	-	1,230
Capital improvements and funding of other investments - net	(501)	(3,167)
Collection of mortgage principal	1,942	421
Net cash provided by (used in) investing activities	1,441	(1,516)
Increase (decrease) in cash and cash equivalents	33,114	(241)
Cash and cash equivalents at beginning of period	11,445	7,172
Cash and cash equivalents at end of period	$ 44,559	$ 6,931

</TABLE>

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2002

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements for Omega Healthcare Investors, Inc. have been prepared in accordance with generally accepted accounting principles ("GAAP") 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 GAAP for complete financial statements. In our opinion, 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. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2001.

Note B - Properties

In the ordinary course of our business activities, we periodically evaluate investment opportunities and extend credit to customers. We also regularly engage in lease and loan extensions and modifications. Additionally, we actively monitor and manage our investment portfolio with the objectives of improving credit quality and increasing returns. In connection with portfolio management, we engage in various collection and foreclosure activities.

When we acquire real estate pursuant to a foreclosure, lease termination or bankruptcy proceeding, and do 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 and an agreement is imminent, 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.

Upon adoption of FASB 144 as of January 1, 2002, long-lived assets sold or designated as held for sale after January 1, 2002 are reported as discontinued operations on our financial statements.

A summary of the number of properties by category for the quarter ended March 31, 2002 follows:

<TABLE>
<CAPTION>

Facility Count	Purchase/ Leaseback	Mortgages	Owned & Operated	Total Healthcare Facilities	Held for Sale	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2001.....	137	71	33	241	8	249
Properties transferred to Held for Sale..................	-	-	-	-	-	-
Properties transferred to Owned & Operated..............	-	-	-	-	-	-
Properties Sold / Mortgages Paid.................	-	(1)	-	(1)	-	(1)
Transition Leasehold Interest....	-	-	(5)	(5)	-	(5)
Properties Leased / Mortgages Placed..............	-	-	-	-	-	-
Properties transferred to Purchase / Leaseback...........	10	(1)	(9)	-	-	-
Balance at March 31, 2002......	147	69	19	235	8	243
Gross Investment						
Balance at December 31, 2001.....	$ 604,777	$ 195,193	$ 80,071	$ 880,041	$ 7,396	$ 887,437
Properties transferred to Held for Sale..................	-	-	-	-	-	-
Properties transferred to Owned & Operated..............	-	-	-	-	-	-
Properties Sold / Mortgages Paid.................	-	(1,501)	-	(1,501)	-	(1,501)
Transition Leasehold Interest....	-	-	-	-	-	-
Properties Leased / Mortgages Placed..............	-	-	-	-	-	-

Properties transferred to Purchase / Leaseback..........	45,147	(2,000)	(43,147)	-	-	-
Capex and other.................	76	(440)	29	(335)	(79)	(414)
Balance at March 31, 2002......	$ 650,000	$ 191,252	$ 36,953	$ 878,205	$ 7,317	$ 885,522

</TABLE>

Real Estate Disposition

During the three-month period ending March 31, 2002, we leased 13 properties, previously classified as Owned and Operated Assets, to new operators. We entered into agreements to lease four Arizona facilities to subsidiaries of Infinia Health Care Companies ("Infinia") and to sublease four other Arizona facilities to the same party. The agreements initially began as management arrangements, effective March 1, 2002, and convert into leases upon Infinia and us obtaining various approvals. The terms for the four Arizona leases and four subleases are ten years and three years, respectively, with an initial combined annual net rent payment of $1.02 million. Also on March 1, 2002, we leased four facilities in Massachusetts to subsidiaries of Harborside Healthcare Corporation. The initial lease term for the four properties is ten years with an initial annual rent payment of $1.675 million. We leased one additional facility on March 1, 2002, for an initial annual rent of $0.38 million. Additionally, on February 1, 2002, the leasehold interest in one facility was terminated by the landlord, bringing the total number of Owned and Operated Assets down from 33 at December 31, 2001 to 19 at March 31, 2002.

There were no real estate dispositions during the three-month period ending March 31, 2002. For the three-month period ended March 31, 2001, we disposed of four facilities, including three Indiana facilities (previously included in owned and operated assets) and one Massachusetts facility (previously included in assets held for sale).

Note and Mortgages Receivable

Mortgage interest income is recognized as earned over the terms of the related mortgage notes. Reserves are taken against earned revenues from mortgage interest when collection of amounts due become questionable or when negotiations for restructurings or troubled operators lead to lower expectations regarding ultimate collection. When collection is uncertain, mortgage interest income on impaired mortgage loans is recognized as received after taking into account application of security deposits. No provision for loss on mortgages or notes receivable was recorded during the three-month periods ended March 31, 2002 and 2001, respectively.

On February 1, 2001, four Michigan facilities, previously operated by Professional Health Care Management ("PHCM") and subject to our 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 us. PHCM was given a $4.5 million credit on February 1, 2001 and an additional $3.5 million credit on September 1, 2001, both against the PHCM loan balance in exchange for the assignment of the promissory note to us. The promissory note is secured by a first mortgage on the four facilities. Following the closing of the settlement agreement, the outstanding principal balance on the PHCM loan was approximately $59.7 million.

Owned and Operated Assets

At March 31, 2002, we own 19 facilities that were recovered from customers and are operated for our own account. These facilities have 1,567 beds and are located in seven states. During the three-month period ended March 31, 2002, we leased or subleased 13 properties previously classified as Owned and Operated to three third-party operators. In addition, one leasehold interest was transferred to a new operator with the owner's consent (See "Real Estate Dispositions" above).

We intend to operate these owned and operated assets for our 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 us. In certain instances, we might determine that the best course of action is to close a facility in the event its future prospects appear limited. As a result, these facilities and their respective operations are presented on a consolidated basis in our financial statements. See Note J - Subsequent Events.

The revenues, expenses, assets and liabilities included in our 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 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.

The revenues, expenses, assets and liabilities in our consolidated financial statements which related to our owned and operated assets are as follows:

	Three Months Ended, March 31, 2002	Three Months Ended, March 31, 2001
	Unaudited (In Thousands)	
Revenues(1)		
Medicaid	$ 13,503	$ 27,240
Medicare	4,257	11,190
Private & Other	3,988	7,567
Total Revenues	21,748	45,997
Expenses		
Patient Care Expenses	15,278	33,153
Administration	4,502	6,535
Property & Related	1,592	3,214
Total Expenses	21,372	42,902
Contribution Margin	376	3,095
Management Fees	1,200	2,449
Rent	1,128	1,099
EBITDA(2)	$ (1,952)	$ (453)

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

(2) EBITDA represents earnings before interest, income taxes, depreciation and amortization. We consider it to be a meaningful measure of performance of our Owned and Operated Assets. EBITDA, in and of itself, does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net earnings as an indication of operating performance or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

(In Thousands)

	March 31, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Cash	$ 7,772	$ 6,549
Accounts Receivable - net	28,519	27,121
Other Current Assets	1,429	2,125
Total Current Assets	37,720	35,795
Investment in Leasehold - net	208	661
Land and Buildings	36,953	80,071
Less Accumulated Depreciation	(4,196)	(8,647)
Land and Buildings - net	32,757	71,424
TOTAL ASSETS	$ 70,685	$ 107,880
LIABILITIES		
Accounts Payable	$ 3,158	$ 4,816
Other Current Liabilities	5,420	5,371
Total Current Liabilities	8,578	10,187
TOTAL LIABILITIES	$ 8,578	$ 10,187

Accounts receivable for owned and operated assets is net of an allowance for doubtful accounts of approximately $6.9 million at March 31, 2002 and $8.3 million at December 31, 2001.

