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, 2003

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of ther Exchange Act).

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of March 31, 2003.

Common Stock, $.10 par value	37,149,445
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
March 31, 2003

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

<TABLE>
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	March 31, 2003 (Unaudited)	December 31, 2002 (See note)
ASSETS		
Real estate properties		
Land and buildings at cost	$ 713,373	$ 669,188
Less accumulated depreciation	(123,023)	(117,986)
Real estate properties - net	590,350	551,202
Mortgage notes receivable - net	124,667	173,914
	715,017	725,116
Other investments - net	40,722	36,887
	755,739	762,003
Assets held for sale - net	2,324	2,324
Total investments	758,063	764,327
Cash and cash equivalents	25,673	15,178
Accounts receivable - net	3,769	2,766
Interest rate cap	6,634	7,258
Other assets	5,970	5,597
Operating assets for owned properties	-	8,883
Operating assets and liabilities for owned properties - net	222	-
Total assets	$ 800,331	$ 804,009
LIABILITIES AND STOCKHOLDERS EQUITY		
Revolving lines of credit	$ 177,000	$ 177,000
Unsecured borrowings	100,000	100,000
Other long-term borrowings	29,344	29,462
Accrued expenses and other liabilities	8,902	

		13,234
Operating liabilities for owned properties	-	4,612
Total liabilities	315,246	324,308
Preferred stock	212,342	212,342
Common stock and additional paid-in capital	484,788	484,766
Cumulative net earnings	157,230	151,245
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(116)	(116)
Accumulated other comprehensive loss	(3,505)	(2,882)
Total stockholders equity	485,085	479,701
Total liabilities and stockholders equity	$ 800,331	$ 804,009

</TABLE>

Note - The balance sheet at December 31, 2002 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, 2003	Three Months Ended March 31, 2002
<S>	<C>	<C>
Revenues		
Rental income	$ 16,674	$ 15,431
Mortgage interest income	4,392	5,412
Other investment income - net	990	1,103
Nursing home revenues of owned and operated assets	-	21,748
Litigation settlement	2,187	-
Miscellaneous	321	230
	24,564	43,924
Expenses		
Nursing home expenses of owned and operated assets	-	23,700
Nursing home revenues and expenses of owned and operated assets - net	1,333	-
Depreciation and amortization	5,329	5,326
Interest	5,112	8,138
General and administrative	1,471	1,719
Legal	558	855
State taxes	158	129
Provision for impairment	4,618	-
Adjustment of derivatives to fair value	-	(400)
	18,579	39,467
Net income	5,985	4,457
Preferred stock dividends	(5,029)	(5,029)
Net income (loss) available to common	$ 956	$ (572)
Income (loss) per common share:		
Net income (loss) per share, basic	$ 0.03	$ (0.02)
Net income (loss) per share, diluted	$ 0.03	$ (0.02)

Dividends declared and paid per common share	$ -	$ -
Weighted-average shares outstanding, basic	37,145	27,421
Weighted-average shares outstanding, diluted	37,145	27,421
Components of other comprehensive income:		
Unrealized gain on Omega Worldwide, Inc	$ -	$ 547
Unrealized (loss) gain on hedging contracts	$ (623)	$ 283
Total comprehensive income	$ 5,362	$ 5,287

</TABLE>

See notes to consolidated financial statements.

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

<TABLE>
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	Three Months Ended March 31, 2003	2002
<S>	<C>	<C>
Operating activities		
Net income	$ 5,985	$ 4,457
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,329	5,326
Provision for impairment	4,618	-
Adjustment of derivatives to fair value	-	(400)
Other	702	630
Net change in accounts receivable for owned and operated assets - net	2,680	(1,398)
Net change in accounts payable for owned and operated assets	429	(1,658)
Net change in other owned and operated assets and liabilities	940	(192)
Net change in operating assets and liabilities	(6,164)	3,453
Net cash provided by operating activities	14,519	10,218
Cash flows from financing activities		
Proceeds from revolving lines of credit - net	-	387
Proceeds from refinancing - net	-	13,635
Payments of long-term borrowings	(118)	(35,616)
Receipts from Dividend Reinvestment Plan	-	1
Proceeds from rights offering and private placement - net	-	44,600
Deferred financing costs paid	(321)	(1,547)
Other	-	23
Net cash (used in) provided by financing activities	(439)	21,483
Cash flow from investing activities		
Capital improvements and funding of other investments	(32)	(421)
Disposal of non-real estate assets	-	(80)
Investments in other assets	(4,029)	-
Collection of mortgage principal	476	1,942
Net cash (used in) provided by investing activities	(3,585)	1,441
Increase in cash and cash equivalents	10,495	33,142
Cash and cash equivalents at beginning of period	15,178	11,445
Cash and cash equivalents at end of period	$ 25,673	$ 44,587
Interest paid during the period	$ 5,601	$ 7,272

</TABLE>

See notes to consolidated financial statements.

Omega Healthcare Investors, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

March 31, 2003

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements for Omega Healthcare Investors, Inc. have been prepared in accordance with accounting

principles generally accepted in the United States ("GAAP") 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) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the 2002 financial statements for consistency with the presentation adopted for 2003. Such reclassifications have no effect on previously reported earnings or equity.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("FAS 145"), which stipulates that gains and losses from extinguishment of debt generally will not be reported as extraordinary items effective for fiscal years beginning after May 15, 2002. We adopted this standard effective January 1, 2003. FAS 145 also specifies that any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. Therefore, the $28,000 gain on extinguishment of debt previously reported for the three-month period ended March 31, 2002 has been reclassified to interest expense in our Consolidated Statements of Operations.

Due to the decrease in size of the owned and operated portfolio (one facility as of March 31, 2003), the operations of such facilities and the net assets employed therein are no longer considered a separate reportable segment. Accordingly, commencing January 1, 2003, the operating revenues and expenses and related operating assets and liabilities of the owned and operated facilities are shown on a net basis in our Consolidated Statements of Operations and Consolidated Balance Sheets, respectively.

Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

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 sell 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 is under contract, 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 Financial Accounting Standards Board ("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 in our financial statements. Long-lived assets designated as held for sale prior to January 1, 2002 are subject to FASB 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed.