Assets Held for Sale

At March 31, 2002, the carrying value of assets held for sale totaled $7.3 million (net of impairment reserves of $10.6 million). We intend 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 us to realize the carrying value of the assets.

Segment Information

The following tables set forth the reconciliation of operating results and total assets for our reportable segments for the three-month periods ended March 31, 2002 and March 31, 2001.

For the three months ended March 31, 2002

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		Unaudited (In Thousands)		
Operating Revenues	$ 20,843	$ 21,748	$ -	$ 42,591
Operating Expenses	-	(23,700)	-	(23,700)
Net operating income	20,843	(1,952)	-	18,891
Adjustments to arrive at net income:				
Other revenues	-	-	1,333	1,333
Interest expense	-	-	(8,166)	(8,166)
Depreciation and amortization	(4,606)	(515)	(205)	(5,326)
General and administrative	-	-	(1,719)	(1,719)
Legal	-	-	(855)	(855)
State Taxes	-	-	(129)	(129)
Adjustment of derivatives to fair value	-	-	400	400
	(4,606)	(515)	(9,341)	(14,462)
Income (loss) before gain on early extinguishment of debt	16,237	(2,467)	(9,341)	4,429
Gain on early extinguishment of debt	-	-	28	28
Preferred dividends	-	-	(5,029)	(5,029)
Net income (loss) available to common	$ 16,237	$ (2,467)	$(14,342)	$ (572)
Total Assets	$ 740,335	$ 78,002	$ 96,621	$ 914,958

For the three months ended March 31, 2001

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
		Unaudited (In Thousands)		
Operating Revenues	$ 21,699	$ 45,997	$ -	$ 67,696
Operating Expenses	-	(46,450)	-	(46,450)
Net operating income	21,699	(453)	-	21,246
Adjustments to arrive at net income:				
Other revenues	-	-	1,481	1,481
Interest expense	-	-	(9,672)	(9,672)
Depreciation and amortization	(4,324)	(996)	(221)	(5,541)
General and administrative	-	-	(2,349)	(2,349)
Legal	-	-	(951)	(951)
State Taxes	-	-	(106)	(106)
Adjustment of derivatives to fair value	-	-	(482)	(482)
	(4,324)	(996)	(12,300)	(17,620)
Income (loss) before gain on assets sold and gain on early extinguishment of debt	17,375	(1,449)	(12,300)	3,626
Gain on assets sold - net	-	619	-	619
Gain on early extinguishment of debt	-	-	248	248
Preferred dividends	-	-	(4,908)	(4,908)
Net income (loss) available to common	$ 17,375	$ (830)	$(16,960)	$ (415)
Total Assets	$ 724,744	$ 160,777	$ 61,152	$ 946,673

</TABLE>

Note C - Concentration of Risk and Related Issues

As of March 31, 2002, our portfolio of domestic investments consisted of 235 healthcare facilities, located in 28 states and operated by 37 third-party operators. Our gross investment in these facilities, before reserve for uncollectible loans, totaled $881.9 million at March 31, 2002, with 97.3% of our real estate investments related to long-term care facilities. This portfolio is made up of 145 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 69 long-term healthcare facilities and 12 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for our own account. In addition, seven facilities subject to third-party leasehold interests are included in Other Investments. We also hold miscellaneous investments and closed healthcare facilities held for sale of approximately $57.5 million at March 31, 2002, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, a $7.9 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 $14.7 million of notes receivable, net of allowance.

Approximately 66.6% of our real estate investments are operated by seven public companies, including Sun Healthcare Group, Inc. (24.8%), Integrated Health Services, Inc. ("IHS") (18.1%, including 10.2% as the manager for and 50% owner of Lyric Health Care LLC), Advocat, Inc. (12.1%), Mariner Post-Acute Network (6.8%), Alterra Healthcare Corporation ("Alterra") (3.9%), Kindred Healthcare, Inc. ("Kindred") (formerly known as Vencor Operating, Inc.) (0.8%), and Genesis Health Ventures, Inc. ("Genesis") (0.1%). At March 31, 2002, Kindred and Genesis manage facilities for our own account that are included in Owned and Operated Assets. The two largest private operators represent 3.6% and 2.6%, respectively, of investments. No other operator represents more than 2.6% of investments. The three states in which we have our highest concentration of investments are Florida (16.1%), California (7.6%) and Illinois (7.5%).

Government Healthcare Regulation, Reimbursements and Industry Concentration Risks

Nearly all of our properties are used as healthcare facilities; therefore, we are directly affected by the risk associated with the healthcare industry. Our lessees and mortgagors, as well as the facilities owned and operated for our account, derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. These programs are highly regulated by federal, state and local laws, rules and regulations and are subject to frequent and substantial changes.

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

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 our ability to vary our portfolio promptly in response to changes in economic or other conditions. Thus, if the operation of any of our 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. It is 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

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

Generally, with respect to our mortgage loans, the imposition of an automatic stay under the Bankruptcy Act precludes us from exercising foreclosure or other remedies against the debtor. Pre-petition creditors generally do not have rights to the cash flows from the properties underlying the mortgages. The timing of the collection from mortgagors in bankruptcy depends on negotiating an acceptable settlement with the mortgagor (and subject to approval of the bankruptcy court) or the order of the bankruptcy court in the event a negotiated settlement cannot be achieved. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and (2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as ourselves is entitled to the recovery of interest and costs only if, and to the extent that, the value of the collateral exceeds the amount owed. If the value of the collateral exceeds the amount of the debt, interest and allowed costs may not be paid during the bankruptcy proceeding, but accrue until confirmation of a plan of reorganization or such other time as the court orders. If the value of the collateral held by a senior creditor is less than the secured debt, interest on the loan for the time period between the filing of the case and confirmation may be disallowed. 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 affect a "cramdown" under the Bankruptcy Act.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, some significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. In order to protect our investments, we may take possession of a property or even become licensed as an operator, which might expose us to successor liability to government programs or require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses. Third-party payors may also suspend payments to us following foreclosure until we receive the required licenses to operate the facilities. Should such events occur, our income and cash flow 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 our operators, we have recovered various long-term care assets, pledged as collateral for the operators' obligations, either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. During 2002, 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 has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire such properties.

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

Recent Developments

During the quarter, we completed a renegotiated transaction with Alterra, whereby we will take back two facilities in June 2002, and Alterra agreed to pay us a fee of approximately $0.7 million and monthly rental payments of $187,000 in 2002, increasing to $268,000 per month in 2003. The total gross investment in the properties leased to Alterra is $34.1 million, including $6.2 million for the two facilities that are to be taken back. We currently expect these two facilities to be leased to a new operator or marketed for sale.

In January 2002, Integrated Health Services, Inc., and its affiliate, Lyric Health Care LLC, resumed payment of rents and mortgage interest to us at reduced rates. We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators.

As of March 31, 2002, affiliates of Alden Management, Inc. ("Alden") were delinquent in paying their lease and escrow payments on the four facilities they lease from us. Alden has indicated the delinquency is the result of the State of Illinois being behind in the processing of Medicaid reimbursements. Discussions on ways to address past due amounts are continuing.