A summary of the number of properties by category for the quarter ended March 31, 2003 follows:

<TABLE>
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Facility Count	Purchase / Leaseback	Mortgages Receivable	Owned & Operated	Closed Facilities	Total Healthcare Facilities	Assets Held for Sale	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2002..........	148	63	3	8	222	4	226
Properties transferred to assets held for sale.......................	-	-	-	-	-	-	-

Properties closed.....................	(1)	(1)	(1)	3	-	-	-
Properties sold/mortgages paid.........	-	-	-	-	-	-	-
Transition leasehold interest..........	-	-	(1)	-	(1)	-	(1)
Properties leased /mortgages placed....	-	-	-	-	-	-	-
Properties transferred to purchase/leaseback...................	8	(8)	-	-	-	-	-
Balance at March 31, 2003...........	155	54	1	11	221	4	225
Investment ($000's)							
Balance at December 31, 2002..........	$659,538	$173,914	$ 5,571	$ 4,079	$843,102	$ 2,324	$845,426
Properties transferred to assets held for sale........................	-	-	-	-	-	-	-
Properties closed.....................	(5,900)	(1,200)	(309)	7,409	-	-	-
Properties sold/mortgages paid.........	-	-	-	-	-	-	-
Transition leasehold interest..........	-	-	-	-	-	-	-
Properties leased/mortgages placed.....	-	-	-	-	-	-	-
Properties transferred to purchase/leaseback...................	47,571	(47,571)	-	-	-	-	-
Impairment on properties..............	-	-	-	(4,618)	(4,618)	-	(4,618)
Capex and other........................	-	(476)	32	-	(444)	-	(444)
Balance at March 31, 2003...........	$701,209	$124,667	$ 5,294	$ 6,870	$838,040	$ 2,324	$840,364

</TABLE>

Purchase/Leaseback

During the three-month period ended March 31, 2003, we successfully re-leased nine facilities formerly operated by Integrated Health Services, Inc. ("IHS"). Accordingly, eight skilled nursing facilities ("SNFs"), which we held mortgages on, and one SNF, which we leased to IHS, have been re-leased to various unaffiliated third parties. Titles to the eight properties, which we held mortgages on, have been transferred to wholly-owned subsidiaries of ours by Deeds in Lieu of Foreclosure.

Specifically, during the quarter ended March 31, 2003, we leased nine SNFs to four unaffiliated third-party operators as part of four separate transactions. Each of the nine facilities had formerly been operated by subsidiaries of IHS. The four transactions included: (i) a Master Lease of five SNFs in Florida representing 600 beds to affiliates of Seacrest Healthcare Management, LLC, which lease has a ten-year term and has an initial annual rent of $2.5 million; (ii) a month-to-month lease (following a minimum four-month term) on two SNFs in Georgia representing 304 beds to subsidiaries of Triad Health Management of Georgia, LLC, which lease provides for annualized rent of $0.7 million - the month-to-month structure results from Georgia Medicaid rate cuts (effective February 1, 2003) and the potential for future Georgia reimbursement changes; (iii) a lease of one SNF in Texas, representing 130 beds, to an affiliate of Senior Management Services of America, Inc., which lease has a ten-year term and has various rent step-ups, reaching $384,000 by year three, thereafter, increasing by the lesser of CPI or 2.5%; and (iv) re-leased one 159-bed SNF, located in the state of Washington to a subsidiary of Sun Healthcare Group, Inc. ("Sun"), with an initial lease term of eight years and initial annual rent of $0.5 million.

In an unrelated transaction, we recorded a provision for impairment of $4.6 million associated with one closed facility, located in the state of Washington, previously leased to a subsidiary of Sun as part of a Master Lease. We intend to sell this closed facility as soon as practicable; however, there can be no assurance if, or when, this sale will be completed.

Also during the first quarter of 2003, we completed a restructured transaction with Claremont Health Care Holdings, Inc. (formerly Lyric Health

Care, LLC) whereby nine facilities formerly leased under two Master Leases were combined into one new ten-year Master Lease. Annual rent under the new lease is $6.0 million, the same amount of rent recognized in 2002 for these properties.

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 becomes questionable or when negotiations for restructurings of 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.

During the three months ended March 31, 2003, titles to eight facilities were transferred to us as discussed above (see Purchase/Leaseback). In addition, in an unrelated transaction with IHS, we received title to one closed property by Deed in Lieu of Foreclosure, which we held the mortgage on. This facility has been transferred to closed facilities and is included in our Consolidated Balance Sheet under "Land and buildings at cost." We intend to sell this closed facility as soon as practicable; however, there can be no assurance if, or when, this sale will be completed.

No provision for loss on mortgages or notes receivable was recorded during the three-month periods ended March 31, 2003 and 2002, respectively.

Owned and Operated Assets

At March 31, 2003, we own one, 128-bed facility that was previously recovered from a customer and is operated for our own account.

During the three months ended March 31, 2003, we bought out a leasehold interest in one Indiana facility for $0.5 million. In addition, we closed one Illinois facility, which was previously classified as an owned and operated asset. This facility has been transferred to closed facilities and is included in our Consolidated Balance Sheet under "Land and buildings at cost." We intend to sell this closed facility as soon as practicable; however, there can be no assurance if or when this sale will be completed.

We intend to operate the remaining owned and operated asset for our own account until we are able to re-lease, sell or close the facility. The facility and its respective operations are presented on a consolidated basis in our financial statements.

Nursing home revenues, nursing home expenses, assets and liabilities included in our consolidated financial statements which relate to such owned and operated asset are set forth in the tables below. Nursing home revenues from this owned and operated asset 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. For 2003, nursing home revenues, nursing home expenses, operating assets and operating liabilities for our owned and operated properties are shown on a net basis on the face of our consolidated financial statements. For 2002, nursing home revenues, nursing home expenses ,operating assets and operating liabilities for our owned and operated properties are shown on a gross basis on the face of our consolidated financial statements.

Nursing home revenues and nursing home expenses in our consolidated financial statements which relate to our owned and operated assets are as follows:

	Three Months Ended March 31,	
	2003	2002
	(In thousands)	
Nursing home revenues (1)		
Medicaid	$ 855	$13,503
Medicare	272	4,257
Private & other	412	3,988
Total nursing home revenues (2)	1,539	21,748
Nursing home expenses		
Patient care expenses	866	15,278
Administration	1,111	4,502
Property & related	209	1,592
Leasehold buyout expense	582	-
Management fees	76	1,200
Rent	28	1,128
Total nursing home expenses (2)	2,872	23,700

Nursing home revenues and expenses of owned and operated assets - net (2)	$(1,333)	$ -

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

(2) Nursing home revenues and expenses of owned and operated assets for the three months ended March 31, 2003 are shown on a net basis on the face of our Consolidated Statements of Operations and are shown on a gross basis for the three months ended March 31, 2002.

Accounts receivable for owned and operated assets is net of an allowance for doubtful accounts of approximately $11.3 million at March 31, 2003 and $6.9 million at March 31, 2002.

	March 31,	
	2003	2002
	(In thousands)	
Beginning balance	$12,171	$ 8,335
Provision charged/(recovery)	-	(750)
Provision applied	(829)	(667)
Ending balance	$11,342	$ 6,918

The table below reconciles reported revenues and expenses to revenues and expenses excluding nursing home revenues and expenses of owned and operated assets. Nursing home revenues and expenses of owned and operated assets for the three-month period ended March 31, 2003 are shown on a net basis on the face of our Consolidated Statements of Operations and are shown on a gross basis for the three-month period ended March 31, 2002. Since nursing home revenues are not included in reported revenues for the three-month period ended March 31, 2003, no adjustment is necessary to exclude nursing home revenues.