Note D - Dividends

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

On February 1, 2001, we announced the suspension of all common and preferred dividends. This action was intended to preserve cash to facilitate our ability to obtain financing to fund the 2002 debt maturities. Prior to recommencing the payment of dividends on our common stock, all accrued and unpaid dividends on our Series A, B and C preferred stock must be paid in full. We have made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain our REIT status for 2001 and intend to satisfy such requirements under the REIT rules for 2002. The accumulated and unpaid dividends relating to all series of preferred stocks total $24.9 million as of March 31, 2002.

On March 30, 2001, we exercised our 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 our 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. Dividends paid in stock to a specific class of stockholders, such as our payment of our Series C preferred stock in April 2001, constitute dividends eligible for the 2001 dividends paid deduction.

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 the assumed conversion of the Series C Preferred Stock.

Note F - Omega Worldwide, Inc.

As of March 31, 2002, we hold a $5.0 million investment in Omega Worldwide, Inc. ("Worldwide"), represented by 1.16 million shares of common stock and 0.3 million shares of preferred stock. We also hold 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

Note G - Litigation

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

On June 21, 2000, we were named as a defendant in certain litigation brought against us by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that we have breached and/or anticipatorily breached a commercial contract. Ronald M. Dickerman and Bryan Gordon are partners in Madison and limited guarantors of Madison's obligations to us. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in an amount ranging from $15 - $28 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and us. We contend that Madison is in default under the contract in question. We believe that the litigation is meritless. We continue to vigorously defend the case and have filed counterclaims against Madison and the guarantors seeking repayment of approximately $10.2 million, including default interest, which Madison owes us, as well as damages resulting from the conversion of the collateral securing our loan. The trial in this matter is set for July 22, 2002. The financial statements do not contain any adjustments relating to the ultimate outcome due to the uncertainty of such outcome.

Note H - Borrowing Arrangements

On December 21, 2001, we reached amended agreements with the bank groups under both of our revolving credit facilities. The amendments became effective as of the closing of the rights offering and private placement to Explorer on February 21, 2002. The amendments included modifications and/or eliminations to certain financial covenants.

The amendment regarding our $175.0 million revolving credit facility included a one-year extension in maturity from December 31, 2002 to December 31, 2003 and a reduction in the total commitment from $175.0 million to $160.0 million. Amounts up to $150.0 million may be drawn upon to repay the maturing 6.95% Notes due June 2002.

As part of the amendment regarding our $75.0 million revolving credit facility, we prepaid $10.0 million in December 2001, originally scheduled to mature in March 2002. This voluntary prepayment results in a permanent reduction in the total commitment, thereby reducing the credit facility to $65.0 million.

Our $160.0 million secured revolving line of credit facility expires on December 31, 2003. Borrowings under this facility bear interest at 2.50% to 3.25% over London Interbank Offer Rate ("LIBOR") through December 31, 2002 and 3.00% to 3.25% over LIBOR after December 31, 2002. Borrowings of approximately $129.4 million were outstanding as of March 31, 2002. Additionally, $13.4 million of letters of credit were outstanding against this credit facility at March 31, 2002. These letters of credit were collateral for certain long-term borrowings and Owned and Operated insurance programs. LIBOR-based borrowings under this facility bear interest at a weighted-average rate of 5.52% at March 31, 2002. Cost for the letters of credit range from 2.50% to 3.25%, based on our leverage ratio. Real estate investments with a gross book value of approximately $239.8 million are pledged as collateral for this revolving line of credit facility at March 31, 2002.

Our $65.0 million line of credit facility expires on June 30, 2005. Borrowings under this facility bear interest at 2.50% and 3.75% over LIBOR, based on our leverage ratio and collateral assignment. Borrowings of approximately $64.7 million were outstanding at March 31, 2002. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 5.76% at March 31, 2002. Real estate investments with a gross book value of approximately $117.1 million are pledged as collateral for this revolving line of credit facility at March 31, 2002.

During the three-month period ended March 31, 2002, we repurchased $35.6 million of our 6.95% Notes maturing in June 2002. At March 31, 2002, $61.9 million of these notes remain outstanding with a June 2002 maturity (See Note J - - Subsequent Events).

Note I - Effect of New Accounting Pronouncements

We utilize 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 ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was required to be adopted in years beginning after June 15, 2000. We adopted the new Statement effective January 1, 2001. The Statement requires us 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 March 31, 2002, we had two interest rate swaps with notional amounts of $32.0 million each, based on 30-day LIBOR. Under the terms of the first agreement, which expires in December 2003, we receive payments when LIBOR exceeds 6.35% and pay the counterparty when LIBOR is less than 6.35%. At March 31, 2002, 30-day LIBOR was 1.90%. This interest rate swap was extended to December 2003 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 March 31, 2002 and December 31, 2001 was a liability of $917,004 and $1,316,566, respectively.

The initial liability at January 1, 2001 was recorded as a transition adjustment in other comprehensive income and was recognized over the initial term of the swap ending December 31, 2001. Such amortization for the three month-period ended March 31, 2002 and 2001 was $0 and $87,836, respectively. The change in fair market of $399,562 and $393,794 for the three-month periods ending March 31, 2002 and 2001, respectively, along with the amortization are included in charges for derivative accounting in our Consolidated Statement of Operations.

Under the second agreement, which expires December 31, 2002, we receive payments when LIBOR exceeds 4.89% and pay the counterparty when LIBOR is less than 4.89%. The fair value of this interest rate swap at March 31, 2002 and December 31, 2001 was a liability of $566,061 and $849,122, respectively. The change in fair market of $283,061 and $90,043 for the three-month periods ending March 31, 2002 and 2001, respectively, are 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 our Consolidated Balance Sheet at March 31, 2002 and December 31, 2001.

Note J - Subsequent Events

In April 2002, we purchased $27.0 million of 6.95% Notes due June 2002. As of the date of this report, the remaining balance on the 6.95% Notes due June 2002 is $34.9 million.

Also in April 2002, we closed a 120-bed nursing facility in Texarkana, Texas. We have recently instructed the managers of two other facilities in Massachusetts to begin the necessary steps to close each of those facilities.

On May 1, 2002, we entered into a Master Lease to lease three facilities in Colorado to Conifer Care Communities. The initial term of the lease is 4.7 years with three options to renew for four years each. The initial annual rent payment is approximately $375,000. As a result of the three re-leased facilities and the three announced facility closings, the total number of Owned and Operated Assets is expected to decline by six, leaving 13 remaining facilities.

Since dividends on the Series A and Series B Preferred Stock are in arrears for more than 18 months as of April 30, 2002, the holders of the Series A and Series B Preferred Stock (voting together as a single class) have the right to elect two additional directors to our Board of Directors in accordance with the terms of the Series A and Series B Preferred Stock and our Bylaws. Explorer, the sole holder of the Series C Preferred Stock, also has the right to elect two other additional directors to our Board of Directors in accordance with the terms of the Series C Preferred Stock and our Bylaws. We are not aware of any action by holders of our preferred stock to elect additional directors pursuant to the procedures set forth in the terms of the preferred stock and our Bylaws. Explorer, without waiving its rights under the terms of the Series C Preferred Stock or the Stockholders Agreement, has advised us that it is not currently seeking the election of the two additional directors resulting from the Series C dividend arrearage unless the holders of the Series A and Series B Preferred Stock seek to elect additional directors.

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

The following discussion contains forward-looking statements. These statements relate to our expectations regarding our beliefs, intentions, plans, objectives, goals, strategies our future events or performance and underlying assumptions and other statements other than statements of historical facts. In some cases, you can identify forward-looking statements by the use of forward looking terminology such as "may", "will", "anticipates", "expects", "believes", "intends", "should" or comparable terms or the negative thereof. These statements are based on information available on the date of this report and only speak as of the date hereof and no obligation to update such forward-looking statements should be assumed. Our actual results may differ materially from those reflected in such forward-looking statements as a result of a variety of factors, including, among other things: (i) our ability to dispose of assets held for sale on a timely basis and at appropriate prices; (ii) uncertainties relating to the operation of our Owned and Operated Assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels; (iii) the ability of our operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages, and impede our ability to collect unpaid rent or interest during 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) our ability 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 our debt securities; and (xiv) the risk factors discussed in Note C - Concentration of Risk and Related Issues.

Results of Operations

The following is a discussion of our consolidated results of operations, financial position and liquidity and capital resources which should be read in conjunction with the consolidated financial statements and accompanying notes. (See Note B - Properties and Note C - Concentration of Risk and Related Issues).

Revenues for the three-month period ending March 31, 2002 totaled $43.9 million, a decrease of $25.3 million over the period ending March 31, 2001. Excluding nursing home revenues of Owned and Operated Assets, revenues were $22.2 for the three-month period ending March 31, 2002, a decrease of $1.0 million from the comparable prior year period.

Rental income for the three-month period ending March 31, 2002 was $15.4

million, a decrease of $0.6 million over the same period in 2001. The decrease is due to $2.1 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings. This decrease is offset by $0.2 million relating to contractual increases in rents that became effective in 2002 and $1.3 million relating to assets previously classified as owned and operated.

Mortgage interest income for the three-month period ending March 31, 2002 totaled $5.4 million, a decrease of $0.3 million over the same period in 2001. The decrease is due to reduced investments resulting from the payoffs of mortgage notes ($0.7 million) offset by $0.4 million of new investments placed in 2001.

Nursing home revenues of owned and operated assets for the three-month period ending March 31, 2002 totaled $21.7 million, a decrease of $24.3 million over the same period in 2001. This is principally due to a decreased number of operated facilities versus the same period in 2001. (19 at March 31, 2002, compared with 66 at March 31, 2001).

Expenses for the three-month period ending March 31, 2002 totaled $39.5 million, a decrease of $26.1 million compared with expenses of $65.6 million for the three-month period ending March 31, 2001. Excluding nursing home expenses of owned and operated assets, expenses were $15.9 million versus $19.1 million for the same period in 2001.

Nursing home expenses for owned and operated assets for the three-month period ending March 31, 2002 decreased by $22.8 million versus the same period in 2001. This is primarily a result of a decreased number of facilities versus the same period in 2001

The provision for depreciation and amortization totaled $5.3 million for the three-month period ending March 31, 2002. This decrease of $0.2 million is primarily due to assets sold in 2001 and lower depreciable values due to impairment charges on owned and operated properties recorded during 2001.

Interest expense for the three-month period ending March 31, 2002 was approximately $8.2 million compared with $9.7 million for the same period in 2001. The decrease in the first quarter of 2002 is primarily due to $51.0 million of reduced total outstanding debt versus the same period in 2001.

General and administrative expenses for the three-month period ending March 31, 2002, totaled $1.7 million compared to $2.3 million for the same period in 2001, a decrease of $0.6 million. The decrease is due to a reduction in staffing, as well as a reduction in consulting costs related to our owned and operated facilities.

Legal expenses for the three-month period ending March 31, 2002 totaled $0.9 million, a decrease of $0.1 million, as compared with the same time period in 2001. This decrease is due to a reduction in costs associated with restructuring and releasing of our owned and operated assets.

There were no real estate dispositions during the three-month period ending March 31, 2002. For the three-month period ended March 31, 2001, we disposed of four facilities, including three Indiana facilities (previously included in owned and operated assets) and one Massachusetts facility (previously included in assets held for sale).

Funds from operations ("FFO") for the three-month period ending March 31, 2002 was $4.3 million, a reduction of $0.4 million as compared with $4.7 million for the same period in 2001 due to results described above. Fully diluted FFO was $6.9 million for the three-month period ending March 31, 2002, a reduction of $0.3 million, as compared with the $7.2 million for the same period in 2001. 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. Diluted FFO and FFO are adjusted for the assumed conversion of Series C Preferred Stock and the exercise of in-the-money stock options. We consider 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 our ability 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 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 we continue to qualify as a REIT under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Accordingly, we have not been subject to federal income taxes on amounts distributed to stockholders, since we have distributed at least 90% of our REIT taxable income for taxable year 2001 (95% prior to 2001) and have met certain other conditions.

Portfolio Developments

In February 2002, we completed a renegotiated transaction with Alterra, whereby we will take back two facilities in June 2002, and Alterra agreed to pay us a fee of approximately $0.7 million and monthly rental payments of $187,000 in 2002, increasing to $268,000 per month in 2003. The total gross investment in the properties leased to Alterra is $34.1 million, including $6.2 million for the two facilities that are to be taken back. We currently expect these two facilities to be leased to a new operator or marketed for sale.

In January, 2002 Integrated Health Services, Inc., and its affiliate, Lyric Health Care LLC, resumed payment of rents and mortgage interest to us at reduced rates. We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators.

As of March 31, 2002, affiliates of Alden Management, Inc. were delinquent in paying their lease and escrow payments on the four facilities they lease from us. Alden has indicated the delinquency is the result of the State of Illinois being behind in the processing of Medicaid reimbursements. Discussions on ways to bring their past due amounts current are continuing.

Liquidity and Capital Resources

At March 31, 2002, we had total assets of $915.0 million, stockholders' equity of $500.6 million and debt of $391.6 million, representing approximately 43.9% of total capitalization. In addition, as of March 31, 2002, we had an aggregate of $62.5 million of outstanding debt which matures in the remaining nine months of 2002, including $61.9 million of 6.95% Notes due June 2002.

We have two secured revolving credit facilities in place, providing up to $225.0 million of financing, of which $194.1 million was outstanding and $13.4 million of which was utilized for the issuance of letters of credit at March 31, 2002.

On December 21, 2001, we reached amended agreements with the bank groups under both of our revolving credit facilities. The amendments became effective as of the closing of the rights offering and private placement to Explorer Holdings, L.P. on February 21, 2002. The amendments included modifications and/or eliminations to certain financial covenants.

The amendment regarding our $175.0 million revolving credit facility included a one-year extension in maturity from December 31, 2002 to December 31, 2003 and a reduction in the total commitment from $175.0 million to $160.0 million. Amounts up to $150.0 million may be drawn upon to repay the maturing 6.95% Notes due June 2002.

As part of the amendment regarding our $75.0 million revolving credit facility, we prepaid $10.0 million in December 2001, originally scheduled to mature in March 2002. This voluntary prepayment resulted in a permanent reduction in the total commitment, thereby reducing the credit facility to $65.0 million. Our $65.0 million line of credit facility expires on June 30, 2005. (See Note H - Borrowing Arrangements).

In prior years, we have historically distributed to stockholders a large portion of the cash available from operations. Our historical policy has been to make distributions on common stock of approximately 80% of FFO, but on February 1, 2001, we announced the suspension of all common and preferred dividends. This action was intended to preserve cash to facilitate our ability to obtain financing to fund the 2002 debt maturities. Additionally, on March 30, 2001, we exercised our option to pay the 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 is convertible into 774,722 shares of our common stock at $6.25 per share.