	Three Months Ended March 31,	
	2003	2002
	(In thousands)	
Total revenues	$24,564	$43,924
Nursing home revenues of owned and operated assets	-	21,748
Revenues excluding nursing home revenues of owned and operated assets	$24,564	$22,176
Total expenses	$18,579	$39,467
Nursing home expenses of owned and operated assets	-	23,700
Nursing home revenues and expenses of owned and operated assets - net	1,333	-
Expenses excluding nursing home expenses of owned and operated assets	$17,246	$15,767

The assets and liabilities in our consolidated financial statements which relate to our owned and operated assets are as follows:

	March 31, 2003	December 31, 2002
	(In thousands)	
ASSETS		
Cash	$ 562	$ 838
Accounts receivable - net (1)	4,810	7,491
Other current assets (1)	277	1,207
Total current assets	5,649	9,536
Investment in leasehold - net (1)	-	185
Land and buildings	5,294	5,571
Less accumulated depreciation	(567)	(675)

Land and buildings - net	4,727	4,896
Assets held for sale - net	-	2,324
Total assets	$10,376	$16,941
LIABILITIES		
Accounts payable	$ 818	$ 389
Other current liabilities	4,047	4,223
Total current liabilities	4,865	4,612
Total liabilities (1)	$ 4,865	$ 4,612
Operating assets and liabilities for owned properties - net (1)	$ 222	$ -

(1) Operating assets and liabilities for owned properties as of March 31, 2003 are shown on a net basis on the face of our Consolidated Balance Sheet and are shown on a gross basis as of December 31, 2002.

Closed Facilities

During the quarter ended March 31, 2003, three facilities were transferred to closed facilities. One facility was transferred from purchase leaseback and a non-cash impairment of $4.6 million was recorded to reduce the value of the investment to fair value. Another facility was transferred from mortgage notes receivable after we received a Deed in Lieu of Foreclosure. Finally, we transferred one facility from our owned and operated portfolio into closed facilities. At this time it was determined that no provisions for impairments were needed on the latter two investments. We intend to sell the 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.

At March 31, 2003, there are 11 closed properties that are not currently under contract for sale. These properties are included in "Land and buildings at cost" in our Consolidated Balance Sheet.

Assets Held for Sale

At March 31, 2003, the carrying value of four assets held for sale totaled $2.3 million (net of impairment reserves of $2.8 million). 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.

There were no sales or transfers of real estate assets held for sale during the quarter ended March 31, 2003. During the three months ended March 31, 2002, we realized gross disposition proceeds of $80,000 associated with the sale of beds from two facilities. These beds were part of the facilities that were classified as assets held for sale during 2001. Accordingly, they are subject to FASB 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed.

Note C - Concentration of Risk and Related Issues

As of March 31, 2003, our portfolio of domestic investments consisted of 221 healthcare facilities, located in 28 states and operated by 35 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled $843.0 million at March 31 2003, with 97.2% of our real estate investments related to long-term care facilities. This portfolio is made up of 153 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties, fixed rate, and convertible participating mortgages on 54 long-term healthcare facilities and one long-term healthcare facility that was recovered from a customer and is currently operated through a third-party management contract for our own account and 11 long-term healthcare facilities that were recovered from customers and are currently closed. At March 31, 2003, we also held miscellaneous investments and assets held for sale of approximately $43.0 million, including $16.8 million related to a non-healthcare facility leased by the United States Postal Service, a $1.3 million investment in Principal Healthcare Finance Trust and $15.5 million of notes receivable, net of allowance.

Approximately 49.5% of our real estate investments are operated by four public companies, including Sun Healthcare Group, Inc. (26.5%), Advocat, Inc. ("Advocat") (12.6%), Mariner Post-Acute Network ("Mariner") (7.1%), and Alterra Healthcare Corporation ("Alterra") (3.3%). The three largest private operators represent 10.3%, 4.0% and 3.8%, respectively, of our investments. No other operator represents more than 2.7% of our investments. The three states in which we have our highest concentration of investments are Florida (16.1%), California (7.9%) and Illinois (7.8%).

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 facility owned and operated for our own 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 subject to frequent and substantial change. The Balanced Budget Act of 1997 ("Balanced Budget Act") significantly reduced spending levels for the Medicare and Medicaid programs. Due to the implementation of the terms of the Balanced Budget Act, effective July 1, 1998, the majority of skilled nursing facilities shifted from payments based on reimbursable cost to a prospective payment system for services provided to Medicare beneficiaries. Under the prospective payment system, skilled nursing facilities are paid on a per diem prospective case-mix adjusted payment basis for all covered services. Implementation of the prospective payment system has affected each long-term care facility to a different degree, depending upon the amount of revenue it derives from Medicare patients. Long-term care facilities have had to attempt to restructure their operations to operate profitably under the new Medicare prospective payment system reimbursement policies.

Legislation adopted in 1999 and 2000 increased Medicare payments to nursing facilities and specialty care facilities on an interim basis. Section 101 of the Balanced Budget Relief Act of 1999 ("Balance Budget Relief Act") included a 20% increase for 15 patient acuity categories (known as Resource Utilization Groups ("RUGS")) and a 4% across the board increase of the adjusted federal per diem payment rate. The 20% increase was implemented in April 2000 and will remain in effect until the implementation of refinements in the current RUG case-mix classification system to more accurately estimate the cost of non-therapy ancillary services. The 4% increase was implemented in April 2000 and expired October 1, 2002.

The Benefits Improvement and Protection Act of 2000 ("Benefits Improvement and Protection Act") included a 16.7% increase in the nursing component of the case-mix adjusted federal periodic payment rate and a 6.7% increase in the 14 RUG payments for rehabilitation therapy services. The 16.7% increase was implemented in April 2000 and expired October 1, 2002. The 6.7% increase is an adjustment to the 20% increase granted in the Balance Budget Relief Act and spreads the funds directed at three of those 15 RUGs to an additional 11 rehabilitation RUGs. The increase was implemented in April 2001 and will remain in effect until the implementation of refinements in the current RUG case-mix classification system.

In addition to the expiration of the 4% increase implemented in the Balance Budget Relief Act and the 16.7% increase implemented in the Benefits Improvement and Protection Act, Medicare reimbursement could be further reduced when the Centers for Medicare & Medicaid Services ("CMS") completes its RUG refinement due to the termination of the 20% and 6.7% increases. However, the Medicare Payment Advisory Commission has recommended that the 20% and 6.7% increases be folded into the base rate upon the completion of the RUG refinement. The partial expiration of the increases under these statutes as of October 1, 2002 has had an adverse impact on the revenues of the operators of nursing facilities and has negatively impacted some operators' ability to satisfy their monthly lease or debt payments to us. Recently, CMS announced a delay in the implementation of further refinements in reimbursement rates until October 1, 2004, at the earliest. Because the revised reimbursement rates have not yet been published, it is unclear what effect they will have on us, or if the add-on payments included in the second part of the mitigating legislation will be included in these new rates.

Due to the temporary nature of the remaining payment increases, we cannot be assured that the federal reimbursement will remain at levels comparable to present levels and that such reimbursement will be sufficient for our lessees or mortgagors to cover all operating and fixed costs necessary to care for Medicare and Medicaid patients. We also cannot be assured that there will be any future legislation to increase payment rates for skilled nursing facilities. If payment rates for skilled nursing facilities are not increased in the future, some of our lessees and mortgagors may have difficulty meeting their payment obligations to us.