We 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. We do not anticipate paying dividends on any class of capital stock unless and until the approximately $61.9 million ($34.9 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 our common stock, all accrued and unpaid dividends on our Series A, B and C preferred stock must be paid in full. We have made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain its REIT status for 2001 and intend to satisfy such requirements under the REIT rules for 2002.

No common dividends were paid during the first quarters ending March 31, 2002 and 2001, respectively.

On February 6, 2002, we refinanced our investment in a Baltimore, Maryland asset leased by the United States Postal Service ("USPS") resulting in $13.0 million of net cash proceeds. The new, fully-amortizing mortgage has a 20-year term with a fixed interest rate of 7.26%. This transaction is cash neutral to us on a monthly basis, as lease payments due from USPS equal debt service on the new loan.

On February 21, 2002, we raised gross proceeds of $50.0 million through the completion of a rights offering and simultaneous private placement to Explorer. The proceeds from the rights offering and private placement will be used to repay outstanding indebtedness and for working capital and general corporate purposes.

We believe our liquidity and various sources of available capital, including funds from operations and expected proceeds from planned asset sales and refinancings, are adequate to finance operations, meet recurring debt service requirements including our 2002 debt maturities and fund future investments through the next 12 months.

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

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

The market value of our long-term fixed rate borrowings and mortgages are subject to interest rate 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 our total long-term borrowings at March 31, 2002 was $369.8 million. A one-percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $4.9 million.

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

We utilize 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 was required to be adopted in years beginning after June 15, 2000. We adopted the new Statement effective January 1, 2001. The Statement requires us 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 March 31, 2002, we had two interest rate swaps with notional amounts of $32.0 million each, based on 30-day LIBOR. Under the terms of the first agreement, which expires in December 2003, we receive payments when LIBOR exceeds 6.35% and pay the counterparty when LIBOR is less than 6.35%. At March 31, 2002, 30-day LIBOR was 1.90%. This interest rate swap was extended to December 2003 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 March 31, 2002 and December 31, 2001 was a liability of $917,004 and $1,316,566, respectively.

The initial liability at January 1, 2001 was recorded as a transition adjustment in other comprehensive income and was recognized over the initial term of the swap ending December 31, 2001. Such amortization for the three month-period ended March 31, 2002 and 2001 was $0 and $87,836, respectively. The change in fair market of $399,562 and $393,794 for the three-month periods ending March 31, 2002 and 2001, respectively, along with the amortization are included in charges for derivative accounting in our Consolidated Statement of Operations.

Under the second agreement, which expires December 31, 2002, we receive payments when LIBOR exceeds 4.89% and pay the counterparty when LIBOR is less than 4.89%. The fair value of this interest rate swap at March 31, 2002 and December 31, 2001 was a liability of $566,061 and $849,122, respectively. The change in fair market of $283,061 and $90,043 for the three-month periods ending March 31, 2002 and 2001, respectively, are 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 our Consolidated Balance Sheet at March 31, 2002 and December 31, 2001.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note G to the 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

In February 2002, we completed a registered rights offering and simultaneous private placement to Explorer. Stockholders exercised subscription rights to purchase a total of 6.4 million shares of common stock at a subscription price of $2.92 per share, raising gross proceeds of $18.7 million. In the private placement with Explorer, we issued a total of 10.7 million shares of common stock at a price of $2.92 per share, raising gross proceeds of $31.3 million. We expect to use the proceeds from the rights offering and private placement to repay outstanding indebtedness and for working capital and general corporate purposes. The shares of common stock were issued to Explorer without registration under the Securities Act of 1933, as amended, in reliance upon the private placement exemption pursuant to Section 4(2) thereof.

On February 21, 2002, we filed Articles of Amendment amending the terms of our Series C Convertible Preferred Stock to: (i) remove the restriction that prevents the voting or conversion of the Series C preferred stock in excess of 49.9% of our voting securities owned by Explorer; (ii) provide that if we fail to pay dividends owed upon the Series C preferred stock for a period of time, the holders of the Series C preferred stock will be entitled to designate two additional directors to our Board of Directors; and (iii) provide that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock. The stockholders of our Company approved the amendment on February 18, 2002. The Articles of Amendment amending the terms of our Series C Convertible Preferred Stock were previously filed as an exhibit to the Form 8-K filed by us on March 4, 2002.

Item 3. Defaults upon Senior Securities

(a) Payment Defaults. Not Applicable.

(b) Dividend Arrearages. On February 1, 2001, we 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 our preferred stock are cumulative, and therefore all accrued and unpaid dividends on our Series A, B and C Preferred Stock must be paid in full prior to recommencing the payment of cash dividends on our Common Stock. The table below sets forth information regarding arrearages in payment of preferred stock dividends:

(c)
<TABLE>
<CAPTION>

Title of Class	Annual Dividend Per Share	Arrearage as of March 31, 2002
<S>	<C>	<C>
9.25% Series A Cumulative Preferred Stock	$ 2.3125	$ 6,648,438
8.625% Series B Cumulative Preferred Stock	$ 2.1563	$ 5,390,625
Series C Convertible Preferred Stock	$10.0000	$12,902,593
TOTAL		$24,941,656

</TABLE>

Since dividends on the Series A and Series B Preferred Stock are in arrears for more than 18 months as of April 30, 2002, the holders of the Series A and Series B Preferred Stock (voting together as a single class) have the right to elect two additional directors to our Board of Directors in accordance with the terms of the Series A and Series B Preferred Stock and our Bylaws. Explorer, the sole holder of the Series C Preferred Stock, also has the right to elect two other additional directors to our Board of Directors in accordance with the terms of the Series C Preferred Stock and our Bylaws. We are not aware of any action by holders of our preferred stock to elect additional directors pursuant to the procedures set forth in the terms of the preferred stock and our Bylaws. Explorer, without waiving its rights under the terms of the Series C Preferred Stock or the Stockholders Agreement, has advised us that it is not currently seeking the election of the two additional directors resulting from the Series C dividend arrearage unless the holders of the Series A and Series B Preferred Stock seek to elect additional directors.

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

A Special Meeting of Shareholders was held on February 18, 2002. At the meeting the shareholders approved the issuance of common stock in connection with Explorer Holdings, L.P.'s investment. The results of the vote were as follows:

<TABLE>
<CAPTION>

Manner of Vote Cast	Common Stock	Votes Represented by Series C Preferred Stock	Total
<S>	<C>	<C>	<C>
For	5,063,440	16,774,722	21,838,162
Against	197,110	-	197,110
Abstain	44,423	-	44,423

</TABLE>

At the meeting, the shareholders also approved an amendment to our Articles of Incorporation amending the terms of our Articles Supplementary for Series C Convertible Preferred Stock. The results of the vote were as follows:

<TABLE>
<CAPTION>

Manner of Vote Cast	Common Stock	Votes Represented by Series C Preferred Stock	Total
<S>	<C>	<C>	<C>
For	5,057,615	16,774,722	21,832,337
Against	194,177	-	194,177
Abstain	53,181	-	53,181

</TABLE>

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit - The following Exhibit is filed herewith:

Exhibit	Description
10.1	Second Amended and Restated Stockholders Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc., dated April 30, 2002

(b) Reports on Form 8-K

The following reports on Form 8-K were filed since December 31, 2001:

Form 8-K dated February 21, 2002: Report with the following exhibits:

4.1	Articles of Amendment amending the terms of our Series C Convertible Preferred Stock
10.1	Amended and Restated Stockholders Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc., dated as of February 21, 2002
10.2	Amended and Restated Registration Rights Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc., dated as of February 21, 2002
10.3	Advisory Letter from The Hampstead Group, L.L.C. to Omega Healthcare Investors, Inc., dated February 21,2002
10.4	Press Release issued by Omega Healthcare Investors, Inc. on February 21, 2002

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: May 13, 2002 By: /s/ C. TAYLOR PICKETT

C. Taylor Pickett
Chief Executive Officer

Date: May 13, 2002 By: /s/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer

SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT (this "Agreement"), dated as of April 30, 2002, between Explorer Holdings, L.P., a Delaware limited partnership ("Stockholder"), and Omega Healthcare Investors, Inc., a Maryland corporation (the "Company").