Each state has its own Medicaid program that is funded jointly by the state and federal government. Federal law governs how each state manages its Medicaid program, but there is wide latitude for states to customize Medicaid programs to fit the needs and resources of its citizens. The Balanced Budget Act repealed the federal payment standard, also known as the Boren Amendment, for hospitals and nursing facilities under Medicaid, increasing states' discretion over the administration of Medicaid programs. A number of states have adopted or are considering reductions in their Medicaid expenditures which could result in decreased revenues for our lessees and mortgagors.

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 which reduce reimbursement levels could adversely affect 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, 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 a 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 contain 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, over the last several years 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. We are typically required to hold applicable licenses and are responsible for the regulatory compliance at our owned and operated facilities. At March 31, 2003, we had one facility, managed under a third party management agreement, classified as owned and operated. Our management contract with this third-party operator provides that the third-party operator is responsible for regulatory compliance, but we could be sanctioned for violation of regulatory requirements. In general, the risks of third-party claims such as patient care and personal injury claims are higher with respect to our owned and operated property as compared with our leased and mortgaged assets.

We and several of our wholly-owned subsidiaries have been named as defendants in professional liability claims related to our owned and operated facilities. Other third-party managers responsible for the day-to-day operations of these facilities have also been named as defendants in these claims. In these suits, patients of certain previously owned and operated facilities have alleged significant damages, including punitive damages against the defendants. The lawsuits are in various stages of discovery and we are unable to predict the likely outcome at this time. We continue to vigorously defend these claims and pursue all rights we may have against the managers of the facilities, under the terms of the management agreements. We have insured these matters, subject to self-insured retentions of various amounts.

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. 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. Due to our 2002 taxable loss, no distribution was necessary to maintain our REIT status for 2002. Net operating loss carryforwards through 2002 of approximately $24.0 million are available to help offset taxable income. In addition, we intend to make the necessary distributions, if any, to satisfy the 2003 REIT requirements. The accumulated and unpaid dividends relating to all series of preferred stocks total $45.1 million as of March 31, 2003. In aggregate, preferred dividends continue to accumulate at approximately $5.0 million per quarter.

No common cash dividends were paid during 2002 and 2001. We can give no assurance as to if, or when, the dividends will be reinstated on the preferred stock or common stock, or the amount of the dividends if and when such payments are recommenced.

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. on April 2, 2001, which are convertible into 774,720 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. 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.

Since dividends on the Series A and Series B preferred stock have been in

arrears for more than 18 months, the holders of the Series A and Series B preferred stock (voting together as a single class) continue to 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. 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, but has fully reserved its rights.

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 - Stock-Based Compensation

We account for stock options using the intrinsic value method as defined by APB 25, Accounting for Stock Issued to Employees. Under the terms of the 2000 Stock Incentive Plan ("Incentive Plan"), we reserved 3,500,000 shares of common stock for grants to be issued during a period of up to ten years. Options are exercisable at the market price at the date of grant, expire five years after date of grant for over 10% owners and ten years from the date of grant for less than 10% owners. Directors' shares vest over three years while other grants vest over five years or as defined in an employee's contract. Directors, officers and employees are eligible to participate in the Incentive Plan. At March 31, 2003, there were 2,374,501 outstanding options granted to 19 eligible participants. Additionally, 327,121 shares of restricted stock have been granted under the provisions of the Incentive Plan. The market value of the restricted shares on the date of the award was recorded as unearned compensation-restricted stock, with the unamortized balance shown as a separate component of stockholders equity. Unearned compensation is amortized to expense generally over the vesting period.

Statement of Financial Accounting Standard ("SFAS") No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, which was effective January 1, 2003, requires certain disclosures related to our stock-based compensation arrangements. The following table presents the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to our stock-based compensation.

	Three Months Ended March 31,	
	2003	2002
	(In thousands, except per share amounts)	
Net income (loss) available to common........	$ 956	$ (572)
Add: Stock-based compensation expense included in net income (loss) available to common..............................	-	-
	956	(572)
Less: Stock-based compensation expense determined under the fair value based method for all awards..................	66	171
Pro forma net income (loss) available to common..................................	$ 890	$ (743)
Earnings per share:		
Basic, as reported...........................	$0.03	$(0.02)
Basic, pro forma.............................	$0.02	$(0.03)
Diluted, as reported.........................	$0.03	$(0.02)
Diluted, pro forma...........................	$0.02	$(0.03)

At March 31, 2003, options currently exercisable (313,154) have a weighted-average exercise price of $5.238, with exercise prices ranging from $2.15 to $37.20. There are 618,489 shares available for future grants as of March 31, 2003.

The following is a summary of first quarter 2003 activity under the plan.

	Stock Options		
	Number of Shares	Exercise Price	Weighted-Average Price
Outstanding at December 31, 2002...	2,374,501	$2.150 - $37.205	$3.150
Granted during 2003.............	-	-	-
Canceled.........................	-	-	-
Outstanding at March 31, 2003......	2,374,501	$2.150 - $37.205	$3.150

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, management believes that the outcome of each lawsuit claim or legal proceeding that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations. (See Note C - Concentration of Risk and Related Issues; Risks Related to Owned and Operated Assets).

On June 21, 2000, we were named as a defendant in certain litigation brought against us in the U.S. District Court for the Eastern District of Michigan, Detroit Division, by Madison/OHI Liquidity Investors, LLC ("Madison"), for the breach and/or anticipatory breach of a revolving loan commitment. Ronald M. Dickerman and Bryan Gordon are partners in Madison and limited guarantors ("Guarantors") of Madison's obligations to us. Effective as of September 30, 2002 the parties settled all claims in the suit in consideration of Madison's payment of the sum of $5.4 million consisting of a $0.4 million cash payment for our attorneys' fees, with the balance evidenced by the amendment of the existing promissory note from Madison to us. The note reflects a principal balance of $5.0 million, with interest accruing at 9% per annum, payable over three years upon liquidation of the collateral securing the note. The note is also fully guaranteed by the Guarantors; provided that if all accrued interest and 75% of original principal has been repaid within 18 months, the Guarantors will be released. Accordingly, a reserve of $1.25 million was recorded in 2002 relating to this note. As of March 31, 2003, the principal balance on this note was $2.2 million prior to reserves.

In 2000, we filed suit against a title company (later adding a law firm as a defendant), seeking damages based on claims of breach of contract and negligence, among other things, as a result of the alleged failure to file certain Uniform Commercial Code ("UCC") financing statements in our favor. We filed a subsequent suit seeking recovery under title insurance policies written by the title company. The defendants denied the allegations made in the lawsuits. In settlement of our claims against the defendants, we agreed in the first quarter of 2003 to accept a lump sum cash payment of $3.2 million. The cash proceeds were offset by related expenses incurred of $1.0 million resulting in a net gain of $2.2 million.