WHEREAS, the Company and Stockholder have entered into an Investment Agreement, dated as of October 29, 2001, as amended (the "Investment Agreement"), pursuant to which, among other things, Stockholder acquired shares of common stock, par value $0.10 per share, of the Company (the "Common Stock"), which together with the Series C Preferred Stock held by Stockholder represent a majority of the outstanding Voting Securities (as defined below);

WHEREAS, upon the closing of the transactions contemplated by the Investment Agreement, the Company and Stockholder entered into an Amended and Restated Stockholders Agreement, dated as of February 20, 2002 (the "Original Agreement"); and

WHEREAS, the Company and the Stockholder wish to amend the Original Agreement to clarify Stockholder's right to designate directors of the Company and to make certain other changes.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

I. DEFINITIONS

1.1 Definitions. Capitalized terms used herein and not defined herein will have the meaning set forth in the Investment Agreement. In addition to the terms defined elsewhere herein, the following terms have the following meanings when used herein with initial capital letters:

(a) "Affiliate" of any Person means any other Person, that, directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such Person; and, for the purposes of this definition only, "control" (including the terms "controlling", "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management, policies or activities of a Person whether through the ownership of securities, by contract or agency or otherwise; provided that the Company and the Stockholder shall not be deemed to be Affiliates of the other for purposes of this Agreement.

(b) "Assumption Agreement" means an agreement in writing in substantially the form of Exhibit A hereto pursuant to which the party thereto agrees to be bound by the terms and provisions of Sections 2.2, 2.5, 3.1 and 3.2 of this Agreement.

(c) A Person will be deemed the "beneficial owner" of, and will be deemed to "beneficially own", and will be deemed to have "beneficial ownership" of:

(i) any securities that such Person or any of such Person's Affiliates is deemed to "beneficially own" within the meaning of Rule 13d-3 under the Exchange Act, as in effect on the date of this Agreement; and

(ii) any securities (the "underlying securities") that such Person or any of such Person's Affiliates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (written or oral), or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise (it being understood that such Person will also be deemed to be the beneficial owner of the securities convertible into or exchangeable for the underlying securities).

(d) "Board" means the Board of Directors of the Company.

(e) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(f) "Person" means an individual, a corporation, a partnership, a limited partnership, a limited liability company, an association, a trust or other entity or organization, including without limitation a government or political subdivision or an agency or instrumentality thereof.

(g) "Public Offering" means the sale of shares of any class of Securities to the public pursuant to an effective registration statement (other than a registration statement on Form S-4 or S-8 or any similar or successor form) filed under the Securities Act.

(h) "Registration Rights Agreement" means the Amended and Restated Registration Rights Agreement, dated as of February 20, 2002, between Stockholder and the Company and any other registration rights agreement entered into in accordance with Article III hereof.

(i) "Securities" means the Common Stock, the Series C Preferred and all other securities of the Company entitled to vote generally in the election of the directors of the Company, and all other securities convertible into, exchangeable for or exercisable for any such securities (whether immediately or otherwise).

(j) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(k) "Transfer" means a transfer, sale, assignment, pledge, hypothecation or disposition.

(l) "Voting Securities" means the Common Stock, the Series C Preferred and all other securities of the Company entitled to vote generally in the election of the directors of the Company. For the avoidance of doubt, the Series A Preferred Stock and the Series B Preferred Stock of the Company are not Voting Securities.

II. GOVERNANCE; RESTRICTIONS ON
ACQUISITION OF VOTING SECURITIES

2.1 Nomination and Voting for Stockholder Designees and Independent Directors. (a) (a) Stockholder will be entitled at Stockholder's election to designate from time to time up to such number (rounded to the nearest whole number) of directors to the Board (the "Stockholder Designees") based on the percentage of the Company's total issued and outstanding Voting Securities beneficially owned by Stockholder on an as-converted basis, not to exceed the minimum number of directors (rounded to the nearest whole number) that represents at least 51% of the total number of directors entitled to be elected to the Board from time to time (including any directors who may then be elected or appointed to fill any vacant seat on the Board that exists from time to time or who may then be elected or appointed pursuant to the terms of any series of preferred stock of the Company); provided that (i) the aggregate number of Stockholder Designees will not exceed the minimum number of directors (rounded to the nearest whole number) that represents at least 51% of the total number of directors entitled to be elected to the Board from time to time (including any directors who may then be elected or appointed to fill any vacant seat on the Board that exists from time to time or who may then be elected or appointed pursuant to the terms of any series of preferred stock of the Company) and (ii) the aggregate number of Stockholder Designees will constitute a majority of the total number of directors on the Board only during such time as Explorer owns at least a majority of the Company's total issued and outstanding Voting Securities. For purposes hereof, directors elected by the holders of the Company's Series C Preferred Stock pursuant to the terms thereof relating to dividend arrearages shall be deemed Stockholder Designees so long as Stockholder beneficially owns at least 66-2/3% of the outstanding Series C Preferred Stock.

(b) The Company, at each meeting of stockholders of the Company at which directors are elected or pursuant to which such action is to be taken by written consent, will nominate for election as directors of the Company such number of Stockholder Designees such that following such election the Stockholder Designees who are members of the Board represent the aggregate number of Stockholder Designees that Stockholder is permitted to designate pursuant to this Section 2.1. At least 90 calendar days prior to any such meeting or action by written consent, Stockholder will provide the Company with the information required pursuant to Regulation 14A under the Exchange Act with respect to each Stockholder Designee. The Company will solicit proxies from its stockholders for such nominees, vote all proxies in favor of such nominees, except for such proxies that specifically indicate to the contrary, and otherwise use its best efforts to cause such nominees to be elected to the Board as herein contemplated. The Company will as promptly as practicable, at the request of Stockholder, take such corporate action (including, without limitation, (i) calling a special stockholders meeting, (ii) increasing the size of the Board, and (iii) filling any vacancy created by such increase in the size of the Board) in order to have the Board constituted in the manner contemplated by this Section 2.1.

(c) The Stockholder Designees will be apportioned among the three classes of directors as equal as possible; provided, however, that in the event that the number of Stockholder Designees determined pursuant to Section 2.1 is not evenly divisible by three, such additional Stockholder Designee or Designees shall be nominated to the class or classes of directors with the longest term of office. Each Stockholder Designee will serve until his successor is elected and qualified or until his earlier resignation, retirement, disqualification, removal from office, or death.

(d) Notwithstanding anything in the Articles of Restatement or bylaws of the Company to the contrary, if any Stockholder Designee ceases to be a director of the Company for any reason, the Company will promptly upon the request of Stockholder cause a person designated by Stockholder to replace such director if Stockholder is so entitled.

(e) Stockholder agrees to cause a Stockholder Designee to promptly resign in the event Stockholder's beneficial ownership of Voting Securities declines such that Stockholder would no longer have the right to designate such person.

(f) From and after the date the stockholders of the Company vote to approve the amendment of the Company's Articles of Restatement and bylaws to permit an increase in the size of the Board to more than nine members (the "Stockholder Approval Date"), the Company will take all actions as may be necessary to appoint C. Taylor Pickett to the Board. Prior to the Stockholder Approval Date, the Company covenants that the total number of seats on the Board (including any vacant seats) will in no event exceed nine unless otherwise requested in writing by Stockholder or as provided pursuant to the terms of the Series A, B or C Preferred Stock in effect on the date hereof. After the Stockholder Approval Date, the Company covenants that the total number of seats on the Board (including any vacant seats) will in no event exceed ten unless otherwise requested in writing by Stockholder or as provided pursuant to the terms of the Series A, B or C Preferred Stock in effect on the date hereof.

(g) Except as may otherwise be required under the rules of The New York Stock Exchange or the SEC or as may be agreed to by a majority of the Stockholder Designees, at all times after the date hereof, the Company will take such action to ensure that the Stockholder Designees are represented on each committee of the Board in at least the same proportion as their representation on the entire Board and that each committee will consist of at least three members, other than any committee comprised solely of Non-Stockholder Designees established for the purpose of considering transactions in which the Stockholder or its Affiliates or Associates have an interest different from other stockholders of the Company.

2.2 Voting for Other Directors. (a) (a) For as long as Stockholder beneficially owns at least 15.0% of the issued and outstanding Voting Securities on an as-converted basis, Stockholder will vote all Voting Securities that it beneficially owns to elect as directors (i) three Independent Directors and (ii) from and after the date the Board is increased to ten members, one additional Person who is not an Affiliate or Associate of Stockholder or its Affiliates or Associates (other than the Company) (such designees, "Non-Stockholder Designees").

(b) The Company shall use its best efforts to cause the Non-Stockholder Designees selected in accordance with this Section 2.2 to serve on the Board. The Company, at each meeting of stockholders of the Company at which directors are elected or pursuant to which such action is to be taken by written consent, will nominate for election as directors of the Company such number of Non-Stockholder Designees such that following such election the Non-Stockholder Designees who are members of the Board represent the aggregate number of Non-Stockholder Designees that are to be elected in accordance with this Section 2.2. The Company will solicit proxies from its stockholders for such nominees, vote all proxies in favor of such nominees, except for such proxies that specifically indicate to the contrary, and otherwise use its best efforts to cause such nominees to be elected to the Board as herein contemplated. Notwithstanding anything in the Articles of Restatement or bylaws of the Company to the contrary, in the event any Non-Stockholder Designee shall be unable to serve as a director, a replacement for such director shall be designated in the same manner as set forth in this Section 2.2.

(c) "Independent Director" shall mean a Person who (i) satisfies the qualification requirements as an "independent" director and as a member of the audit committee of the Company under the rules and regulations of The New York Stock Exchange and (ii) is not an Affiliate of Stockholder.

2.3 Other Voting Rights. Stockholder and the Company agree that under applicable law, including without limitation Section 2-419 of the MGCL, and pursuant to the Company's constituent documents, neither the Stockholder nor the Stockholder Designees would be precluded, and the Company agrees that it will not assert that the Stockholder or any of the Stockholder Designees is precluded, from voting with respect to any transaction involving Stockholder following appropriate disclosure to the then directors of any circumstances that could provide the basis for an assertion of a conflict of interest.

2.4 Access. The Company will, and will cause its subsidiaries and each of the Company's and its subsidiaries' officers, directors, employees, agents, representatives, accountants and counsel to: (a) afford the officers, employees and authorized agents, accountants, counsel, financing sources and representatives of Stockholder reasonable access, during normal business hours, to the offices, properties, other facilities, books and records of the Company and each subsidiary and to those officers, directors, employees, agents, accountants and counsel of the Company and of each subsidiary who have any knowledge relating to the Company or any subsidiary and (b) furnish to the officers, employees and authorized agents, accountants, counsel, financing sources and representatives of Stockholder, such additional financial and operating data and other information regarding the assets, properties and goodwill of the Company and its subsidiaries (or legible copies thereof) as Stockholder may from time to time reasonably request (other than information and material from the Company's counsel which is subject to the attorney/client privilege, which information and material shall be made available to the Stockholder Designees in their capacity as members of the Board).

2.5 Restriction on Acquisition of Voting Securities. Except in connection with the acquisition of Voting Securities in a transaction approved by a committee of the Board, all of the members of which committee shall consist of Non-Stockholder Designees, Stockholder will not purchase or otherwise acquire beneficial ownership of more than 80% of the Voting Securities then issued and outstanding on an as-converted basis. Notwithstanding the foregoing, Stockholder shall not be in breach of this Section 2.5 as the result of (i) an acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportionate number of Voting Securities beneficially owned by Stockholder in excess of 80% of the Voting Securities then issued and outstanding on an as-converted basis, (ii) the acquisition by Stockholder of newly issued Voting Securities directly from the Company, or (iii) any increase in the number of Voting Securities beneficially owned by Stockholder as a result of the anti-dilution provisions of any Voting Securities. This Section 2.5 will immediately terminate if a third party publicly announces an intent to effect a transaction, "commence a tender offer" (within the meaning of Rule 14d-2 under the Exchange Act), or enter into an agreement contemplating the acquisition of, 20% or more of the Voting Securities then issued and outstanding on an as-converted basis.

III. TRANSFER OF SECURITIES

3.1 Transfer of Voting Securities by Stockholder. (a) (a) Stockholder agrees that Stockholder will not Transfer Voting Securities beneficially owned by it, the effect of which would cause the transferee to acquire beneficial ownership of 10% or more of the Voting Securities then-outstanding on an as-converted basis (other than to any Affiliate of Stockholder), unless, prior to such Transfer (i) notice of such Transfer is given to the Company and (ii) the Person to whom such Voting Securities are to be Transferred enters into an Assumption Agreement.

(b) In the event of any purported Transfer by Stockholder of any Voting Securities not made in compliance with this Section 3.1, such purported Transfer will be void and of no effect and the Company will not give effect to such Transfer. The Company shall be entitled to treat the prior owner as the holder of any such Securities not Transferred in accordance with this Agreement.

3.2 Legend. Each certificate representing Securities issued to Stockholder will bear a legend on the face thereof substantially to the following effect (with such additions thereto or changes therein as the Company may be advised by counsel are required by law (the "Legend")):

> "THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY HAVE BEEN REGISTERED UNDER THAT ACT OR ANY OTHER APPLICABLE LAW OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE."
>
> "THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT, DATED APRIL 30, 2002, BETWEEN THE COMPANY AND EXPLORER HOLDINGS, L.P., A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH AGREEMENT."