We and several of our wholly-owned subsidiaries have been named as defendants in professional liability claims related to our owned and operated facilities. Other third-party managers responsible for the day-to-day operations of these facilities have also been named as defendants in these claims. In these suits, patients of certain previously owned and operated facilities have alleged significant damages, including punitive damages against the defendants. The lawsuits are in various stages of discovery and we are unable to predict the likely outcome at this time. We continue to vigorously defend these claims and pursue all rights we may have against the managers of the facilities, under the terms of the management agreements. We have insured these matters, subject to self-insured retentions of various amounts.

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.

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 $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 Offered Rate ("LIBOR") through December 31, 2002 and 3.00% to 3.25% over LIBOR after December 31, 2002. Borrowings of $112.0 million were outstanding as of March 31, 2003. Additionally, $12.5 million of letters of credit were outstanding against this credit facility at March 31, 2003. These letters of credit were collateral for certain long-term borrowings and supported insurance programs associated with our owned and operated assets. LIBOR-based borrowings under this facility bear interest at a weighted-average rate of 4.36% at March 31, 2003. 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 $238.8 million are pledged as collateral for this revolving line of credit facility at March 31, 2003.

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 $65.0 million were outstanding at March 31, 2003. LIBOR-based borrowings under this facility bear interest at a weighted-average rate of 4.59% at March 31, 2003. 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, 2003.

At March 31, 2003, we had $177.0 million of LIBOR-based borrowings outstanding and $12.5 million of letters of credit outstanding, leaving availability of $35.5 million.

Note I - Accounting for Derivatives

We utilize interest rate swaps and caps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. We do not use derivatives for trading or speculative purposes. We have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not sustained a material loss from those instruments nor do we anticipate any material adverse effect on our net income or financial position in the future from the use of derivatives.

To manage interest rate risk, we may employ options, forwards, interest rate swaps, caps and floors or a combination thereof depending on the underlying exposure. We may employ swaps, forwards or purchased options to hedge qualifying forecasted transactions. Gains and losses related to these transactions are deferred and recognized in net income as interest expense in the same period or periods that the underlying transaction occurs, expires or is otherwise terminated. 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 hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

In September 2002, we entered into a 61-month, $200.0 million interest rate cap with a strike of 3.50% that has been designated as a cash flow hedge. Under the terms of the cap agreement, when LIBOR exceeds 3.50%, the counterparty will pay us $200.0 million multiplied by the difference between LIBOR and 3.50% times the number of days when LIBOR exceeds 3.50%. The unrealized gain/loss in the fair value of cash flow hedges are reported on the balance sheet with corresponding adjustments to accumulated Other Comprehensive Income. On March 31, 2003, the derivative instrument was reported at its fair value of $6.6 million as compared to its fair value at December 31, 2002 of $7.3 million. An adjustment of $0.6 million to Other Comprehensive Income was made for the change in fair value of this cap during the quarter ended March 31, 2003. Over the term of the interest rate cap, the $10.1 million cost will be amortized to earnings based on the specific portion of the total cost attributed to each monthly settlement period. Over the twelve months ending December 31, 2003, $0.1 million is expected to be amortized.

Note J - Subsequent Events

Sun Healthcare Group, Inc. During the first quarter of 2003, Sun remitted rent of $5.0 million versus the contractual amount of $6.4 million. We agreed with Sun to use letters of credit (posted by Sun as security deposits) in the amount of $1.4 million to make up the difference in rent and agreed to temporarily forebear in declaring a default under the lease caused by Sun's failure to restore the $1.4 million letter of credit.

Also, during the quarter, Sun announced "that it has opened dialogue with many of its landlords concerning the portfolio of properties leased to Sun and various of its consolidated subsidiaries (collectively, the 'Company'). The Company is seeking a rent moratorium and/or rent concessions with respect to

certain of its facilities and is seeking to transition its operations of certain facilities to new operators while retaining others." To this end, Sun has initiated conversations with us regarding a restructure of our lease. Although it is too early to predict the outcome of these conversations, it is likely that Sun's overall contractual rent will be reduced on certain facilities and that certain other facilities may be transitioned and re-leased to unaffiliated third-party operators. In April and May of 2003, Sun paid $1.3 million and $1.3 million, respectively, versus the monthly contractual rent of $2.2 million. We applied security deposits in the amount of $1.4 million. At the date of this filing, Sun has exhausted its security deposits with us. The accompanying consolidated financial statements do not reflect any adjustments relating to the potential outcome of these matters.

As of March 31, 2003, we have an original investment balance of $219.0 million relating to the Sun portfolio under agreements providing for annual rental income of $25.1 million in 2002 and $25.7 million in 2003.

Other Investments. On May 7, 2003, we sold our investment in a Baltimore, Maryland asset, leased by the United States Postal Service, to FL Lajolla, Inc. for approximately $19.6 million. FL Lajolla, Inc. paid us $1.95 million and assumed a first mortgage of approximately $17.6 million. As a result of this transaction, our debt balance is approximately $289 million versus $306 million at March 31, 2003.

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

This document contains forward-looking statements, including statements regarding potential asset sales, potential future changes in reimbursement, the future effect of the "Medicare cliff" on our operators and plans to refinance or extend our upcoming debt maturity. These statements relate to our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements other than statements of historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology including "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 filing and only speak as to the date hereof and no obligation to update such forward-looking statements should be assumed. Our actual results may differ materially from those reflected in the forward-looking statements contained herein as a result of a variety of factors, including, among other things: (i) those items discussed in Item 1 above; (ii) regulatory changes in the healthcare sector, including without limitation, changes in Medicare reimbursement; (iii) changes in the financial position of our operators; (iv) the ability of operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages, and impede our ability to collect unpaid rent or interest during the pendency of a bankruptcy proceeding and retain security deposits for the debtor's obligations; (v) our ability to dispose of assets held for sale on a timely basis and at appropriate prices; (vi) 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; (vii) our ability to manage, re-lease or sell owned and operated assets; (viii) the availability and cost of capital; and (ix) competition in the financing of healthcare facilities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

Owned and Operated Assets and Assets Held for Sale. When we acquire real estate pursuant to a foreclosure proceeding, it is designated as "owned and operated assets" and is recorded at the lower of cost or fair value and is included in real estate properties on our Consolidated Balance Sheet. For 2003, operating assets and operating liabilities for our owned and operated properties are shown on a net basis on the face of our Consolidated Balance Sheet. For 2002, operating assets and operating liabilities for our owned and operated properties are shown on a gross basis on the face of our Consolidated Balance Sheet and are detailed in Note B - Properties; Owned and Operated Assets. The consolidation in 2003 is due to the decrease in the size of the owned and operated portfolio (currently one facility).

When a formal plan to sell real estate is adopted and we hold a contract

for sale, the real estate is classified as "assets held for sale," with the net carrying amount adjusted to the lower of cost or estimated fair value, less cost of disposal. Depreciation of the facilities is excluded from operations after management has committed to a plan to sell the asset. 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 in our financial statements.

Impairment of Assets. We periodically evaluate our real estate investments for impairment indicators. The judgment regarding the existence of impairment indicators are based on factors such as market conditions, operator performance and legal structure. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relationship to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future cash flows are less than the carrying values of the assets. If the sum of the expected future cash flow, including sales proceeds, is less than carrying value, we then adjust the net carrying value of leased properties and other long-lived assets to the present value of expected future cash flows.

Loan Impairment Policy. When management identifies an indication of potential loan impairment, such as non-payment under the loan documents or impairment of the underlying collateral, the loan is written down to the present value of the expected future cash flows. In cases where expected future cash flows cannot be estimated, the loan is written down to the fair value of the collateral.

Accounts Receivable. Accounts receivable consists primarily of lease and mortgage interest payments. Amounts recorded include estimated provisions for loss related to uncollectible accounts and disputed items. On a monthly basis, we review the contractual payment versus actual cash payment received and the contractual payment due date versus actual receipt date. When management identifies delinquencies, a judgment is made as to the amount of provision, if any, that is needed.

Accounts Receivable - Owned and Operated Assets. Accounts receivable from owned and operated assets consist of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies and individual patients. Amounts recorded include estimated provisions for loss related to uncollectible accounts and disputed items.

Revenue Recognition. Rental income and mortgage interest income are recognized as earned over the terms of the related Master Leases and mortgage notes, respectively. Such income includes periodic increases based on pre-determined formulas (i.e., such as increases in the CPI) as defined in the Master Leases and mortgage loan agreements. Reserves are taken against earned revenues from leases and mortgages when collection of amounts due become questionable or when negotiations for restructurings of troubled operators lead to lower expectations regarding ultimate collection. When collection is uncertain, lease revenues are recorded as received, after taking into account application of security deposits. Interest income on impaired mortgage loans is recognized as received after taking into account application of security deposits.

Nursing home revenues from owned and operated assets (primarily Medicare, Medicaid and other third-party insurance) are recognized as patient services are provided.

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 ended March 31, 2003 totaled $24.6 million, a decrease of $19.4 million as compared to the same period in 2002. When excluding nursing home revenues of owned and operated assets, revenues increased $2.4 million versus the three-month period ended March 31, 2002. The increase was primarily a result of legal settlement.

Rental income for the three-month period ended March 31, 2003 was $16.7 million, an increase of $1.3 million over the same period in 2002. The $1.3 million increase for the three-month period is due to $0.8 million relating to contractual increases in rents that became effective in the second half of 2002 and in the first quarter of 2003 and $0.9 million relating to leases on assets previously classified as owned and operated. These increases were partially offset by a $0.4 million reduction in lease revenue due to foreclosures, bankruptcies and restructurings.

Mortgage interest income for the three-month period ended March 31, 2003 totaled $4.4 million, a decrease of $1.0 million as compared to the same period in 2002. The $1.0 million decrease is due to a reduction of interest income due to bankruptcies and restructurings of $0.6 million and mortgage payoffs and normal amortization of $0.4 million.

In 2000, we filed suit against a title company (later adding a law firm as a defendant), seeking damages based on claims of breach of contract and negligence, among other things, as a result of the alleged failure to file certain UCC financing statements in our favor. We filed a subsequent suit seeking recovery under title insurance policies written by the title company. The defendants denied the allegations made in the lawsuits. In settlement of our claims against the defendants, we agreed in the first quarter of 2003 to accept a lump sum cash payment of $3.2 million. The cash proceeds were offset by related expenses incurred of $1.0 million resulting in a net gain of $2.2 million.

Expenses for the three-month period ended March 31, 2003 totaled $18.6 million, a decrease of $20.9 million, from the three-month period ending March 31, 2002. Excluding nursing home expenses of owned and operated assets, expenses were $17.2 million for the three-month period ending March 31, 2003 versus $15.8 million for the same period in 2002. This $1.4 million increase in expenses was a result of a $4.6 million provision for impairment, partially offset by favorable reductions in general and administrative and legal expenses of $0.5 million, interest expense savings of $3.0 million.

Nursing home expenses, net of nursing home revenues, for owned and operated assets for the three-month period ended March 31, 2003 were $1.3 million compared to $2.0 million for the same period in 2002. This decrease was a result of the decrease in the number of owned and operated facilities from 19 at March 31, 2002 to one at March 31, 2003.

Interest expense for the three-month period ended March 31, 2003 was $5.1 million compared with $8.1 million for the same period in 2002. This decrease is primarily due to an $85.2 million reduction of total outstanding debt versus the same period in 2002.

General and administrative and legal expenses for the three-month period ended March 31, 2003, totaled $2.0 million, compared with $2.6 million for the same period in 2002. The decrease is due to a reduction in consulting and legal costs primarily related to the reduction in the number of our owned and operated facilities.

A provision for impairment of $4.6 million was recorded for the three-month period ended March 31, 2003. The provision was to reduce the carrying value of a closed building to its fair value less costs to dispose. The building is being actively marketed for sale; however, there can be no assurance if, or when, such sale will be completed or whether such sales will be completed on terms that allow us to realize the carrying value of the asset.

Funds from operations ("FFO") for the three-month period ended March 31, 2003, on a fully diluted basis, was $13.5 million, an increase of $6.5 million, as compared to the $7.0 million for the same period in 2002 due to the factors mentioned above. The legal settlement increased FFO by $2.2 million and nursing home revenues and expenses, on a net basis, decreased FFO by $1.3 million. Both the legal settlement and net impact from our owned and operated nursing home assets are included in the $13.5 million of fully diluted FFO. We believe that FFO is an important supplemental measure of our operating performance. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time, while real estate values instead have historically risen or fallen with market conditions. The term FFO was designed by the real estate industry to address this issue. We generally use the National Association of Real Estate Investment Trusts' ("NAREIT") measure of FFO. We define FFO as net income available to common stockholders, adjusted for the effects of asset dispositions and impairments and certain non-cash items, primarily depreciation and amortization. FFO herein is not necessarily comparable to FFO presented by other REITs due to the fact that not all REITs use the same definition. Diluted FFO is adjusted for the assumed conversion of Series C preferred stock and the exercise of in-the-money stock options. FFO does not represent cash generated from operating activities in accordance with GAAP, and therefore, should not be considered an alternative to net earnings or an indication of operating performance or to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, and such measure is not necessarily indicative of cash available to fund cash needs. We believe that in order to facilitate a clear understanding of our consolidated historical operating results, FFO should be examined in conjunction with net income.

The following table reconciles net income (loss) available to common to FFO.

	Three Months Ended March 31,	
	2003	2002
	(In thousands, except per share amounts)	

Net income (loss) available to common.........	$ 956	$ (572)
Plus impairment charge.....................	4,618	-
Sub-total................................	5,574	(572)
Elimination of non-cash items included in net income(loss):		
Depreciation.............................	5,282	5,280
Amortization.............................	47	46
Adjustment of derivatives to fair value...	-	(400)
Funds from operations, basic..................	10,903	4,354
Series C Preferred Dividends..................	2,621	2,621
Funds from operations, diluted................	$13,524	$ 6,975
Weighted-average common shares outstanding, basic.........................	37,145	27,421
Assumed conversion of Series C Preferred Stock...........................	16,775	16,775
Assumed exercise of stock options...........	3	1,057
Weighted-average common shares outstanding, diluted.......................	53,923	45,253
Funds from operations, basic..................	$ 0.29	$ 0.16
Funds from operations, diluted *..............	$ 0.25	$ 0.15

* Lower of basic or diluted FFO per share.

Medicare Developments

During the years 1999 and 2000, Congress enacted various legislation, which was intended to provide some relief to the extensive Medicare cut-backs resulting from the Balanced Budget Act. The legislation adopted in 1999 and 2000 increased Medicare payments to nursing facilities and specialty care facilities on an interim basis. Section 101 of the Balanced Budget Relief Act included a 20% increase for 15 patient acuity categories (known as RUGs) and a 4% across the board increase of the adjusted federal per diem payment rate. The 20% increase was implemented in April 2000 and will remain in effect until the implementation of refinements in the current RUG case-mix classification system to more accurately estimate the cost of non-therapy ancillary services. The 4% increase was implemented in April 2000 and expired October 1, 2002.

The Benefits Improvement and Protection Act included a 16.7% increase in the nursing component of the case mix adjusted federal periodic payment rate and a 6.7% increase in the 14 RUG payments for rehabilitation therapy services. The 16.7% increase was implemented in April 2000 and expired October 1, 2002. The 6.7% increase is an adjustment to the 20% increase granted in the Balance Budget Relief Act and spreads the funds directed at three of those 15 RUGs to an additional 11 rehabilitation RUGs. The increase was implemented in April 2001 and will remain in effect until the implementation of refinements in the current RUG case-mix classification system.

In addition to the expiration of the 4% increase implemented in Balance Budget Relief Act and the 16.7% increase implemented in Benefits Improvement and Protection Act, Medicare reimbursement could be further reduced when CMS completes its RUG refinement due to the termination of the 20% and 6.7% increases. However, the Medicare Payment Advisory Commission has recommended that the 20% and 6.7% increases be folded into the base rate upon the completion of the RUG refinement. The partial expiration of the increases under these statutes as of October 1, 2002 has had an adverse impact on the revenues of the operators of nursing facilities and has negatively impacted some operators' ability to satisfy their monthly lease or debt payments to us. Recently, CMS announced a delay in the implementation of further refinements in reimbursement rates until October 1, 2004, at the earliest. Because the revised reimbursement rates have not yet been published, it is unclear what effect they will have on us, or if the add-on payments included in the second part of the mitigating legislation will be included in these new rates.

Due to the temporary nature of the remaining payment increases, we cannot be assured that the federal reimbursement will remain at levels comparable to present levels and that such reimbursement will be sufficient for our lessees or mortgagors to cover all operating and fixed costs necessary to care for Medicare and Medicaid patients. We also cannot be assured that there will be any future legislation to increase payment rates for skilled nursing facilities. If payment rates for skilled nursing facilities are not increased in the future, some of our lessees and mortgagors may have difficulty meeting their payment obligations to us.

Portfolio Developments

The partial expiration of certain Medicare rate increase has had an adverse impact on the revenues of the operators of nursing home facilities and has negatively impacted some operators' ability to satisfy their monthly lease or debt payments to us. In several instances, we hold security deposits that can be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators seeking protection under Chapter 11 of the Bankruptcy Act. (See Note C - Concentration of Risk and Related Issues).

Alterra Healthcare Corporation. We currently lease eight assisted living facilities (325 units) located in seven states to subsidiaries of Alterra. In the first quarter of 2003, we were notified by Alterra that it did not intend to pay January rent and that a restructuring of its Master Lease was necessary. Subsequently, Alterra resumed and has continued to pay lease payments to us at an annualized rent of $1.45 million versus the fourth quarter of 2002 annualized contractual rent of approximately $2.6 million. We are currently recognizing revenue on a cash basis.

Alterra also announced during the first quarter of 2003, that, in order to facilitate and complete its on-going restructuring initiatives, they had filed a voluntary petition with the U.S. Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the U.S. Bankruptcy Code. We are in the process of attempting to negotiate a restructure of the Master Lease. At this time it is too early to predict the outcome of the negotiations, including the ultimate impact of the bankruptcy proceedings or any subsequent developments.

Claremont Health Care Holdings, Inc. During the first quarter of 2003, we completed a restructured transaction with Claremont Health Care Holdings, Inc. (formerly Lyric Health Care, LLC) whereby nine facilities formerly leased under two Master Leases were combined into one new ten-year Master Lease. Annual rent under the new lease is $6.0 million, the same amount of rent recognized in 2002 for these properties.

Integrated Health Services, Inc. During the three-month period ended March 31, 2003, we successfully re-leased nine facilities formerly operated by IHS. Accordingly, eight SNFs, which we held mortgages on, and one SNF, which we leased to IHS, have been re-leased to various unaffiliated third parties. Titles to the eight properties, which we held mortgages on, have been transferred to wholly-owned subsidiaries of ours by Deeds in Lieu of Foreclosure.

Specifically, during the quarter ended March 31, 2003, we leased nine SNFs to four unaffiliated third-party operators as part of four separate transactions. Each of the nine facilities had formerly been operated by subsidiaries of IHS. The four transactions included: (i) a Master Lease of five SNFs in Florida representing 600 beds to affiliates of Seacrest Healthcare Management, LLC, which lease has a ten-year term and has an initial annual rent of $2.5 million; (ii) a month-to-month lease (following a minimum four-month term) on two SNFs in Georgia representing 304 beds to subsidiaries of Triad Health Management of Georgia, LLC, which lease provides for annualized rent of $0.7 million - the month-to-month structure results from Georgia Medicaid rate cuts (effective February 1, 2003) and the potential for future Georgia reimbursement changes; (iii) a lease of one SNF in Texas, representing 130 beds, to an affiliate of Senior Management Services of America, Inc., which lease has a ten-year term and has various rent step-ups, reaching $384,000 by year three, thereafter, increasing by the lesser of CPI or 2.5%; and (iv) re-leased one 159-bed SNF, located in the state of Washington to a subsidiary of Sun, with an initial lease term of eight years and initial annual rent of $0.5 million.

Closure of these lease transactions terminates substantially all remaining contractual and debt relationships with IHS.

Sun Healthcare Group, Inc. During the first quarter of 2003, Sun remitted rent of $5.0 million versus the contractual amount of $6.4 million. We have agreed with Sun to use letters of credit (posted by Sun as security deposits) in the amount of $1.4 million to make up the difference in rent and agreed to temporarily forebear in declaring a default under the lease caused by Sun's failure to restore the $1.4 million letter of credit. We hold additional security deposits (in the form of cash and letters of credit) in the amount of $1.4 million as of March 31, 2003.

Also during the quarter, Sun announced "that it has opened dialogue with many of its landlords concerning the portfolio of properties leased to Sun and various of its consolidated subsidiaries (collectively, the `Company'). The Company is seeking a rent moratorium and/or rent concessions with respect to certain of its facilities and is seeking to transition its operations of certain facilities to new operators while retaining others." To this end, Sun has initiated conversations with us regarding a restructure of our lease. At this stage, it is too early to predict the outcome of these conversations. (See Note J - Subsequent Events).

In an unrelated transaction during the quarter, we recorded a provision for impairment of $4.6 million associated with one closed facility, located in the state of Washington, previously leased to a subsidiary of Sun as part of the overall Sun Master Lease. We intend to sell this closed facility as soon as practicable; however, there can be no assurance if or when this sale will be

completed.

As of March 31, 2003, we have an original investment balance of $219.0 million relating to the Sun portfolio under agreements providing for annual rental income of $25.1 million in 2002 and $25.7 million in 2003.

Liquidity and Capital Resources

At March 31, 2003, we had total assets of $800.3 million, stockholders equity of $485.1 million and debt of $306.3 million, representing approximately 38.7% of total capitalization.

Bank Credit Agreements

We have two secured revolving credit facilities, providing up to $225.0 million of financing. At March 31, 2003, $177.0 million was outstanding and $12.5 million was utilized for the issuance of letters of credit, leaving availability of $35.5 million.

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.

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).

Dividends

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

In 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.

No preferred or common cash dividends were paid during the first three months ending March 31, 2003 and 2002, respectively. (See Note D - Dividends). We can give no assurance as to when or if the dividends will be reinstated on the preferred stock or common stock, or the amount of the dividends if and when such payments are recommenced. 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. Due to our 2002 taxable loss, no distribution was necessary to maintain our REIT status for 2002. We project net operating loss carryforwards through 2002 of approximately $24.0 million help offset taxable income. In addition, we intend to make the necessary distributions, if any, to satisfy the 2003 REIT requirements. In aggregate, preferred dividends continue to accumulate at approximately $5.0 million per quarter.

Liquidity

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

pursue refinancing alternatives in order to extend current debt maturities and provide greater financial flexibility. Among other things, we will continue discussions to extend or refinance our $160.0 million credit facility, currently scheduled to mature in December 2003. At this time, there can be no assurance that we will be able to reach acceptable agreements with our bank lenders and/or other capital sources to achieve the desired refinancing.

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, 2003 was $294.8 million. A one-percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $4.1 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. If we were unable to refinance our debt maturities on acceptable terms, we might be forced to dispose of properties on disadvantageous terms, which might result in losses to us and might adversely affect the cash available for distribution to stockholders, or to pursue dilutive equity financing. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources).

We utilize interest rate swaps and caps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. We do not use derivatives for trading or speculative purposes. We have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not sustained a material loss from those instruments nor do we anticipate any material adverse effect on our net income or financial position in the future from the use of derivatives.

To manage interest rate risk, we may employ options, forwards, interest rate swaps, caps and floors or a combination thereof depending on the underlying exposure. We may employ swaps, forwards or purchased options to hedge qualifying forecasted transactions. Gains and losses related to these transactions are deferred and recognized in net income as interest expense in the same period or periods that the underlying transaction occurs, expires or is otherwise terminated. 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.

In September 2002, we entered into a 61-month, $200.0 million interest rate cap with a strike of 3.50% that has been designated as a cash flow hedge. Under the terms of the cap agreement, when LIBOR exceeds 3.50%, the counterparty will pay us $200.0 million multiplied by the difference between LIBOR and 3.50% times the number of days when LIBOR exceeds 3.50%. The unrealized gain/loss in the fair value of cash flow hedges are reported on the balance sheet with corresponding adjustments to accumulated Other Comprehensive Income. On March 31, 2003, the derivative instrument was reported at its fair value of $6.6 million as compared to its fair value at December 31, 2002 of $7.3 million. An adjustment of $0.6 million to Other Comprehensive Income was made for the change in fair value of this cap during the quarter ended March 31, 2003. Over the term of the interest rate cap, the $10.1 million cost will be amortized to earnings based on the specific portion of the total cost attributed to each monthly settlement period. Over the twelve months ending December 31, 2003, $0.1 million is expected to be amortized.

Item 4 - Control and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly

report and, based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

Disclosure controls and procedures are the controls and other procedures designed to ensure that information that we are required to disclose in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note G - Litigation to the Consolidated Financial Statements in PART I, Item 1 hereto, which is hereby incorporated by reference in response to this item.

Item 2. Changes in Securities and Use of Proceeds

None this period.

Item 3. Defaults upon Senior Securities

(a) Payment Defaults. Not Applicable.

(b) Dividend Arrearages. On February 1, 2001, 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: 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. In aggregate, preferred dividends continue to accumulate at approximately $5.0 million per quarter.

The table below sets forth information regarding arrearages in payment of preferred stock dividends:

Title of Class	Annual Dividend Per Share	Arrearage as of March 31, 2003
9.25% Series A Cumulative Preferred Stock	$ 2.3125	$ 11,967,188
8.625% Series B Cumulative Preferred Stock	$ 2.1563	$ 9,703,125
Series C Convertible Preferred Stock	$10.0000	$ 23,386,793
TOTAL		$ 45,057,106

Since dividends on the Series A and Series B preferred stock have been in arrears for more than 18 months, the holders of the Series A and Series B preferred stock (voting together as a single class) continue to 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. 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) An Annual Meeting of Stockholders was held on April 3, 2003.

(b) The following directors were elected at the meeting for a three-year term: Daniel A. Decker, Thomas F. Franke and Bernard J. Korman. The following directors were not elected at the meeting but their term of

office continued after the meeting: Thomas W. Erickson, Harold J. Kloosterman, Edward Lowenthal, Christopher W. Mahowald, Donald J. McNamara, C. Taylor Pickett, and Stephen D. Plavin. The results of the vote were as follows:

Manner of Vote Cast	Daniel A. Decker	Thomas F. Franke	Bernard J. Korman
For*	51,999,523	52,763,112	52,345,845
Withheld	993,571	230,252	647,519
Abstentions and broker non-votes	-	-	-

*Includes 16,774,722 votes represented by Series C preferred stock.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit	Description
99.1	Certification of the Chief Executive Officer under Section 906 of the Sarbanes - Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer under Section 906 of the Sarbanes - Oxley Act of 2002.

(b) Reports on Form 8-K - none were filed during the quarter ended March 31, 2003.

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 9, 2003 By: /s/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

Date: May 9, 2003 By: /s/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, C. Taylor Pickett, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omega Healthcare Investors, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ C. TAYLOR PICKETT

C. Taylor Pickett
Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Robert O. Stephenson, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omega Healthcare Investors, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have

identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, C. Taylor Pickett, of Omega Healthcare Investors, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2003, (the "Report") fully complies with the requirements of ss.ss. 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: May 9, 2003

/s/ C. TAYLOR PICKETT
- --------------------------------
C. Taylor Pickett
Chief Executive Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, Robert O. Stephenson, of Omega Healthcare Investors, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2003, (the "Report") fully complies with the requirements of ss.ss. 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: May 9, 2003

/s/ ROBERT O. STEPHENSON

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Robert O. Stephenson
Chief Financial Officer