The Legend will be removed by the Company promptly following the delivery of a legal opinion from counsel to the Stockholder to the effect that such legend is no longer required for purposes of applicable securities laws. In connection with the foregoing, the Company agrees that, if the Company is required to file reports under the Exchange Act, for so long as and to the extent necessary to permit the Stockholder to sell any Securities pursuant to Rule 144, the Company will use its reasonable efforts to file, on a timely basis, all reports required to be filed with the SEC by it pursuant to Section 13 of the Exchange Act, furnish to the Stockholder upon request a written statement as to whether the Company has complied with such reporting requirements during the 12 months preceding any proposed sale under Rule 144 and otherwise use its reasonable efforts to permit such sales pursuant to Rule 144.

3.3 Transfers of Voting Securities by Stockholder. The Company and its transfer agent may not refuse to Transfer any Voting Securities, passing either by voluntary Transfer or by operation of law, by Stockholder if such Transfer (i) complies with Section 3.1 hereof and (ii) would not, in the written opinion of counsel to Stockholder reasonably acceptable to the Company, disqualify the Company as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended.

3.4 Registration Rights. Upon consummation of any Transfer of Securities constituting 5% or more of the Securities (other than a Transfer in a Public Offering or pursuant to Rule 144 under the Securities Act) on an as-converted, fully diluted basis, the Company will enter into a registration rights agreement in favor of such transferee substantially in the form of the Registration Rights Agreement, with such modifications thereto as are acceptable to such transferee that do not materially increase the Company's obligations thereunder (excluding the effects of multiple parties); provided, however, that in no event will the Company be required to grant more than one demand registration right for every 5% of Securities then outstanding involved in such Transfer of Securities.

IV. MISCELLANEOUS

4.1 Termination. (a) (a) The provisions of this Agreement will terminate, and be of no further force or effect (other than with respect to prior breaches), on February 20, 2007.

(b) Any portion or all of this Agreement will terminate and be of no further force and effect upon written agreement of the parties to that effect.

4.2 Specific Performance. The parties agree that any breach by either of them of any provision of this Agreement would irreparably injure the Company or the Stockholder, as the case may be, and that money damages would be an inadequate remedy therefor. Accordingly, the parties agree that the other party will be entitled to one or more injunctions enjoining any such breach and requiring specific performance of this Agreement and consent to the entry thereof, in addition to any other remedy to which such other party is entitled at law or in equity.

4.3 Notices. All notices, requests and other communications to either party hereunder will be in writing (including telecopy or similar writing) and will be given:

If to the Company, to:

Omega Healthcare Investors, Inc.
9690 Deereco Road, Suite 100
Timonium, Maryland 21093
Attention: Chief Financial Officer
Fax: (734) 887-0388

with a copy to:

Powell, Goldstein, Frazer & Murphy LLP
191 Peachtree Street, N.E.
Suite 1600
Atlanta, Georgia 30303
Attention: Rick Miller or
Eliot Robinson
Fax: (404) 572-6999

If to Stockholder, to:

Explorer Holdings, L.P.
c/o The Hampstead Group, L.L.C.
4200 Texas Commerce Tower West
2200 Ross Avenue
Dallas, Texas 75801
Attention: Kymberlyn J. Irvin
Fax: (214) 220-4949

with a copy to:

Jones, Day, Reavis & Pogue
222 East 41st Street
New York, New York 10017
Attention: Thomas W. Bark
Fax: (212) 755-7306

or such other address or telecopier number as such party may hereafter specify by notice to the other party hereto. Each such notice, request or other communication shall be effective only when actually delivered at the address specified in this Section 4.3, if delivered prior to 5:00 (local time) and such day is a Business Day, and if not, then such notice, request or other communication shall not be effective until the next succeeding Business Day.

4.4 Amendments: No Waivers. (a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Company and Stockholder, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder will operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided will be cumulative and not exclusive of any rights or remedies provided by law.

4.5 Successors and Assigns. The provisions of this Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided, however, that none of the parties may assign, delegate or otherwise transfer any of their rights or obligations under this

Agreement without the written consent of the other party hereto. Neither this Agreement nor any provision hereof is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

4.6 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which will be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement will become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

4.7 Entire Agreement. This Agreement, the Investment Agreement, the Registration Rights Agreement and the documents contemplated thereby (and all schedules and exhibits thereto) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements, understandings and negotiations, both written and oral, between the parties with respect thereto.

4.8 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

4.9 Calculation of Beneficial Ownership. Any provision in this Agreement that refers to a percentage of Voting Securities shall be calculated based on the aggregate number of issued and outstanding shares of Common Stock at the time of such calculation (including any shares of Common Stock that would then be issuable upon the conversion of the Series C Preferred or any outstanding convertible security), but shall not include any shares of Common Stock issuable upon any options, warrants or other securities that are exercisable for Common Stock.

4.10 Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

4.11 Jurisdiction; Consent to Service of Process. (a) Each party hereby irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of any state or federal court located in the State of Delaware (as applicable, a "Delaware Court"), and any appellate court from any such court, in any suit, action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment resulting from any such suit, action or proceeding, and each party hereby irrevocably and unconditionally agrees that all claims in respect of any such suit, action or proceeding may be heard and determined in the Delaware Court.

(b) It will be a condition precedent to each party's right to bring any such suit, action or proceeding that such suit, action or proceeding, in the first instance, be brought in the Delaware Court (unless such suit, action or proceeding is brought solely to obtain discovery or to enforce a judgment), and if each such court refuses to accept jurisdiction with respect thereto, such suit, action or proceeding may be brought in any other court with jurisdiction.

(c) No party may move to (i) transfer any such suit, action or proceeding from the Delaware Court to another jurisdiction, (ii) consolidate any such suit, action or proceeding brought in the Delaware Court with a suit, action or proceeding in another jurisdiction, or (iii) dismiss any such suit, action or proceeding brought in the Delaware Court for the purpose of bringing the same in another jurisdiction.

(d) Each party hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, (i) any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in the Delaware Court, (ii) the defense of an inconvenient forum to the maintenance of such suit, action or proceeding in any such court, and (iii) the right to object, with respect to such suit, action or proceeding, that such court does not have jurisdiction over such party. Each party irrevocably consents to service of process in any manner permitted by law. Notwithstanding the foregoing, this Section 4.11 will not apply to (x) any suit, action or proceeding by a party seeking indemnification or contribution pursuant to this Agreement or otherwise in respect of a suit, action or proceeding against such party by a third party if such suit, action or proceeding by such party seeking indemnification or contribution is brought in the same court as the suit, action or proceeding against such party or (y) any suit, action or proceeding to enforce a judgment of a Delaware Court.

4.12 WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT.

4.13 No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

[Signature page follows]

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

EXPLORER HOLDINGS, L.P.

By: EXPLORER HOLDINGS GENPAR, L.L.C., its General Partner

By: /S/ KYMBERLYN J. IRVIN

Kymberlyn J. Irvin
Vice President

OMEGA HEALTHCARE INVESTORS, INC.

By: /S/ C. TAYLOR PICKETT

C. Taylor Pickett
Chief Executive Officer

EXHIBIT A

Form of Assumption Agreement

The undersigned hereby agrees, effective as of the date hereof, to become a party to, and be bound by the provisions of, Sections 2.2, 2.5, 3.1 and 3.2 of that certain Second Amended and Restated Stockholders Agreement (the "Agreement"), dated as of April 30, 2002, by and between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. and for all purposes of such sections of the Agreement, the undersigned shall be included within the term "Stockholder" (as defined in the Agreement). The address and facsimile number to which notices may be sent to the undersigned is as follows:

____
____
____
Facsimile No._______________

[Name]

By: ____________________________
Name:
Title: