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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

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 the Exchange Act).
Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 29, 2004.

Common Stock, $.10 par value	46,787,174
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
September 30, 2004

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2004 (Unaudited)	December 31, 2003 (See note)
ASSETS		
Real estate properties		
Land and buildings at cost	$ 729,660	$ 692,454
Less accumulated depreciation	(149,885)	(134,477)
Real estate properties - net	579,775	557,977
Mortgage notes receivable - net	113,687	119,815
	693,462	677,792
Other investments - net	34,399	29,787
Total investments	727,861	707,579
Cash and cash equivalents	3,303	3,094
Accounts receivable - net	4,220	1,893
Interest rate cap	—	5,537
Other assets	10,961	8,562
Operating assets for owned properties	337	2,289
Total assets	$ 746,682	$ 728,954
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving lines of credit	$ 37,000	$ 177,074
Unsecured borrowings	300,000	100,000
Other long-term borrowings	3,170	3,520
Accrued expenses and other liabilities	21,993	8,194
Operating liabilities for owned properties	87	3,931

Total liabilities	362,250	292,719
Stockholders' equity:		
Preferred stock	168,488	212,342
Common stock and additional paid-in-capital	551,732	485,196
Cumulative net earnings	178,556	174,275
Cumulative dividends paid	(467,782)	(431,123)
Cumulative dividends - redemption	(41,054)	—
Unamortized restricted stock awards	(3,068)	—
Accumulated other comprehensive loss	(2,440)	(4,455)
Total stockholders' equity	384,432	436,235
Total liabilities and stockholders' equity	$ 746,682	$ 728,954

Note - The balance sheet at December 31, 2003 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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Revenues				
Rental income	$ 18,572	$ 16,268	$ 53,864	$ 48,585
Mortgage interest income	3,224	3,465	9,926	11,346
Other investment income - net	609	660	1,798	2,406
Miscellaneous	202	242	623	810
Nursing home revenues of owned and operated assets	-	1,077	-	3,456
Total operating revenues	22,607	21,712	66,211	66,603
Expenses				
Depreciation and amortization	5,394	5,261	16,002	15,745
General and administrative	1,644	1,646	4,558	4,897
Restricted stock expense	279	-	279	-
Legal	303	538	1,175	1,880
Nursing home expenses of owned and operated assets	-	1,036	-	4,545
Total operating expenses	7,620	8,481	22,014	27,067
Income before other income and expense	**14,987**	**13,231**	**44,197**	**39,536**
Other income (expense):				
Interest and other investment income	7	37	103	180
Interest	(5,873)	(4,933)	(16,319)	(13,668)
Interest - amortization of deferred financing costs	(479)	(536)	(1,359)	(1,710)
Interest - refinancing costs	-	-	(19,106)	(2,586)
Owned and operated professional liability claims	-	-	(3,000)	-

Litigation settlements	-	-	-	2,187
Provision for impairment	-	(4,277)	-	(8,894)
Adjustment of derivative to fair value	-	-	256	-
Total other (expense) income	(6,345)	(9,709)	(39,425)	(24,491)
Income before gain on assets sold	**8,642**	**3,522**	**4,772**	**15,045**
Gain from assets sold - net	-	92	-	1,430
Income from continuing operations	**8,642**	**3,614**	**4,772**	**16,475**
Gain (loss) from discontinued operations	-	1,419	(491)	1,372
Net income	**8,642**	**5,033**	**4,281**	**17,847**
Preferred stock dividends	(3,559)	(5,029)	(12,248)	(15,087)
Preferred stock conversion and redemption charges	-	-	(41,054)	-
Net income (loss) available to common	**$ 5,083**	**$ 4**	**$ (49,021)**	**$ 2,760**
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.11	$ (0.04)	$ (1.08)	$ 0.04
Net income (loss)	$ 0.11	$ -	$ (1.09)	$ 0.07
Diluted:				
Income (loss) from continuing operations	$ 0.11	$ (0.04)	$ (1.08)	$ 0.04
Net income (loss)	$ 0.11	$ -	$ (1.09)	$ 0.07
Dividends declared and paid per common share	$ 0.18	$ 0.15	$ 0.53	**$** 0.15
Weighted-average shares outstanding, basic	46,552	37,193	44,798	37,164
Weighted-average shares outstanding, diluted	47,134	37,193	44,798	37,848
Components of other comprehensive income:				
Net income	$ 8,642	$ 5,033	$ 4,281	$ 17,847
Unrealized (loss) gain on investments and hedging contracts	(708)	1,218	2,015	(1,934)
Total comprehensive income	$ 7,934	$ 6,251	$ 6,296	$ 15,913

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2004	**2003**
Operating activities		
Net income	$ 4,281	$ 17,847
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	16,002	15,745
Provisions for impairment	—	8,894
Refinancing costs	19,106	2,586
Amortization for deferred finance costs	1,258	1,701
Loss (gain) on assets sold - net	440	(2,778)
Amortization of derivatives	101	9
Restricted stock amortization expense	279	—

Adjustment of derivatives to fair value	(256)	—
Other	(38)	359
Net change in accounts receivable	(2,327)	167
Net change in other assets	306	(398)
Net change in operating assets and liabilities	(3,532)	(896)
Net cash provided by operating activities	35,620	43,236
Cash flows from investing activities		
Acquisition of real estate	(34,114)	—
Proceeds from sale of stock	480	—
Proceeds from sale of real estate investments	135	3,549
Capital improvements and funding of other investments	(3,542)	(1,307)
Proceeds from other investments and assets held for sale - net	4,158	13,996
Investments in other investments - net	(3,165)	—
Collection of mortgage principal	6,128	3,214
Net cash (used in) provided by investing activities	(29,920)	19,452
Cash flows from financing activities		
Proceeds from new credit facility borrowings	48,000	—
Payments of new credit facility borrowings	(11,000)	—
Proceeds from terminated credit facility borrowings	13,700	190,545
Payments of terminated credit facility borrowings	(190,774)	(177,000)
Terminated credit facility exit fee	(6,378)	—
Proceeds from (payments of) long-term borrowings	199,650	(22,517)
Proceeds from sale of interest rate cap	3,460	—
Receipts from Dividend Reinvestment Plan	123	3
Receipts from exercised options	1,633	82
Dividends paid	(32,019)	(54,859)
Redemption of preferred stock	(57,500)	—
Proceeds from preferred stock offering	13,646	—
Proceeds from common stock offering	22,368	—
Deferred financing costs paid	(10,400)	(7,203)
Net cash used in financing activities	(5,491)	(70,949)
Increase (decrease) in cash and cash equivalents	209	(8,261)
Cash and cash equivalents at beginning of period	3,094	14,340
Cash and cash equivalents at end of period	$ 3,303	$ 6,079
Interest paid during the period	$ 11,506	$ 14,846

OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
September 30, 2004

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for Omega Healthcare Investors, Inc. ("Omega" or the "Company") 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 2003 financial statements for consistency with the presentation adopted for 2004. Such reclassifications have no effect on previously reported earnings or equity.

In December 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation Number ("FIN") 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46R"). FIN 46R addresses consolidation by business enterprises of variable interest entities. As of September 30, 2004, we did not have any entities that met the definition of a variable interest entity under FIN 46R; therefore, the provisions of FIN 46R did not have an impact on our consolidated results of operations or financial position.

Operating results for the three- and nine-month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

We have one reportable segment consisting of investments in real estate. Our business is to provide financing and capital to the long-term healthcare industry with a particular focus on skilled nursing facilities located in the United States. Our core portfolio consists of long-term lease and mortgage agreements. All of our leases are "triple-net" leases, which require the tenants to pay all property related expenses. Our mortgage revenue derives from fixed-rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Substantially all depreciation expenses reflected in the consolidated statement of operations relate to the ownership of our investment in real estate.

NOTE 2 - 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.

If we acquire real estate pursuant to a foreclosure, lease termination or bankruptcy proceeding and do not immediately re-lease or sell the properties to new operators, the assets will be included on the balance sheet as "foreclosed real estate properties," and the value of such assets is reported at the lower of cost or estimated fair value.

The table below summarizes our number of properties and investment by category for the nine months ended September 30, 2004:

Facility Count	Purchase / Leaseback	Mortgages Receivable	Owned & Operated	Closed Facilities	Total Healthcare Facilities
Balance at December 31, 2003	153	51	1	6	211
Properties closed	-	-	-	-	-
Properties sold/mortgages paid	-	(5)	-	(3)	(8)
Transition leasehold interest	-	-	-	-	-
Properties acquired	5	-	-	-	5
Properties transferred to purchase/leaseback	1	-	(1)	-	-
Balance at September 30, 2004	159	46	-	3	208
Investment ($000's)					
Balance at December 31, 2003	$ 682,562	$ 119,815	5,295	$ 4,597	$ 812,269
Properties closed	-	-	-	-	-
Properties sold/mortgages paid	-	(4,470)	-	(818)	(5,288)
Transition leasehold interest	-	-	-	-	-
Properties acquired	34,600	-	-	-	34,600
Properties transferred to purchase/leaseback	5,295	-	(5,295)	-	-
Impairment on properties	-	-	-	-	-
Capex and other	3,424	(1,658)	-	-	1,766
Balance at September 30, 2004	$ 725,881	$ 113,687	-	$ 3,779	$ 843,347

Purchase/Leasebacks

Set forth below is a summary of the lease transactions which occurred in the first nine months of 2004.

Haven Healthcare

- On April 1, 2004, we purchased three skilled nursing facilities ("SNFs"), representing 399 beds, for a total investment of $26.0 million. Two of these facilities are located in Vermont and the third is located in Connecticut. The facilities were combined into an existing Master Lease with Haven Healthcare ("Haven"). Rent under the Master Lease was increased by approximately $2.7 million for the first lease year commencing on April 1, 2004, with annual increases thereafter. The term of the Master Lease had been increased to ten years on January 1, 2004 and runs through December 31, 2013, followed by two ten-year renewal options. We received a security deposit equivalent to three months of incremental rent.

Senior Management

- On May 1, 2004, we purchased two SNFs, representing 477 beds, for a total investment of $9.4 million. The purchase price includes funds for capital expenditures, additional bed licenses and transaction costs. Both facilities are located in Texas and were combined into an existing Master Lease with Senior Management. Rent under the Master Lease was increased by approximately $1.0 million for the first lease year commencing on May 1, 2004, with annual increases thereafter. The term of the Master Lease has been increased to ten years, and is followed by two ten-year renewal options. During the first lease year, Senior Management will fund a security deposit equivalent of approximately four months of incremental rent.

Sun Healthcare Group, Inc.

- On March 1, 2004, we re-leased two SNFs formerly leased by Sun Healthcare Group, Inc. ("Sun") located in California and representing 117 beds, to a new operator under a Master Lease, which has a ten-year term. The commencement date of the first re-lease was March 1, 2004, with an initial annual lease rate of approximately $0.12 million. The second facility continues to be operated by Sun as a result of licensing issues. We are currently seeking alternative operators to re-lease or potentially purchase this facility.

- On March 1, 2004, we entered into an agreement with Sun regarding 51 properties that are leased to various affiliates of Sun. Under the terms of a master lease agreement, Sun will continue to operate and occupy 23 long-term care facilities, five behavioral properties and two hospital properties through December 31, 2013. One property, located in Washington and formerly operated by a Sun affiliate, has already been closed and the lease relating to that property has been terminated. With respect to the remaining 20 facilities, 17 have already been transitioned to new operators and three are in the process of being transferred to new operators.

- Effective January 1, 2004, we re-leased five SNFs to an existing operator under a new Master Lease, which has a five-year term and an initial annual lease rate of $0.75 million. These SNFs consist of four former Sun SNFs, three located in Illinois and one located in Indiana, representing an aggregate of 449 beds. The fifth SNF in the transaction, located in Illinois and representing 128 beds, was the last remaining owned and operated facility in our portfolio.

Claremont Healthcare Holdings, Inc.

- Effective March 8, 2004, we re-leased three SNFs formerly leased by Claremont Health Care Holdings, Inc. located in Florida and representing 360 beds, to an existing operator at an initial annual lease rate of $2.5 million. These facilities were added to an existing Master Lease, the initial term of which has been extended ten years to February 2014. The aggregate annual lease rate under this Master Lease, inclusive of the $2.5 million, is $3.9 million.

Mortgages Receivable

Mortgage interest income is recognized as earned over the terms of the related mortgage notes. Reserves are taken against earned revenues from mortgage interest when collection of amounts due become questionable or when negotiations for restructurings 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.

On April 6, 2004, we received approximately $4.6 million in proceeds on a mortgage loan payoff. We held mortgages on five facilities located in Missouri, representing 319 beds, which produced approximately $0.5 million of annual interest revenue in 2003.

No provisions for loss on mortgages or notes receivable were recorded during the three-and nine-months ended September 30, 2004 and 2003, respectively.

Acquisitions

There were no acquisitions completed for the three months ended September 30, 2004; however, the table below summarizes the two acquisitions completed during the three months ended June 30, 2004. The purchase price includes transaction costs.

100% Interest Acquired	Acquisition Date	Purchase Price ($000's)
Three facilities (2 in Vermont, 1 in Connecticut)	April 1, 2004	$26,000

Two facilities in Texas	April 30, 2004	$ 9,400

The acquired properties are included in our results of operations from the respective date of acquisition. The following unaudited pro forma results of operations reflect these transactions as if each had occurred on January 1 of the year presented. In our opinion, all significant adjustments necessary to reflect the effects of the acquisitions have been made.

	Pro Forma (in thousands, except per share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	$ 22,607	$ 22,637	$ 67,222	$ 69,377
Net income	$ 8,642	$ 5,373	$ 4,656	$ 18,868
Earnings per share - Basic	$ 0.11	$ 0.01	$ (1.09)	$ 0.10
Earnings per share - Diluted	$ 0.11	$ 0.01	$ (1.09)	$ 0.10

Closed Facilities

During the three months ended June 30, 2004, we sold one closed SNF located in Illinois for net proceeds of approximately $50 thousand, resulting in a loss of approximately $137 thousand. During the three months ended March 31, 2004, we sold two facilities, one located in Iowa and the other located in Florida, realizing proceeds of approximately $85 thousand, net of closing costs and other expenses, resulting in a net loss of approximately $351 thousand. In accordance with SFAS No. 144, the $137 thousand and the $351 thousand realized net losses are included in discontinued operations in our consolidated statements of operations for their respective time periods. (See Note 11 - Discontinued Operations).

At September 30, 2004, there were three closed properties that were not under contract for sale with a total net book value of approximately $1.8 million. At this time, we determined that no provisions for impairment are needed on the three remaining investments. We intend to sell the facilities as soon as practicable; however, there can be no assurance if, or when, these sales will be completed on terms that allow us to realize the carrying value of the assets. These properties are included in "Land and buildings at cost" in our consolidated balance sheet.

Other Non-Core Assets

- In connection with refinancing our $225 million senior secured credit facility, we sold our $200 million interest rate cap on March 31, 2004. Net proceeds from the sale totaled approximately $3.5 million and resulted in a loss of approximately $6.5 million, which was recorded in the first quarter of 2004 and is included in interest refinancing costs in our consolidated statement of operations.

- Under our restructuring agreement with Sun, we received the right to convert deferred base rent owed to us, totaling approximately $7.8 million, into 800,000 shares of Sun's common stock, subject to certain non-dilution provisions and the right of Sun to pay cash in an amount equal to the value of that stock in lieu of issuing stock to us.

  On March 30, 2004, we notified Sun of our intention to exercise our right to convert the deferred base rent into fully paid and non-assessable shares of Sun's common stock. On April 16, 2004, we received a stock certificate for 760,000 restricted shares of Sun's common stock and cash in the amount of approximately $0.5 million in exchange for the remaining 40,000 shares of Sun's common stock. On July 23, 2004, Sun registered these shares with the Securities and Exchange Commission ("SEC"). We are accounting for the remaining 760,000 shares as "available for sale" marketable securities with changes in market value recorded in other comprehensive income.

NOTE 3 - CONCENTRATION OF RISK

As of September 30, 2004, our portfolio of investments consisted of 208 healthcare facilities, located in 29 states and operated by 39 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled $843.3 million at September 30, 2004, with 97.2% of our real estate investments related to long-term care facilities. This portfolio is made up of 157 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties, fixed rate mortgages on 46 long-term healthcare facilities and three long-term healthcare facilities that were recovered from customers and are currently closed. At September 30, 2004, we also held other investments of approximately $34.4 million, including $21.7 million of notes receivable, net of allowance.

Approximately 38.7% of our real estate investments are operated by four public companies: Sun (18.6%), Advocat, Inc. ("Advocat") (12.3%), Mariner Health Care, Inc. (7.1%) and Emeritus Corporation (0.7%). The four largest private operators represent 6.5%, 5.8%, 4.4%, and 3.8%, respectively, of our investments. No other operator represents more than 2.9% of our investments. The three states in which we have our highest concentration of investments are Florida (15.1%), California (7.9%) and Ohio (6.9%).

For the three-month period ended September 30, 2004, our revenues from operations totaled $22.6 million, of which approximately $5.5 million was derived from Sun (24.1%) and $3.0 million from Advocat (13.1%). For the nine-month period ended September 30, 2004, our revenues from operations totaled $66.2 million, of which approximately $16.4 million was derived from Sun (24.7%) and $8.9 million from Advocat (13.4%).

NOTE 4 - 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, respectively. In addition, our $175 million revolving senior secured credit facility ("Credit Facility") has certain financial covenants which limit the distribution of dividends paid during a fiscal quarter to no more than 95% of our immediately prior fiscal quarter's funds from operations ("FFO") as defined in the loan agreement governing our Credit Facility (the "Loan Agreement"), unless a greater distribution is required to maintain REIT status. The Loan Agreement, in general, defines FFO as net income (or loss), plus depreciation and amortization and shall be adjusted for charges related to (i) restructuring our debt, (ii) redemption of preferred stock, (iii) litigation charges up to $5.0 million, (iv) non-cash charges for accounts and notes receivable up to $5.0 million, and (v) non-cash impairment charges.

On October 19, 2004, our Board of Directors announced a common stock dividend of $0.19 per share, an increase of $0.01 per common share. The common stock dividend will be paid November 15, 2004 to common stockholders of record on October 29, 2004. Also on October 19, 2004, our Board of Directors declared its regular quarterly dividends for all classes of preferred stock, payable November 15, 2004 to preferred stockholders of record on October 29, 2004. Holders of record of our 8.625% Series B cumulative preferred stock (the "Series B preferred stock") and 8.375% Series D cumulative redeemable preferred stock (the "Series D preferred stock") on October 29, 2004 will be paid dividends in the amount of approximately $0.53906 and $0.52344, per preferred share, respectively, on November 15, 2004. The liquidation preference for each of our Series B and D preferred stock is $25.00. Regular quarterly preferred dividends represent dividends for the period August 1, 2004 through October 31, 2004 for the Series B and Series D preferred stock.

On July 20, 2004, our Board of Directors announced a common stock dividend of $0.18 per share. The common stock dividend was paid August 16, 2004 to common stockholders of record on July 30, 2004. In addition, our Board of Directors also declared its regular quarterly dividends for all classes of preferred stock to preferred stockholders of record on July 30, 2004. These holders of the Series B preferred stock and the Series D preferred stock were paid dividends in the amount of $0.53906 and $0.52344, per preferred share, respectively, on August 16, 2004. Regular quarterly preferred dividends represented dividends for the period May 1, 2004 through July 31, 2004 for both the Series B preferred stock and the Series D preferred stock.

On March 29, 2004, our Board of Directors declared regular quarterly dividends for all classes of preferred stock, payable on May 17, 2004 to preferred stockholders of record on April 30, 2004. These holders of the Series B preferred stock and the Series D preferred stock received dividends in the amount of $0.53906 and $0.47109, per preferred share, respectively, on May 17, 2004. Regular quarterly preferred dividends represent dividends for the period February 1, 2004 through April 30, 2004 for the Series B preferred stock and February 10, 2004 through April 30, 2004 for the Series D preferred stock. On April 20, 2004, our Board of Directors announced a common stock dividend of $0.18 per share, which is a $0.01 per share, or 5.9% increase over the previous quarter's dividend. The common stock dividend was paid May 17, 2004 to common stockholders of record on April 30, 2004.

On April 30, 2004, we fully redeemed our 9.25% Series A preferred stock ("Series A preferred stock") (NYSE:OHI PrA; CUSIP: 681936209) for $25.00 per share, plus $0.57813 per share in accrued and unpaid dividends through the redemption date, for an aggregate redemption price of $25.57813 per share. Dividends on the shares of Series A preferred stock ceased to accrue from and after the redemption date, after which the Series A preferred stock will no longer be outstanding and holders of the Series A preferred stock will have only the right to receive the redemption price.

NOTE 5 - TAXES

For the three and nine months ended September 30, 2004, no provision for income tax was recorded due to our intention to distribute to our stockholders at least 100% of our estimated 2004 taxable income and to continue to qualify as a REIT. We are permitted to own up to 100% of a "taxable REIT subsidiary" or a "TRS." Currently we have two taxable REIT subsidiaries that are taxable as corporations and that pay federal, state and local income tax on their net income at the applicable corporate rates. These taxable subsidiaries had net operating loss carry-forwards as of September 30, 2004 of $14.6 million. These loss carry-forwards were fully reserved with a valuation allowance due to uncertainties regarding realization.

NOTE 6 - STOCK-BASED COMPENSATION

Stock Option

We account for stock options using the intrinsic value method as defined by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the terms of the 2000 Stock Incentive Plan (the "2000 Plan"), we reserved 3,500,000 shares of common stock. The exercise price per share of an option under the 2000 Plan cannot be reduced after the date of grant, nor can an option be cancelled in exchange for an option with a lower exercise price per share. The 2000 Plan provides for non-employee directors to receive options that vest over three years while other grants vest over the period required in the agreement applicable to the individual recipient. Directors, officers and employees and consultants are eligible to participate in the 2000 Plan. At September 30, 2004, there were outstanding options for 848,530 shares of common stock granted to 17 eligible participants under the 2000 Plan. Additionally, 355,655 shares of restricted stock have been granted under the provisions of the 2000 Plan, and as of September 30, 2004, there were no shares of unvested restricted stock outstanding under the 2000 Plan.

On April 20, 2004, our Board of Directors approved the 2004 Stock Incentive Plan (the "2004 Plan"), which was subsequently approved by our stockholders at our annual meeting held on June 3, 2004. Under the terms of the 2004 Plan, we reserved 3,000,000 share of common stock. The exercise price per share of an option under the 2004 Plan cannot be less than fair market value (as defined in the 2004 Plan) on the date of grant. The exercise price per share of an option under the 2004 Plan cannot be reduced after the date of grant, nor can an option be cancelled in exchange for an option with a lower exercise price per share. Directors, officers, employees and consultants are eligible to participate in the 2004 Plan. As of September 30, 2004, a total of 319,995 shares of restricted stock and 317,500 restricted stock units have been granted under the 2004 Plan.

Statement of Financial Accounting Standard 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 September 30,		**Nine Months Ended September 30,**	
	2004	**2003**	**2004**	**2003**
	(in thousands, except per share amounts)		**(in thousand, except per share amounts)**	
Net income (loss) available to common stockholders	$ 5,083	$ 4	$ (49,021)	$ 2,760
Add: Stock-based compensation expense included in net income(loss) available to common stockholders	279	—	279	—
	5,362	4	(48,742)	2,760
Less: Stock-based compensation expense determined under the fair value based method for all awards	282	26	294	66
Pro forma net income (loss) available to common stockholders	$ 5,080	$ (22)	$ (49,036)	$ 2,694
Earnings per share:				
Basic, as reported	$ 0.11	$ —	$ (1.09)	$ 0.07
Basic, pro forma	$ 0.11	$ —	$ (1.09)	$ 0.07
Diluted, as reported	$ 0.11	$ —	$ (1.09)	$ 0.07
Diluted, pro forma	$ 0.11	$ —	$ (1.09)	$ 0.07

At September 30, 2004, under the 2000 Plan, there were options for 248,848 shares of common stock currently exercisable with a weighted-average exercise price of $5.34, with exercise prices ranging from $2.32 to $37.20. There are 559,960 shares available for future grants as of September 30, 2004. A breakdown of the options outstanding as of September 30, 2004 by price range is presented below:

Option Price Range	Number	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number Exercisable	Weighted Average Price on Options Exercisable
$2.32 -$3.00	491,593	$ 2.66	6.87	107,687	$ 2.71
$3.01 -$3.81	295,435	$ 3.22	7.15	92,996	$ 3.27
$6.02 -$9.33	42,501	$ 6.97	7.57	29,164	$ 6.84
$20.25 -$37.20	19,001	$ 28.03	2.73	19,001	$ 28.03

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Restricted Stock

As of September 10, 2004, we entered into restricted stock agreements with four executive officers under the 2004 Plan. A total of 317,500 shares of restricted stock were granted which equated to approximately $3.3 million of deferred compensation. The shares vest thirty-three and one-third percent (33 1/3%) on each of January 1, 2005, January 1, 2006 and January 1, 2007 so long as the executive officer remains employed on the vesting date, with vesting accelerating upon a qualifying termination of employment or upon the occurrence of a change of control (as defined in the Restricted stock Agreements). As a result of the grant, we recorded a $0.3 million non-cash compensation expense for the three- and nine- month periods ended September 30, 2004. On August 17, 2004, we issued 499 shares of restricted common stock to each non-employee director under the 2004 Plan for a total of 2,495 shares. These shares represent a quarterly payment of the portion of the directors'annual retainer that is payable in shares of our common stock.

Performance Restricted Stock Units

As of September 10, 2004, we entered into performance restricted stock unit agreements with our four executive officers under the 2004 Plan. A total of 317,500 restricted stock units were issued under the 2004 Plan and will fully vest into shares of common stock when our company attains $0.30 per share of adjusted funds from operations (as defined in the Restricted Stock Unit Agreements) for two (2) consecutive quarters, with vesting accelerating upon a qualifying termination of employment or upon the occurrence of a change of control (as defined in the Restricted Stock Unit Agreements). The issuance of restricted stock units had no impact on our calculation of diluted earnings per common share at this time; however, the expense related to the restricted stock units will be recognized when it becomes probable that the vesting requirements will be met.

NOTE 7 - FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

Bank Credit Agreements

On April 30, 2004, we exercised our right to increase the revolving commitments under our Credit Facility by an additional $50 million to $175 million. All other terms of the Credit Facility, which closed on March 22, 2004, remain the same. Bank of America, N.A. serves as Administrative Agent for the Credit Facility.

At September 30, 2004, $37.0 million was outstanding under the Credit Facility and $4.3 million was utilized for the issuance of letters of credit, leaving availability of $133.7 million. The $37.0 million of outstanding borrowings had a blended interest rate of 4.82% at September 30, 2004.

We are required to meet certain property level financial covenants and corporate financial covenants, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness and limitations on dividend payouts on our long-term borrowings. As of September 30, 2004, we were in compliance with all property level and corporate financial covenants.

Series A Preferred Redemption

On April 30, 2004, we redeemed all outstanding 2.3 million shares of our Series A preferred stock at a price of $25.57813 per share, comprised of the $25 per share liquidation value and accrued dividend. Under FASB-EITF Issue D-42, ''The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the repurchase of the Series A preferred stock resulted in a non-cash charge to net income available to common stockholders of approximately $2.3 million. On July 9, 2004, we filed articles supplementary with the Maryland Department of Assessments and Taxation to reclassify the redeemed shares of Series A preferred stock as authorized but un-issued preferred stock, without designation as to class.

Series C Preferred Stock Repurchase

On February 5, 2004, we announced that Explorer Holdings L.P. ("Explorer"), our then largest stockholder, granted us the option to repurchase up to 700,000 shares of our Series C cumulative preferred stock ("Series C preferred stock"), which were convertible into Omega common shares held by Explorer at a negotiated purchase price of $145.92 per share of Series C preferred stock (or $9.12 per common share on an as converted basis). Explorer further agreed to convert any remaining Series C preferred stock into common stock.

Series D Preferred Stock Offering

On February 10, 2004, we announced the closing of the sale of 4,739,500 shares of Series D preferred stock. The preferred stock was issued at $25 per share and listed on the New York Stock Exchange ("NYSE") under the symbol "OHI PrD."

Series C Preferred Stock Redemption and Conversion

We used approximately $102.1 million of the net proceeds from the Series D preferred stock offering to repurchase 700,000 shares of our Series C preferred stock from Explorer. In connection with the closing of the repurchase, Explorer converted its remaining 348,420 Series C preferred stock into approximately 5.6 million shares of our common stock. Following the repurchase and conversion, Explorer held approximately 18.1 million of our common shares.

The combined repurchase and conversion of the Series C preferred stock reduced our preferred dividend requirements, increased our market capitalization and facilitated future financings by simplifying our capital structure. Under FASB-EITF Issue D-42, ''The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the redemption and conversion of the Series C preferred stock resulted in a non-cash charge to net income available to common stockholders of approximately $38.7 million.

18.1 Million Secondary and 2.7 Million Primary Offering of Our Common Stock

On March 8, 2004, we announced the closing of an underwritten public offering of 18.1 million shares of our common stock at a price of $9.85 per share owned by Explorer (the "Secondary Offering"). As a result of the Secondary Offering, Explorer no longer owns any shares of our common stock. We did not receive any proceeds from the sale of the shares sold by Explorer.

In connection with the Secondary Offering, we issued approximately 2.7 million additional shares of our common stock at a price of $9.85 per share, less underwriting discounts (the "Over-allotment Offering"), to cover over-allotments relating to the Secondary Offering. We received net proceeds of approximately $22.4 million from the Over-allotment Offering.

$200 Million 7% Senior Unsecured Notes Offering and $125 Million Credit Facility

Effective March 22, 2004, we closed a private offering of $200 million aggregate principal amount of 7% senior unsecured notes due 2014 (the "Initial Notes") and the Credit Facility provided by Bank of America, N.A., Deutsche Bank AG, UBS Loan Finance, LLC and GE Healthcare Financial Services. We used proceeds from the offering of the Initial Notes to replace and terminate our previous $225 million senior secured credit facility and $50 million acquisition credit facility (the "Prior Credit Facility"). The Credit Facility will be used for acquisitions and general corporate purposes. In connection with the termination of the Prior Credit Facility, we recorded a charge of approximately $12.6 million, of which $6.3 million consisted of non-cash charges relating to deferred financing costs of the previous credit facilities.

On June 21, 2004, we filed a registration statement on Form S-4, which was amended on July 26, 2003 and August 25, 2004, under the Securities Act of 1933, as amended (the "Securities Act"), with the SEC offering to exchange (the "Exchange Offer") up to $200 million aggregate principal amount of our registered 7% Senior Notes due 2014 (the "Exchange Notes"), for all of our outstanding unregistered Initial Notes. In September 2004, upon the expiration of the Exchange Offer, $200 million aggregate principal amount of Exchange Notes were exchanged for the unregistered Initial Notes. As a result of the Exchange Offer, no Initial Notes remain outstanding. The terms of the Exchange Notes are identical to the terms of the Initial Notes, except that the Exchange Notes are registered under the Securities Act and therefore freely tradable (subject to certain conditions). The Exchange Notes represent our unsecured senior obligations and have been guaranteed by all of our subsidiaries with unconditional guarantees of payment that rank equally with existing and future senior unsecured debt of such subsidiaries and senior to existing and future subordinated debt of such subsidiaries.

$200 Million Interest Rate Cap Sale

In connection with the repayment and termination of the Prior Credit Facility, we sold our $200 million interest rate cap on March 31, 2004. Net proceeds from the sale totaled approximately $3.5 million and resulted in a loss of approximately $6.5 million, which was recorded in the first quarter of 2004.

NOTE 8 - RELATED PARTY TRANSACTIONS

On February 5, 2004, we entered into a Repurchase and Conversion Agreement with our then largest stockholder, Explorer, pursuant to which Explorer granted us an option to repurchase up to 700,000 shares of our Series C preferred stock at a price of $145.92 per share (or $9.12 per share of common stock on an as-converted basis), on the condition that we purchase a minimum of $100 million on or prior to February 27, 2004. Explorer also agreed to convert all of its remaining shares of Series C preferred stock into share of our common stock upon exercise of the repurchase option.

On February 10, 2004, we sold in a registered direct placement 4,739,500 shares of our Series D preferred stock at a price of $25 per share to a number of institutional investors and other purchasers for net proceeds, after fees and expenses, of approximately $114.9 million. Following the closing of the Series D preferred stock offering, we used approximately $102.1 million of the net proceeds to repurchase 700,000 shares of our Series C preferred stock from Explorer pursuant to the repurchase option. In connection with this transaction, Explorer converted its remaining 348,420 shares of Series C preferred stock into 5,574,720 shares of our common stock. The balance of the net proceeds from the offering was used to redeem approximately 600,000 shares of our Series A preferred stock.

As a result of the Series D preferred stock offering, the application of the proceeds received from the offering to fund the exercise of our repurchase option, and the conversion of the remaining Series C preferred stock into shares of our common stock:

- No shares of Series C preferred stock were outstanding on July 9, 2004;
- 4,739,500 shares of our Series D preferred stock, with an aggregate liquidation preference of $118,487,500, have been issued; and
- Explorer held 18,118,246 shares of our common stock, representing approximately 41.5% of our outstanding common stock.

On February 12, 2004, we registered Explorer’s 18,118,246 shares of common stock with the SEC. Explorer sold all of these registered shares pursuant to the registration statement.

In connection with our repurchase of a portion of Explorer’s Series C preferred stock, our results of operations for the first quarter of 2004 included a non-recurring reduction in net income attributable to common stockholders of approximately $38.7 million. This amount reflects the sum of (i) the difference between the deemed redemption price of $145.92 per share of our Series C preferred stock and the carrying amount of $100 per share of our Series C preferred stock multiplied by the number of shares of the Series C preferred stock repurchased upon exercise of our option to repurchase shares of Series C preferred stock and (ii) the cost associated with the original issuance of our Series C preferred stock that was previously classified as additional paid in capital, pro rated for the repurchase. This non-recurring reduction in net income attributable to common stockholders reduced our earnings per share and our reportable funds from operations for the first quarter of 2004.

NOTE 9 - LITIGATION

We are subject to various legal proceedings, claims and other actions arising out of our 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.

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 majority of these lawsuits representing the most significant amount of exposure were settled during the three months ended June 30, 2004. There remain several lawsuits pending that are in various stages of discovery and we are unable to predict the likely outcome of these lawsuits at this time. We continue to vigorously defend these claims and have insured against such claims, subject to self-insured retentions of various amounts. During the three months ended June 30, 2004, we recorded a $3.0 million charge associated with all settled and outstanding claims.

NOTE 10 - DERIVATIVES

On March 31, 2004, we sold our $200.0 million interest rate cap, realizing net proceeds of approximately $3.5 million, resulting in a loss of approximately $6.5 million, which was recorded during the first quarter of 2004 and is included within the $19.1 million interest expense associated with refinancing activities. An adjustment of $4.5 million to other comprehensive income was recorded as a result of this transaction.

NOTE 11 - DISCONTINUED OPERATIONS

The implementation of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* as of January 1, 2002, requires the presentation of the net operating results of facilities sold during 2004 as income from discontinued operations for all periods presented. We incurred a net loss from discontinued operations of $0 and $491 thousand for the three-and nine-month periods ended September 30, 2004, respectively, in the accompanying consolidated statements of operations.

The following table summarizes the results of operations of facilities sold during the three and nine months ended September 30, 2004 and 2003, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Revenues				
Rental income	$ —	$ 255	$ —	$ 766
Owned & operated revenue	—	—	—	205
Subtotal Revenues	—	255	—	971
Expenses				
Owned & operated expenses	—	61	—	574
Depreciation and amortization	—	124	2	374
Subtotal expenses	—	185	2	948
Income (loss) income before gain (loss) on sale of assets	—	70	(2)	23
Gain (loss) on assets sold - net	—	1,349	(489)	1,349
Gain (loss) from discontinued operations	$ —	$ 1,419	$ (491)	$ 1,372

NOTE 12 - EARNINGS PER SHARE

The computation of basic earnings per common share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of common stock outstanding during the relevant period. Diluted EPS reflects the potential dilution that could occur from shares issuable through stock-based compensation, including stock options, restricted stock and the conversion of our Series C preferred stock in 2003.

For the three-month period ended September 30, 2004, there was a dilutive effect of $0.001 per share from stock options. For the nine-month period ended September 30, 2004, there was no dilutive effect from stock options. For the three- month period ended September 30, 2003, there was no dilutive effect from stock options. For the nine-month period ended September 30, 2003, stock options had a dilutive effect of $0.001 per share.

NOTE 13 - SUBSEQUENT EVENTS

Re-leasing Activity

On October 1, 2004, we re-leased one assisted living facility ("ALF") formerly leased to Alterra Healthcare located in Ohio and representing 36 beds, to a new operator under a single facility lease. This lease has a three-year term and an annual rent of $240 thousand.

New Investments

Effective October 12, 2004, we entered into a binding Put Agreement ("Put") whereby we agreed to buy the stock and/or assets of 13 skilled nursing facilities in the State of Ohio for the purchase price of approximately $79 million. The holder of the Put, American Health Care Centers, Inc. ("American") and its affiliated companies paid $1,000 and agreed to eliminate the right to prepay their current mortgage with Omega in the event the option is not exercised. American has 90 days from October 12, 2004 in which to exercise its option to sell the properties to us, and if the option is exercised, then the transaction will close within ten days. In 1997, Omega paid a portion of the purchase price, equal to approximately $7 million, to obtain a separate option which extends through 2007 to acquire the properties and will now be applied to the purchase price in the event the Put is exercised by American. The 13 properties are currently subject to a master lease with Essex Healthcare Corporation.

We currently have a $14 million mortgage loan to American and its affiliates, encumbering 6 of the 13 properties. The $14 million mortgage loan will be deducted from the purchase price at closing, making our net investment of new capital approximately $58 million, after applying the $7 million purchase option and the $14 million mortgage loan.

Capital Raising Activity

On October 29, 2004, we announced the pricing of a privately placed offering of an additional $60 million aggregate principal amount of 7% senior notes due 2014 at an issue price of 102.25% of the principal amount of the notes (equal to a per annum yield to maturity of approximately 6.67%), resulting in gross proceeds to us of $61.35 million. The terms of the notes offered will be substantially identical to our existing $200 million aggregate principal amount of 7% senior notes due 2014. The notes will be offered only to qualified institutional buyers under Rule 144A under the Securities Act of 1933 and to non-U.S. persons outside the United States under Regulation S under the Securities Act. We intend to use the net proceeds of the offering for general corporate purposes, including acquisitions.

The notes to be issued in this offering have not been registered under the Securities Act of 1933, as amended, or any applicable state laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. This disclosure does not constitute an offer of any securities for sale. We have agreed to file a registration statement with the SEC, pursuant to which we would exchange the privately placed notes for notes which are registered. After the exchange, these notes will be identical to, and will trade as a single series with, the existing 7% senior notes due 2014.

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

Forward-looking Statements, Reimbursement Issues and Other Factors Affecting Future Results

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this document. This document contains forward-looking statement within the meaning of the federal securities laws, including statements regarding potential financings and potential future changes in reimbursement. 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, but not limited to, terms such as "may," "will," "anticipates," "expects," "believes," "intends," "should" or comparable terms or the negative thereof. These statements are based on information available on the date of this 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) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
(ii) the ability of any 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 process of a bankruptcy proceeding and retain security deposits for the debtors' obligations;
(iii) our ability to sell closed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
(iv) our ability to negotiate appropriate modifications to the terms of our credit facilities;
(v) our ability to manage, re-lease or sell any owned and operated facilities;
(vi) the availability and cost of capital;
(vii) competition in the financing of healthcare facilities;
(viii) regulatory and other changes in the healthcare sector;
(ix) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
(x) changes in interest rates;
(xi) the amount and yield of any additional investments;
(xii) changes in tax laws and regulations affecting real estate investment trusts; and
(xiii) changes in the ratings of our debt and preferred securities.

Overview

As of September 30, 2004, our portfolio of investments consisted of 208 healthcare facilities, located in 29 states and operated by 39 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled $843.3 million at September 30, 2004, with 97.2% of our real estate investments related to long-term care facilities. This portfolio is made up of 157 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties, fixed rate mortgages on 46 long-term healthcare facilities and three long-term healthcare facilities that were recovered from customers and are currently closed. At September 30, 2004, we also held other investments of approximately $34.4 million, including $21.7 million of notes receivable, net of allowance.

Medicare Reimbursement

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 any facilities 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 (the "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 ("SNFs") shifted from payments based on reasonable cost to a prospective payment system for services provided to Medicare beneficiaries. Under the prospective payment system, SNFs are paid on a per diem prospective case-mix adjusted 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 such facility derives from Medicare patients.

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 Refinement Act of 1999 (the "Balanced Budget Refinement 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 for all RUGs. 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 (the "Benefits Improvement and Protection Act") included a 16.7% increase in the nursing component of the case-mix adjusted federal periodic payment rate, which was implemented in April 2000 and expired October 1, 2002. The Benefits Improvement and Protection Act also modified the 20% increase granted in the Balanced Budget Refinement Act, reducing the 20% increase for three of the 15 RUGs to a 6.7% increase and instituting a new 6.7% increase for 11 other RUGs. These modifications were implemented in April 2001 and will remain in effect until the Centers for Medicare and Medicaid Services ("CMS") refines the current RUG case-mix classification system.

The October 1, 2002 expiration of the 4% and 16.7% increases under these statutes 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. Medicare reimbursement could be further reduced when CMS completes its refinement of the RUG classification system, thereby eliminating the temporary 20% and 6.7% increases also established under these statutes.

On August 4, 2003, CMS published the payment rates for SNFs for federal fiscal year 2004 (effective October 1, 2003 through September 30, 2004), which included a 3.0% increase in Medicare payments for federal fiscal year 2004. In addition, CMS announced that the 20% and 6.7% temporary add-ons for certain payment categories would remain in effect for federal fiscal year 2004. CMS also confirmed in the August 4, 2003 announcement its intention to incorporate a forecast error adjustment to take into account previous years' update errors. As a result, CMS increased the national payment rates by an additional 3.26% above the 3.0% increase for federal fiscal year 2004.

CMS published the payment rates for SNFs for federal fiscal year 2005 (October 1, 2004-September 30, 2005) on July 30, 2004. CMS announced that the national payment rates would be increased by 2.8% over the previous year's rates. Additionally, CMS stated it would maintain the 20% and 6.7% temporary add-ons for the designated payment categories for federal fiscal year 2005.

A 128% temporary increase in the per diem amount paid to SNFs for residents who have AIDS took effect on October 1, 2004. This temporary payment increase, which will remain in place until CMS implements revisions to the RUG case-mix classification system, arises from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Modernization Act").

The Medicare Modernization Act also temporarily reinstituted a moratorium on the application of a reimbursement cap on outpatient rehabilitative services. The therapy cap limits reimbursement to $1,950 for physical therapy and speech-language pathology services provided on an outpatient basis. Congress first enacted a moratorium on the implementation of a reimbursement cap from January 1, 2000 until January 1, 2003. CMS enforced the reimbursement cap from September 1, 2003 through December 7, 2003, at which point Congress reinstituted the moratorium under the Medicare Modernization Act. The moratorium remains in place through December 31, 2005, and its future beyond that date is unclear at this point.

CMS released a proposed rule in February 2003 that, if implemented, would limit Medicare reimbursement to certain providers, including SNFs, for bad debt arising from unpaid beneficiary deductibles and coinsurance amounts. In the proposed rule, CMS indicated that reimbursement rates would be reduced by 10% each year for three years until reimbursement rates to SNFs for Medicare bad debt equal 70% of reimbursement rates during federal fiscal year 2003. CMS has not issued a final rule on this issue, and we cannot predict whether CMS will implement these proposed policies or when the final rule may be issued. However, extensive cuts in Medicare payments for bad debt could have a material adverse effect on our operators' financial condition and result of operations, which could adversely affect their ability to meet their payment obligation to us.

Due to the temporary nature of the 20% and 6.7% Medicare payment increases established under the Balanced Budget Refinement Act and the Benefits Improvement and Protection Act as well as the increase in the per diem amounts for SNF residents who have AIDS under the Medicare Modernization Act, 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 SNFs. If payment rates for SNFs are not increased in the future, some of our lessees and mortgagors may have difficulty meeting their payment obligations to us.

Medicaid and Other Third-Party Reimbursement

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. Rising Medicaid costs and decreasing state revenues caused by recent economic conditions have prompted an increasing number of states to cut or consider reductions in Medicaid funding as a means of balancing their respective state budgets. Existing and future initiatives affecting Medicaid reimbursement may reduce utilization of (and reimbursement for) services offered by the operators of our properties. In 2003 and 2004, many states announced actual or potential budget shortfalls, and many budget forecasts for 2005 could be similar. As a result of these budget shortfalls, many states have announced that they are implementing or considering implementing "freezes" or cuts in Medicaid reimbursement rates, including rates paid to SNF providers, or reductions in Medicaid enrollee benefits, including long-term care benefits. We cannot predict the extent to which Medicaid rate freezes or cuts or benefit reductions will ultimately be adopted, the number of states that will adopt them or the impact of such adoption on our operators. However, extensive Medicaid rate cuts or freezes or benefit reductions could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which could adversely affect their ability to make lease or mortgage payments to us.

On May 28, 2003, the federal Jobs and Growth Tax Relief Reconciliation Act (the "Tax Relief Act") was signed into law, which included an increase in Medicaid federal funding for five fiscal quarters (April 1, 2003 through June 30, 2004). In addition, the Tax Relief Act provided state fiscal relief for federal fiscal years 2003 and 2004 to assist states with funding shortfalls, and these temporary federal funding provisions are considered to have partially mitigated state Medicaid funding reductions through federal fiscal year 2004. However, the temporary Medicaid funding provided under the Tax Relief Act expired on June 30, 2004, and although federal legislation has been introduced in Congress to reinstitute the funding, it is unknown whether such legislation will be enacted, what level of funding would be provided if the legislation was enacted, or how great an effect this funding could have on mitigating Medicaid funding reductions.

In the proposed budget for fiscal year 2005, which was released in February 2004, CMS indicated it intended to ask Congress to pass legislation that would restrict states' ability to use intergovernmental transfers ("IGTs") to access federal Medicaid funding for public providers. Although this legislation has not been introduced in Congress to date, if passed, such legislation likely would reduce some state Medicaid budgets, which could result in lower reimbursement levels for providers. However, it is not known whether legislation to accomplish this purpose will be introduced or enacted by Congress, or what effect, if any, it would have on reimbursement rates. Nonetheless, CMS announced in October 2004 that it had hired 100 auditors to review state Medicaid budget proposals, including IGTs, as they are developed at the state level, and such action also could limit states' access to federal Medicaid funding.

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.

Fraud and Abuse

There are various extremely complex and largely un-interpreted federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by healthcare providers, including criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. Penalties for health care fraud have been increased and expanded over recent years, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs, and the Office of Inspector General of the U.S. Department of Health and Human Services, in cooperation with other federal and state agencies, continues to focus on the activities of skilled nursing facilities in certain states in which we have properties. In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, these so-called "whistleblower'' suits have become more frequent. The violation of any of these regulations by an operator may result in the imposition of fines or other penalties that could jeopardize that operator's ability to make lease or mortgage payments to us or to continue operating its facility.

Legislative and Regulatory Developments

Each year, legislative proposals are introduced or proposed in Congress, state legislatures as well as by federal and state agencies, which, if implemented, could result in major changes in the health care system, either nationally or at the state level. In addition, regulatory proposals and rules are released on an ongoing basis that may have major impacts on the health care system generally and the industries in which our operators do business. Legislative and regulatory developments can be expected to occur on an ongoing basis at the local, state and federal levels that have direct or indirect impacts on the policies governing the reimbursement levels paid to our facilities by public and private third-party payors, the costs of doing business and the threshold requirements that must be met for facilities to continue operation or to expand.

The Medicare Modernization Act, which is one example of such legislation, was enacted in December 2003. The significant expansion of other benefits for Medicare beneficiaries under this Act, such as the prescription drug benefit, could result in financial pressures on the Medicare program that might result in future legislative and regulatory changes with impacts for our operators. Although the creation of a prescription drug benefit for Medicare beneficiaries was expected to generate fiscal relief for state Medicaid programs, the structure of the benefit and costs associated with its implementation and administration through the states may mitigate relief for states that was anticipated.

CMS also launched the Nursing Home Quality Initiative program in 2002, which requires nursing homes participating in Medicare to provide consumers with comparative information about the quality of care at the facility. In the event any of our operators do not maintain the same or superior levels of quality care as their competitors, patients could choose alternate facilities, which could adversely impact our operators' revenues. In addition, the reporting of such information could lead in the future to reimbursement policies that reward or penalize facilities on the basis of the reported quality of care parameters.

Other proposals under consideration include efforts by individual states to control costs by decreasing state Medicaid reimbursements in the current or future fiscal years and federal legislation addressing various issues, such as protecting consumers in managed care plans, improving quality of care and reducing medical errors throughout the health care industry. We cannot accurately predict whether any proposals will be adopted or, if adopted, what effect, if any, these proposals would have on operators and, thus, our business.

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, as amended

("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 contains any such provision. If a lease is rejected, the lessor has a general unsecured claim limited to any unpaid rent already due plus an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of such lease, not to exceed three years.

Generally, with respect to our mortgage loans, the imposition of an automatic stay under the Bankruptcy Act precludes us from exercising foreclosure or other remedies against the debtor. Pre-petition creditors generally do not have rights to the cash flows from the properties underlying the mortgages. The timing of the collection from mortgagors in bankruptcy depends on negotiating an acceptable settlement with the mortgagor (and subject to approval of the bankruptcy court) or the order of the bankruptcy court in the event a negotiated settlement cannot be achieved. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and (2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as our company is entitled to the recovery of interest and costs only if, and to the extent that, the value of the collateral does not exceed 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 the timing of principal payments, may be modified if the debtor is able to effect a "cram down" 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 under 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.

Concentration of Risk

For the three-month period ended September 30, 2004, our operating revenues totaled $22.6 million, of which approximately $5.5 million derived from Sun Healthcare Group, Inc. ("Sun") (24.1%) and $3.0 million from Advocat Inc. ("Advocat") (13.1%). For the nine-month period ended September 30, 2004, our operating revenues totaled $66.2 million, of which $16.4 million derived from Sun (24.7%) and $8.9 million from Advocat (13.4%). Approximately 38.7% of our real estate investments are operated by four public companies: Sun (18.6%), Advocat (12.3%), Mariner Health Care, Inc. (7.1%) and Emeritus Corporation (0.7%). The four largest private operators represent 6.5%, 5.8%, 4.4%, and 3.8%, respectively, of our investments. No other operator represents more than 2.9% of our investments. The three states in which we have our highest concentration of investments are Florida (15.1%), California (7.9%) and Ohio (6.9%).

Healthcare Investment Risks

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), 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 other factors.

General Real Estate Risks

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 owed on any related mortgage loan, than would be the case if the property were readily adaptable to other uses.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and a summary of our significant accounting policies is included in Note 2 to our 2003 Form 10-K. Note 1 to the accompanying consolidated financial statements includes a summary of recent accounting pronouncements and their actual or expected impact on our consolidated financial statements. Our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period.

We have identified four significant accounting policies which we believe are 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. Our actual results may differ from these estimates. The four critical accounting policies are described below.

Revenue Recognition

With the exception of one Master Lease, 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 Consumer Price Index ("CPI")) as defined in the Master Leases and mortgage loan agreements. Reserves are taken against earned revenues from leases and mortgages when collection becomes questionable or when negotiations for restructurings of troubled operators result in significant uncertainty regarding ultimate collection. The amount of the reserve is estimated based on what management believes will be collected. 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.

The one Master Lease not recognized as earned over the term of the lease is recognized on a straight-line basis. We recognize the minimum base rental revenue under this Master Lease on a straight-line basis over the term of the related lease. Accrued straight-line rents represent the rental revenue recognized in excess of rents due under the lease agreements at the balance sheet date.

Gains on sales of real estate assets are recognized pursuant to the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." The specific timing of the recognition of the sale and the related gain is measured against the various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement associated with the assets sold. To the extent the sales criteria are not met, we defer gain recognition until the sales criteria are met.

Depreciation and Asset Impairment

Under GAAP, real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 40 years for buildings and improvements. Management periodically, but not less than annually, evaluates our real estate investments for impairment indicators, including the evaluation of our assets' useful lives. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are less than the carrying values of the assets. If the sum of the expected future undiscounted cash flow, including sales proceeds, is less than carrying value, then an adjustment is made to the net carrying value of the leased properties and other long-lived assets to the present value of expected future undiscounted cash flows**.** The fair value of the real estate investment is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses.

If we decide to sell rental properties or land holdings, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell and an impairment loss is recognized. Our estimates of cash flow and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. Changes in estimated future cash flows due to changes in our plans or view of market and economic conditions could result in recognition of additional impairment losses, which, under applicable accounting guidance, could be substantial.

If events or circumstances indicate that the fair value of an investment has declined below its carrying value and we consider the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized.

Loan Impairment

Management, periodically but not less than annually, evaluates our outstanding loans and notes receivable. When management identifies potential loan impairment indicators, such as non-payment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator or other circumstances that may impair full execution of the loan documents, then 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. The fair value of the loan is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses.

Discontinued Operations

We adopted SFAS No. 144 effective January 1, 2002, which requires, among other things, that the operating results of specified real estate assets which have been sold subsequent to January 1, 2002, or otherwise qualify as held for disposition (as defined by SFAS No. 144), be reflected as discontinued operations in the consolidated statements of operations for all periods presented. We held no assets that qualified as held for disposition, as defined by SFAS No. 144, as of September 30, 2004 and December 31, 2003.

Results of Operations

The following discussion relates to our consolidated results of operations, financial position and liquidity and capital resources, which should be read in conjunction with our consolidated financial statements and accompanying notes.

Three Months Ended September 30, 2004 and 2003

Operating Revenues

Our operating revenues for the three months ended September 30, 2004 totaled $22.6 million, an increase of $0.9 million, over the same period in 2003. When excluding nursing home revenues of owned and operated assets, revenues increased by $2.0 million. The $2.0 million increase was primarily a result of new investments made in April 2004, re-leasing and restructuring activities completed throughout 2003 and during the first quarter of 2004, as well as scheduled contractual increases in rents.

Detail changes in operating revenues during the three months ended September 30, 2004 are as follows:

- Rental income for the three months ended September 30, 2004 was $18.6 million, an increase of $2.3 million over the same period in 2003. The increase was due to new leases entered into in April of 2004, restructurings and re-leasing activities and scheduled contractual increases in rents.
- Mortgage interest income for the three months ended September 30, 2004 totaled $3.2 million, a decrease of $0.2 million over the same period in 2003. The decrease was primarily the result of normal amortization and a loan payoff which occurred in the second quarter of 2004.
- Other investment income for the three months ended September 30, 2004 totaled $0.6 million, a decrease of $51 thousand over the same period in 2003.

Operating Expenses

Operating expenses for the three months ended September 30, 2004 totaled $7.6 million, a decrease of approximately $0.9 million over the same period in 2003. When excluding nursing home expenses of owned and operated assets, an increase in expenses of $0.2 million was primarily due to restricted stock amortization expense recorded in September 2004, partially offset by reductions in general and administrative and legal costs.

Detail changes in our operating expenses during the three months ended September 30, 2004 are as follows:

- Our restricted stock expense for the three months ended September 30, 2004 was $0.3 million, compared to $0 for the same period in 2003. The increase is due to the expense associated with restricted stock awards issued during this period.
- Our legal expenses for the three months ended September 30, 2004 were $0.3 million, compared to $0.5 million for the same period in 2003. The decrease is largely attributable to a reduction of legal costs associated with our owned and operated facilities due to the re-leasing efforts, sales and/or closures of 32 owned and operated assets since December 31, 2001.

Other Income (Expense)

- Our interest expense, including amortization of deferred costs, for the three months ended September 30, 2004 was $6.4 million, compared to $5.5 million for the same period in 2003. The increase of $0.9 million was primarily due to higher debt on our balance sheet versus the same period in 2003.

Other

- During the three months ended September 30, 2004, no closed facilities were sold. During the three months ended September 30, 2003, we sold four closed facilities in four separate transactions. We realized proceeds of approximately $3.7 million, net of closing costs and other expenses, resulting in a gain of approximately $1.4 million.

Nine Months Ended September 30, 2004 and 2003

Operating Revenues

Our operating revenues for the nine months ended September 30, 2004 totaled $66.2 million, a decrease of $0.4 million from the same period in 2003. When excluding nursing home revenues of owned and operated assets, revenues increased $3.1 million. The $3.1 million increase was primarily a result of new investments made in April 2004, re-leasing and restructuring activities completed throughout 2003 and during the first quarter of 2004, as well as scheduled contractual increases in rents.

Detail changes in operating revenues during the nine months ended September 30, 2004 are as follows:

- Rental income for the nine months ended September 30, 2004 was $53.9 million, an increase of $5.3 million over the same period in 2003. The increase was due to new leases entered into in April of 2004, restructurings and re-leasing activities and scheduled contractual increases in rents.

- Mortgage interest income for the nine months ended September 30, 2004 totaled $9.9 million, a decrease of $1.4 million over the same period in 2003. The decrease is primarily the result of the restructuring of two mortgages during 2003, the payoff of a mortgage in April 2004 and normal amortization.
- Other investment income for the nine months ended September 30, 2004 totaled $1.8 million, a decreased of $0.6 million over the same period in 2003. The primary reason for the decrease was due to the impact of the sale of our investment in a Baltimore, Maryland asset, leased by the United States Postal Service in 2003.

Operating Expenses

Operating expenses for the nine months ended September 30, 2004 totaled $22.0 million, a decrease of approximately $5.1 million over the same period in 2003. When excluding nursing home expenses of owned and operated assets, expenses decreased $0.5 million, primarily due to reductions in general and administrative and legal costs, offset by restricted stock amortization expense incurred in September 2004.

Detailed changes in our operating expenses during the nine months ended September 30, 2004 are as follows:

- Our general and administrative expense for the nine months ended September 30, 2004 was $4.6 million, compared to $4.9 million for the same period in 2003. The decrease was due to lower consulting costs, primarily related to the owned and operated facilities and cost reductions due to reduced travel and other employee-related expenses.
- Our legal expenses for the nine months ended September 30, 2004 were $1.2 million, compared to $1.9 million for the same period in 2003. The decrease is largely attributable to a reduction of legal costs associated with our owned and operated facilities due to the releasing efforts, sales and/or closures of 32 owned and operated assets since December 31, 2001.
- Our restricted stock expense for the nine months ended September 30, 2004 was $0.3 million, compared to $0 for the same period in 2003. The increase is due to the expense associated with restricted stock awards issued during the three months ended September 30, 2004.
- As of September 30, 2004, we no longer owned any facilities that were previously recovered from customers. As a result, our nursing home expenses, for owned and operated assets decreased to $0 from $4.5 million in 2003.

Other Income (Expense)

- Our interest expense, including amortization of deferred costs, for the nine months ended September 30, 2004 was $17.7 million, compared to $15.4 million for the same period in 2003. The increase of $2.3 million was primarily due to higher debt on our balance sheet versus the same period in 2003.
- For the nine months ended September 30, 2004, we recorded $19.1 million of refinancing-related charges associated with refinancing our capital structure. The $19.1 million consists of a $6.4 million exit fee paid to our old bank syndication and a $6.3 million non-cash deferred financing cost write-off associated with the termination of our $225 million credit facility and our $50 million acquisition facility. In addition, the sale of a $200 million interest rate cap supporting our $225 million credit facility resulted in a loss of approximately $6.5 million, which was also included in the $19.1 million interest costs.
- For the nine months ended September 30, 2003, we recorded a $2.6 million one-time, non-cash charge associated with the termination of two credit facilities syndicated by Fleet and Provident Bank during 2003.
- For the nine months ended September 30, 2004 we recorded a $3.0 million charge associated with professional liability claims made against our former owned and operated facilities.
- For the nine months ended September 30, 2003, we recorded a legal settlement receipt of $2.2 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 Uniform Commercial Code financing statements on our behalf.

Other

- In March 2004, we sold our $200 million interest rate cap, realizing net proceeds of approximately $3.5 million, resulting in an accounting loss of approximately $6.5 million.
- During the nine months ended September 30, 2004, we sold three facilities, one located in Iowa, one in Florida, and one in Illinois, realizing proceeds of approximately $0.1 million, net of closing costs and other expenses, resulting in a net loss of approximately $0.5 million.
- During the nine months ended September 30, 2003, we sold four closed facilities in four separate transactions. We realized proceeds of approximately $3.7 million, net of closing costs and other expenses, resulting in a gain of approximately $1.4 million.

Loss from Discontinued Operations

Discontinued operations relate to properties we disposed of in 2004 and are accounted for as discontinued operations under SFAS No. 144. The sale of three closed facilities resulted in a net loss of approximately $491 thousand for the nine months ended September 30, 2004. In accordance with SFAS No. 144, the $491 thousand realized net loss is reflected in our consolidated statements of operations as discontinued operations.

Funds From Operations

Our funds from operations available to common stockholders ("FFO"), for the three- and nine-months ended September 30, 2004, were $10.5 million and a deficit of $32.5 million, respectively, compared to $6.6 million and $24.0 million, respectively, for the same period in 2003.

We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts ("NAREIT"), and, consequently, FFO is defined as net income available to common stockholders, adjusted for the effects of asset dispositions and certain non-cash items, primarily depreciation and amortization. FFO available to common stockholders is the lower of funds from operations and funds from operations adjusted for the assumed conversion of Series C cumulative preferred stock (the "Series C preferred stock"). 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. FFO herein is not necessarily comparable to FFO of other real estate investment trusts, or REITs, that do not use the same definition or implementation guidelines or interpret the standards differently from us.

We use FFO as one of several criteria to measure operating performance of our business. We further believe that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and between other REITs. We offer this measure to assist the users of our financial performance under GAAP and should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investor and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income.

In February 2004, NAREIT informed its member companies that it was adopting the position of the Securities and Exchange Commission ("SEC") with respect to asset impairment charges and would no longer recommend that impairment write-downs be excluded from FFO. In the tables included in this disclosure, we have applied this interpretation and have not excluded asset impairment charges in calculating our FFO. As a result, our FFO and FFO available to common stockholders may not be comparable to similar measures reported in previous disclosures. According to NAREIT, there is inconsistency among NAREIT member companies as to the adoption of this interpretation of FFO. Therefore, a comparison of our FFO results to another company's FFO results may not be meaningful.

The following table presents our FFO results reflecting the impact of asset impairment charges (the SEC's interpretation) for the three and nine months ended September 30, 2004 and 2003:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Net income (loss) available to common	$ 5,083	$ 4	$ (49,021)	$ 2,760
Add back (gain) loss from real estate dispositions	—	(1,440)	488	(2,778)
Sub-total	5,083	(1,436)	(48,533)	(18)
Elimination of non-cash items included in net income (loss):				
Depreciation and amortization	5,394	5,386	16,005	16,119
Funds from operations	10,477	3,950	(32,528)	16,101
Series C preferred dividends	—	2,621	—	7,863
Funds from operations available to common stockholders	$ 10,477	$ 6,571	$ (32,528)	$ 23,964

Portfolio Developments

The partial expiration of certain Medicare rate increases 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 payment 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.

Alterra Healthcare

- On October 1, 2004, we re-leased one assisted living facility ("ALF") formerly leased by Alterra Healthcare located in Ohio and representing 36 beds, to a new operator under a single facility lease. This lease has a three-year term and an annual rent of $240 thousand.

Haven Healthcare

- On April 1, 2004, we purchased three SNFs, representing 399 beds, for a total investment of $26.0 million. Two of the facilities are located in Vermont and the third is located in Connecticut. The facilities were combined into an existing Master Lease with Haven Healthcare ("Haven"). Rent under the Master Lease was increased by approximately $2.7 million for the first lease year commencing on April 1, 2004, with annual increases thereafter. The term of the Master Lease was increased to ten years on January 1, 2004 to expire on December 31, 2013, followed by two ten-year renewal options. We received a security deposit equivalent to three months of incremental rent.

Senior Management

- On May 1, 2004, we purchased two SNFs representing 477 beds, for a total investment of $9.4 million. The purchase price includes funds for capital expenditures, additional bed licenses and transaction costs. Both facilities are located in Texas and were combined into an existing Master Lease with Senior Management. Rent under the Master Lease was increased by approximately $1.0 million for the first lease year commencing on May 1, 2004, with annual increases thereafter. The term of the Master Lease has been increased to ten years, and is followed by two ten-year renewal options. During the first lease year, Senior Management will fund a security deposit equivalent to approximately four months of incremental rent.

Sun Healthcare Group, Inc.

- On March 1, 2004, we re-leased two SNFs formerly leased by Sun located in California and representing 117 beds, to a new operator under a Master Lease, which has a ten-year term. The commencement date of the first re-lease was March 1, 2004 with an initial annual lease rate of approximately $0.12 million. The second facility continues to be operated by Sun as a result of licensing issues. We are currently seeking alternative operators to re-lease or potentially purchase this facility.

- On March 1, 2004, we entered into an agreement with Sun regarding 51 properties that are leased to various affiliates of Sun. Under the terms of a master lease agreement, Sun will continue to operate and occupy 23 long-term care facilities, five behavioral properties and two hospital properties through December 31, 2013. One property, located in Washington and formerly operated by a Sun affiliate, has already been closed and the lease relating to that property has been terminated. With respect to the remaining 20 facilities, 17 have already been transitioned to new operators and three are in the process of being transferred to new operators.

- Under our restructuring agreement with Sun, we received the right to convert deferred base rent owed to us, totaling approximately $7.8 million, into 800,000 shares of Sun's common stock, subject to certain anti-dilution provisions and Sun's right to pay cash in an amount equal to the value of that stock in lieu of issuing stock to us.

- On March 30, 2004, we notified Sun of our intention to exercise our right to convert the deferred base rent into fully paid and non-assessable shares of Sun's common stock. On April 16, 2004, we received a stock certificate for 760,000 restricted shares of Sun's common stock and cash in the amount of approximately $0.5 million in exchange for the remaining 40,000 shares of Sun's common stock. On July 23, 2004, Sun registered these shares with the SEC. We are accounting for the remaining 760,000 shares as "available for sale" marketable securities with changes in market value recorded in other comprehensive income.

- Effective January 1, 2004, we re-leased five SNFs to an existing operator under a new Master Lease, which has a five-year term and an initial annual lease rate of $0.75 million. Four former Sun SNFs, three located in Illinois and one located in Indiana, representing an aggregate of 449 beds, were part of the transaction. The fifth SNF in the transaction, located in Illinois and representing 128 beds, was the last remaining owned and operated facility in our portfolio.

Claremont Healthcare Holdings, Inc.

- Effective March 8, 2004, we re-leased three SNFs, formerly leased by Claremont Health Care Holdings, Inc. ("Claremont") located in Florida and representing 360 beds, to an existing operator at an initial annual lease rate of $2.5 million. These facilities were added to an existing Master Lease, the initial term of which has been extended ten years to February, 2014. The aggregate annual lease rate under this Master Lease, inclusive of the $2.5 million, is $3.9 million.
- Separately, we continue our ongoing restructuring discussions with Claremont regarding the two facilities Claremont currently leases from us. At the time of this filing, we cannot determine the timing or outcome of these discussions. Due to the significant uncertainty of collection, we recognize revenue from Claremont on a cash-basis as it is received.

Tiffany Care Centers, Inc.

- On April 6, 2004, we received approximately $4.6 million in proceeds on a mortgage loan payoff. We held mortgages on five facilities located in Missouri, representing 319 beds, which produced approximately $0.5 million of annual interest revenue in 2003.

Asset Dispositions in 2004

Other Assets

- In connection with refinancing our $225 million senior secured credit facility, we sold our $200 million interest rate cap on March 31, 2004. Net proceeds from the sale totaled approximately $3.5 million and resulted in a loss of approximately $6.5 million, which was recorded in the first quarter of 2004.

Closed Facilities

- There were no sales of closed facilities during the three months ended September 30, 2004.
- During the three months ended June 30, 2004, we sold one closed SNF located in Illinois for net proceeds of approximately $50 thousand, resulting in a loss of approximately $137 thousand.
- During the three months ended March 31, 2004, we sold two facilities, one located in Iowa and the other located in Florida, realizing proceeds of approximately $85 thousand, net of closing costs and other expenses, resulting in a net loss of approximately $351 thousand.
- In accordance with SFAS No. 144, the $137 thousand and the $351 thousand realized respective net losses from the first and second quarters of 2004 are included within discontinued operations in our consolidated statements of operations for their respective time periods.

Liquidity and Capital Resources

At September 30, 2004, we had total assets of $746.7 million, stockholders' equity of $384.4 million and debt of $340.2 million, representing approximately 47.0% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of September 30, 2004.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(In thousands)		
Long-term debt (1)	$ 340,170	$ -	$ 138,050	$ 700	$ 201,420
Other long-term liabilities	886	201	602	83	-
Total	$ 341,056	$ 201	$ 138,652	$ 783	$ 201,420

(1) The $340.2 million includes the $100.0 million aggregate principal amount of 6.95% Senior Notes due 2007, $37 million borrowings under the $175 million credit facility borrowing, which matures in March 2008 and $200 million aggregate principal amount of 7.0% Senior Notes due 2014.

Financing Activities and Borrowing Arrangements

Bank Credit Agreements

We have a $175 million revolving senior secured credit facility ("Credit Facility"). At September 30, 2004, $37.0 million was outstanding under the Credit Facility and $4.3 million was utilized for the issuance of letters of credit, leaving availability of $133.7 million. The $37.0 million of outstanding borrowings had a blended interest rate of 4.82% at September 30, 2004.

On April 30, 2004, we exercised our right to increase the revolving commitments under our Credit Facility by an additional $50 million, to $175 million. All other terms of the credit facility, which closed on March 22, 2004, remain the same. Bank of America, N.A. serves as Administrative Agent for the Credit Facility.

We are required to meet certain property level financial covenants and corporate financial covenants, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness and limitations on dividend payouts on our long-term borrowings. As of September 30, 2004, we were in compliance with all property level and corporate financial covenants.

Series A Preferred Redemption

On April 30, 2004, we redeemed all of the outstanding 2.3 million shares of our Series A preferred stock at a price of $25.57813, comprised of the $25 per share liquidation value and accrued dividend. Under FASB-EITF Issue D-42, ''The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the repurchase of the Series A preferred stock resulted in a non-cash charge to net income available to common stockholders of approximately $2.3 million. This non-cash charge did not have any effect on our net worth.

Series C Preferred Stock Repurchase

On February 5, 2004, we announced that Explorer Holdings L.P. ("Explorer"), our then largest stockholder, granted us the option to repurchase up to 700,000 of our Series C preferred stock which were convertible into our common shares held by Explorer at a negotiated purchase price of $145.92 per share of Series C preferred stock (or $9.12 per common share on an as converted basis). Explorer further agreed to convert any remaining Series C preferred stock into our common stock.

Series D Preferred Stock Offering

On February 10, 2004, we announced the closing of the sale of 4,739,500 shares of our 8.375% Series D cumulative redeemable preferred stock (the "Series D preferred stock") at a price of $25 per share. The Series D preferred stock is listed on the New York Stock Exchange ("NYSE") under the symbol "OHI PrD."

Series C Preferred Stock Redemption and Conversion

We used approximately $102.1 million of the net proceeds from the Series D preferred stock offering to repurchase 700,000 shares of our Series C preferred stock from Explorer. In connection with the closing of the repurchase, Explorer converted its remaining 348,420 Series C preferred stock into approximately 5.6 million shares of our common stock. Following the repurchase and conversion, Explorer held approximately 18.1 million of our common shares.

The combined repurchase and conversion of the Series C preferred stock reduced our preferred dividend requirements, increased our market capitalization and facilitated future financings by simplifying our capital structure. Under FASB-EITF Issue D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the repurchase of the Series C preferred stock resulted in a non-cash charge to net income available to common stockholders of approximately $38.7 million.

18.1 Million Secondary and 2.7 Million Primary Offering of Our Common Stock

On March 8, 2004, we announced the closing of an underwritten public offering of 18.1 million shares of our common stock at a price of $9.85 per share owned by Explorer (the "Secondary Offering"). As a result of the Secondary Offering, Explorer no longer owned any shares of our common stock. We did not receive any proceeds from the sale of the shares sold by Explorer.

In connection with the Secondary Offering, we issued approximately 2.7 million additional shares of our common stock at a price of $9.85 per share, less underwriting discounts (the "Over-Allotment Offering"), to cover over-allotments in connection with the Secondary Offering. We received net proceeds of approximately $22.4 million from the Over-Allotment Offering.

$200 Million 7% Senior Unsecured Notes Offering and $125 Million Credit Facility

Effective March 22, 2004, we closed a private offering of $200 million aggregate principal amount of 7% senior unsecured notes due 2014 (the "Initial Notes") and the Credit Facility provided by Bank of America, N.A., Deutsche Bank AG, UBS Loan Finance, LLC and GE Healthcare Financial Services. We used proceeds from the offering of the Initial Notes to replace and terminate our previous $225 million senior secured credit facility and $50 million acquisition credit facility (the "Prior Credit Facility"). The Credit Facility will be used for acquisitions and general corporate purposes. In connection with the termination of the Prior Credit Facility, we recorded a charge of approximately $12.6 million, of which $6.3 million consisted of non-cash charges relating to deferred financing costs of the previous credit facilities.

On June 21, 2004, we filed a registration statement on Form S-4, as amended on July 26, 2003 and August 25, 2004, under the Securities Act of 1933, as amended (the "Securities Act"), with the SEC offering to exchange (the "Exchange Offer") up to $200 million aggregate principal amount of our registered 7% Senior Notes due 2014 (the "Exchange Notes"), for all of our outstanding unregistered Initial Notes. In September 2004, upon the expiration of the Exchange Offer, $200 million aggregate principal amount of Exchange Notes were exchanged for the unregistered Initial Notes. As a result of the Exchange Offer, no Initial Notes remain outstanding. The terms of the Exchange Notes are identical to the terms of the Initial Notes, except that the Exchange Notes are registered under the Securities Act and therefore freely tradable (subject to certain conditions). The Exchange Notes represent our unsecured senior obligations and have been guaranteed by all of our subsidiaries with unconditional guarantees of payment that rank equally with existing and future senior unsecured debt of such subsidiaries and senior to existing and future subordinated debt of such subsidiaries.

$200 Million Interest Rate Cap Sale

In connection with the repayment and termination of our Prior Credit Facility, we sold our $200 million interest rate cap on March 31, 2004. Net proceeds from the sale totaled approximately $3.5 million and resulted in a loss of approximately $6.5 million, which was recorded in the first quarter of 2004.

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 addition, our Credit Facility has certain financial covenants which limit the distribution of dividends paid during a fiscal quarter to no more than 95% of our immediately prior fiscal quarter's FFO as defined in the loan agreement governing the Credit Facility (the "Loan Agreement"), unless a greater distribution is required to maintain REIT status. The Loan Agreement, defines FFO as net income (or loss), plus depreciation and amortization and shall be adjusted for charges related to (i) restructuring our debt, (ii) redemption of preferred stock, (iii) litigation charges up to $5.0 million, (iv) non-cash charges for accounts and notes receivable up to $5.0 million, and (v) non-cash impairment charges.

On October 19, 2004, our Board of Directors announced a common stock dividend of $0.19 per share, an increase of $0.01 per common share. The common stock dividend will be paid November 15, 2004 to common stockholders of record on October 29, 2004. Also on October 19, 2004, our Board of Directors declared its regular quarterly dividends for all classes of preferred stock, payable November 15, 2004 to preferred stockholders of record on October 29, 2004. Holders of record of our 8.625% Series B cumulative preferred stock (the "Series B preferred stock") and 8.375% Series D cumulative redeemable preferred stock (the "Series D preferred stock") on October 29, 2004 will be paid dividends in the amount of approximately $0.53906 and $0.52344, per preferred share, respectively, on November 15, 2004. The liquidation preference for each of our Series B and D preferred stock is $25.00. Regular quarterly preferred dividends represent dividends for the period August 1, 2004 through October 31, 2004 for the Series B and Series D preferred stock.

On July 20, 2004, our Board of Directors announced a common stock dividend of $0.18 per share. The common stock dividend was paid August 16, 2004 to common stockholders of record on July 30, 2004. In addition, our Board of Directors also declared its regular quarterly dividends for all classes of preferred stock to preferred stockholders of record on July 30, 2004. These holders of the Series B preferred stock and the Series D preferred stock were paid dividends in the amount of $0.53906 and $0.52344, per preferred share, respectively, on August 16, 2004. Regular quarterly preferred dividends represented dividends for the period May 1, 2004 through July 31, 2004 for both the Series B preferred stock and the Series D preferred stock.

On March 29, 2004, our Board of Directors declared regular quarterly dividends for all classes of preferred stock, payable on May 17, 2004 to preferred stockholders of record on April 30, 2004. These holders of the Series B preferred stock and the Series D preferred stock received dividends in the amount of $0.53906 and $0.47109, per preferred share, respectively, on May 17, 2004. Regular quarterly preferred dividends represent dividends for the period February 1, 2004 through April 30, 2004 for the Series B preferred stock and February 10, 2004 through April 30, 2004 for the Series D preferred stock. On April 20, 2004, our Board of Directors announced a common stock dividend of $0.18 per share, which is a $0.01 per share, or 5.9% increase over the previous quarter's dividend. The common stock dividend was paid May 17, 2004 to common stockholders of record on April 30, 2004.

In March 2004, our Board of Directors authorized the redemption of all outstanding 2.3 million shares of our Series A preferred stock. The Series A preferred stock was redeemed on April 30, 2004 for $25 per share, plus $0.57813 per share in accrued and unpaid dividends through the redemption date, for an aggregate redemption price of $25.57813 per share.

On April 20, 2004, our Board of Directors announced a common stock dividend of $0.18 per share, which is a $0.01 per share, or 5.9%, increase over the previous quarter's dividend. The common stock dividend was paid May 17, 2004 to common stockholders of record on April 30, 2004.

Liquidity

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

The primary source of liquidity is our cash flows from operations. Operating cash flows have historically been determined by: (i) the number of facilities we lease or have mortgages on, (ii) rental and mortgage rates, (iii) our debt service obligations, and (iv) general, administrative and legal expenses. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. Changes in the capital markets environment may impact the availability of cost-effective capital and affect our plans for acquisition and disposition activity.

We regularly review our liquidity needs, the adequacy of cash flow from operations, and other expected liquidity sources to meet these needs. We believe our principal short-term liquidity needs are to fund:

- normal recurring expenses
- debt service payments
- preferred stock dividends
- common stock dividends
- growth through acquisitions of additional properties.

Cash and cash equivalents totaled $3.3 million as of September 30, 2004, an increase of $0.2 million as compared to the balance at December 31, 2003. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statement of Cash Flows.

Operating Activities - Net cash flow from operating activities generated $35.6 million for the nine months ended September 30, 2004 as compared to $43.2 million for the same period in 2003. The $7.6 million decrease is due primarily to a $3.0 million charge associated with professional liability claims (see Note 9 - Litigation) and normal working capital fluctuations during the period.

Investing Activities - Net cash flow from investing activities was an outflow of $29.9 million for the nine months ended September 30, 2004 as compared to an inflow of $19.5 million for the same period in 2003. The decrease of $49.4 million was primarily due to: (i) two acquisitions completed in April 2004, and (ii) a decrease of approximately $9.8 million of incremental cash flow from asset sales in 2003 compared to 2004.

Financing Activities - Net cash flow from financing activities was an outflow of $5.5 million for the nine months ended September 30, 2004 as compared to an outflow of $70.9 million for the same period in 2003. The change in financing cash flow was primarily a result of (i) issuance of $118.5 million of preferred equity, (ii) a public issuance of 2.7 million shares of our common stock at a price of $9.85 per share, (iii) a private offering of the Initial Notes, and (iv) the sale of an interest rate cap. In addition, the decrease of $65.5 million was the result of (i) the redemption of our Series A preferred stock and Series C preferred stock, (ii) repayment of Prior Credit Facility and related termination fees, and (iii) payments of common and preferred dividend payments.

Recent Developments

On October 29, 2004, we announced the pricing of a privately placed offering of an additional $60 million aggregate principal amount of 7% senior notes due 2014 at an issue price of 102.25% of the principal amount of the notes (equal to a per annum yield to maturity of approximately 6.67%), resulting in gross proceeds to us of $61.35 million. The terms of the notes offered will be substantially identical to our existing $200 million aggregate principal amount of 7% senior notes due 2014. The notes will be offered only to qualified institutional buyers under Rule 144A under the Securities Act of 1933 and to non-U.S. persons outside the United States under Regulation S under the Securities Act. We intend to use the net proceeds of the offering for general corporate purposes, including acquisitions.

The notes to be issued in this offering have not been registered under the Securities Act of 1933, as amended, or any applicable state laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. This disclosure does not constitute an offer of any securities for sale. We have agreed to file a registration statement with the SEC, pursuant to which we would exchange the privately placed notes for notes which are registered. After the exchange, these notes will be identical to, and will trade as a single series with, the existing 7% senior notes due 2014.

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 following disclosures of estimated fair value of financial instruments are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented below are not necessarily indicative of the amounts we would realize in a current market exchange.

Mortgage notes receivable - The fair value of mortgage notes receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Borrowings under lines of credit arrangement - The carrying amount approximates fair value because the borrowings are interest rate adjustable.

S*enior unsecured notes* - The fair value of the senior unsecured notes is estimated by discounting the future cash flows using the current borrowing rate available for the similar debt.

The market value of our long-term fixed rate borrowings and mortgages is subject to interest rate risks. 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 September 30, 2004 was $348.1 million. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $15.7 million.

Item 4 - Controls and Procedures

Our principal executive officer and principal financial officer are responsible for establishing and maintaining disclosure controls and procedures as defined in the rules promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2004 and, based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures were effective as of September 30, 2004. No changes in our internal control over financial reporting were identified as having occurred in the fiscal quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Item 6 - Exhibits

Exhibit No.		Description
3.1		Articles of Amendment to Omega Healthcare Investors, Inc.'s, Articles of Incorporation, as amended
4.1		Articles Supplementary reclassifying Omega Healthcare Investors, Inc.'s Series A preferred stock and Series C preferred stock, as authorized but un-issued shares of Omega Healthcare Investors, Inc.'s preferred stock without designation as to series
10.1		Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan
10.2		Employment Agreement, dated September 10, 2004 between Omega Healthcare Investors, Inc. and C. Taylor Pickett (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with Securities and Exchange Commission on September 16, 2004, File No. 1-11316)
10.3		Employment Agreement, dated September 10, 2004 between Omega Healthcare Investors, Inc. and Daniel J. Booth (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with Securities and Exchange Commission on September 16, 2004, File No. 1-11316)
10.4		Employment Agreement, dated September 10, 2004 between Omega Healthcare Investors, Inc. and R. Lee Crabill (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with Securities and Exchange Commission on September 16, 2004, File No. 1-11316)

10.5		Employment Agreement, dated September 10, 2004 between Omega Healthcare Investors, Inc. and Robert O. Stephenson (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with Securities and Exchange Commission on September 16, 2004, File No. 1-11316)
10.6		Form of Restricted Stock Award (incorporated by reference to Exhibit 10.5 to the Company's Current Report on form 8-K., filed with the Securities and Exchange Commission on September 16, 2004, file No. 1-11316)
10.8		Put Agreement, effective as of October 12, 2004 , by and between American Health Care Centers, Inc. and Omega Healthcare Investors, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 18, 2004, File No. 1-11316)
31.1		Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2		Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1		Section 1350 Certification of the Chief Executive Officer.
32.2		Section 1350 Certification of the Chief Financial Officer.

SIGNATURES

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

OMEGA HEALTHCARE INVESTORS, INC.
Registrant

Date: November 2, 2004 By: /S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

Date: November 2, 2004 By: /S/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer

OMEGA HEALTHCARE INVESTORS, INC.

ARTICLES OF AMENDMENT

OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation having its principal Maryland office at 9690 Deereco Road, Suite 100, Timonium, Maryland 21093 (the "Company"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The board of directors of the Company, at a meeting duly convened and held on April 20, 2004, adopted a resolution in which it was set forth the following amendment to the charter of the Company (the "Charter"), declaring that said amendment to the Charter was advisable and directing that it be submitted for action thereon at a meeting of the stockholders of the Company to be held on June 3, 2004.

SECOND: Notice setting forth the aforesaid amendment of the Charter and stating that a purpose of the meeting of the stockholders would be to take action therein, was given as required by law to all stockholders entitled to vote thereon. The amendment of the Charter of the Company as hereinafter set forth was approved by the stockholders of the Company at said meeting by the affirmative vote required by law and the Charter.

THIRD: The Charter is hereby amended by striking out Section 1 of Article IV in its entirety and inserting in lieu thereof the following:

ARTICLE IV
CAPITAL STOCK

Section 1. The total number of shares of capital stock which the corporation shall have authority to issue is One Hundred Twenty Million (120,000,000), of which One Hundred Million (100,000,000) shall be shares of Common Stock having a par value of $.10 per share and Twenty Million (20,000,000) shall be shares of Preferred Stock having a par value of $1.00 per share. The aggregate par value of all said shares shall be Thirty Million Dollars ($30,000,000). Prior to the increase, the aggregate par value of all said shares was Twenty Million Dollars ($20,000,000).

FOURTH: (a) The total number of shares of all classes of stock of the Company heretofore authorized, and the number and par value of the shares of each class, were as follows:

Common Stock	Par Value
100,000,000	$.10 per share
Preferred Stock	Par Value
10,000,000	$1.00 per share

(b) The total number of shares of all classes of stock of the Company as increased, and the number and par value of the shares of each class, are as follows:

Common Stock	Par Value
100,000,000	$.10 per share
Preferred Stock	Par Value
20,000,000	$1.00 per share

(c) The aggregate par value of all shares of all classes of stock of the Company heretofore authorized was $20,000,000. The aggregate par value of all shares of all classes of stock as increased by this amendment is $30,000,000. This amendment has the effect of increasing the aggregate par value of all shares of all classes of stock of the Company by $10,000,000.

FIFTH: The undersigned Chief Executive Officer of the Company acknowledges the Articles of Amendment to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned Chief Executive Officer of the Company acknowledges that to the best of his or her knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be executed under seal in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 30th day of June, 2004.

ATTEST

By: /S/ DANIEL J. BOOTH
Daniel J. Booth
Secretary

OMEGA HEALTHCARE INVESTORS, INC.

By: /S/ C.TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

OMEGA HEALTHCARE INVESTORS, INC.

ARTICLES SUPPLEMENTARY

Omega Healthcare Investors, Inc., a Maryland corporation ("Company"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Pursuant to authority contained in the Charter: (i) Two Million Three Hundred Thousand (2,300,000) shares of authorized but unissued shares of the Company's Series A Cumulative Preferred Stock; and (ii) Nine Hundred Sixty Thousand Five Hundred (960,500) shares of authorized but unissued shares of the Company's Series C Convertible Preferred Stock, have been duly reclassified by the Board of Directors of the Company as authorized but unissued shares of the Company's Preferred Stock, par value $1.00 per share as described in Article IV, Section 2 of the Articles of Incorporation of the Company, without designation as to series.

SECOND. The re-classification and classification of authorized but unissued shares as set forth in these Articles Supplementary does not increase the authorized capital of the Company or the aggregate par value thereof.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned President of the Company acknowledges these Articles Supplementary to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned President of the Company acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Company has caused these Articles Supplementary to be executed under seal in its name and on its behalf by its President and attested to by its Secretary on this 30th day of June, 2004.

ATTEST	OMEGA HEALTHCARE INVESTORS, INC.
By: /S/ DANIEL J. BOOTH	By: /S/ C. TAYLOR PICKETT
Name: Daniel J. Booth	Name: C. Taylor Pickett
Title: Secretary and Chief Operating Officer	Title: President and Chief Executive Officer

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OMEGA HEALTHCARE INVESTORS, INC.
2004 STOCK INCENTIVE PLAN

OMEGA HEALTHCARE INVESTORS, INC.
2004 STOCK INCENTIVE PLAN

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OMEGA HEALTHCARE INVESTORS, INC.
2004 STOCK INCENTIVE PLAN

SECTION I. DEFINITIONS

1.1 Definitions. Whenever used herein, the masculine pronoun will be deemed to include the feminine, and the singular to include the plural, unless the context clearly indicates otherwise, and the following capitalized words and phrases are used herein with the meaning thereafter ascribed:

(a) "Affiliate" means:

(1) Any Subsidiary or Parent,

(2) An entity that directly or through one or more intermediaries controls, is controlled by, or is under common control with the Company, as determined by the Company, or

(3) Any entity in which the Company has such a significant interest that the Company determines it should be deemed an "Affiliate," as determined in the sole discretion of the Company.

(b) "Board of Directors" means the board of directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the Compensation Committee of the Board of Directors.

(e) "Company" means Omega Healthcare Investors, Inc., a Maryland corporation.

(f) "Disability" has the same meaning as provided in the long-term disability plan or policy maintained or, if applicable, most recently maintained, by the Company or, if applicable, any Affiliate of the Company for the Participant. If no long-term disability plan or policy was ever maintained on behalf of the Participant or, if the determination of Disability relates to an Incentive Stock Option, Disability means that condition described in Code Section 22(e)(3), as amended from time to time. In the event of a dispute, the determination of Disability will be made by the Committee and will be supported by advice of a physician competent in the area to which such Disability relates.

(g) "Dividend Equivalent Rights" means certain rights to receive cash payments as described in Section 3.5.

(h) "Exchange Act" means th e Securities Exchange Act of 1934, as amended from time to time.

(i) "Fair Market Value" with regard to a date means:

(1) the price at which Stock shall have been sold on that date or the last trading date prior to that date as reported by the national securities exchange selected by the Committee on which the shares of Stock are then actively traded or, if applicable, as reported by the NASDAQ Stock Market.

(2) if such market information is not published on a regular basis, the price of Stock in the over-the-counter market on that date or the last business day prior to that date as reported by the NASDAQ Stock Market or, if not so reported, by a generally accepted reporting service.

(3) if Stock is not publicly traded, as determined in good faith by the Committee with due consideration being given to (i) the most recent independent appraisal of the Company, if such appraisal is not more than twelve months old and (ii) the valuation methodology used in any such appraisal.

For purposes of Paragraphs (1), (2), or (3) above, the Committee may use the closing price as of the applicable date, the average of the high and low prices as of the applicable date or for a period certain ending on such date, the price determined at the time the transaction is processed, the tender offer price for shares of Stock, or any other method which the Committee determines is reasonably indicative of the fair market value.

(j) "Incentive Stock Option" means an incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

(k) "Option" means a Non-Qualified Stock Option or an Incentive Stock Option.

(l) "Over 10% Owner" means an individual who at the time an Incentive Stock Option is granted owns Stock possessing more than 10% of the total combined voting power of the Company or one of its Subsidiaries, determined by applying the attribution rules of Code Section 424(d).

(m) "Non-Qualified Stock Option" means a stock option that is not an Incentive Stock Option.

(n) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, with respect to Incentive Stock Options, at the time of the granting of the Option, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A Parent shall include any entity other than a corporation to the extent permissible under Section 424(f) or regulations and rulings thereunder.

(o) "Participant" means an individual who receives a Stock Incentive hereunder.

(p) "Performance Goals" means the measurable performance objectives, if any, established by the Committee for a Performance Period that are to be achieved with respect to a Stock Incentive granted to a Participant under the Plan. Performance Goals may be described in terms of Company-wide objectives or in terms of objectives that are related to performance of the division, Affiliate, department or function within the Company or an Affiliate in which the Participant receiving the Stock Incentive is employed or on which the Participant's efforts have the most influence. The achievement of the Performance Goals established by the Committee for any Performance Period will be determined without regard to the effect on such Performance Goals of any acquisition or disposition by the Company of a trade or business, or of substantially all of the assets of a trade or business, during the Performance Period and without regard to any change in accounting standards by the Financial Accounting Standards Board or any successor entity. The Performance Goals established by the Committee for any Performance Period under the Plan will consist of one or more of the following:

(1) earnings per share and/or growth in earnings per share in relation to target objectives, excluding the effect of extraordinary or nonrecurring items;

(2) operating cash flow and/or growth in operating cash flow in relation to target objectives;

(3) cash available in relation to target objectives;

(4) net income and/or growth in net income in relation to target objectives, excluding the effect of extraordinary or nonrecurring items;

(5) revenue and/or growth in revenue in relation to target objectives;

(6) total shareholder return (measured as the total of the appreciation of and dividends declared on the Common Stock) in relation to target objectives;

(7) return on invested capital in relation to target objectives;

(8) return on shareholder equity in relation to target objectives;

(9) return on assets in relation to target objectives; and

(10) return on common book equity in relation to target objectives

If the Committee determines that, as a result of a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which the Company conducts its business, or any other events or circumstances, the Performance Goals are no longer suitable, the Committee may in its discretion modify such Performance Goals or the related minimum acceptable level of achievement, in whole or in part, with respect to a period as the Committee deems appropriate and equitable, except where such action would result in the loss of the otherwise available exemption of the Stock Incentive under Section 162(m) of the Code. In such case, the Committee will not make any modification of the Performance Goals or minimum acceptable level of achievement.

(q) "Performance Period" means, with respect to a Stock Incentive, a period of time within which the Performance Goals relating to such Stock Incentive are to be measured. The Performance Period will be established by the Committee at the time the Stock Incentive is granted.

(r) "Performance Unit Award" refers to a performance unit award as described in Section 3.6.

(s) "Phantom Shares" refers to the rights described in Section 3.7.

(t) "Plan" means the Omega Healthcare Investors, Inc. 2000 Stock Incentive Plan.

(u) "Restricted Stock Unit" refers to the rights described in Section 3.8.

(v) "Stock" means Company's common stock.

(w) "Stock Appreciation Right" means a stock appreciation right described in Section 3.3.

(x) "Stock Award" means a stock award described in Section 3.4.

(y) "Stock Incentive Agreement" means an agreement between the Company and a Participant or other documentation evidencing an award of a Stock Incentive.

(z) "Stock Incentive Program" means a written program established by the Committee, pursuant to which Stock Incentives are awarded under the Plan under uniform terms, conditions and restrictions set forth in such written program.

(aa) "Stock Incentives" means, collectively, Dividend Equivalent Rights, Incentive Stock Options, Non-Qualified Stock Options, Phantom Shares, Stock Appreciation Rights and Stock Awards, Performance Unit Awards and Restricted Stock Units.

(bb) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain. A "Subsidiary" shall include any entity other than a corporation to the extent permissible under Section 424(f) or regulations or rulings thereunder.

(cc) "Termination of Employment" means the termination of the employee-employer relationship between a Participant and the Company and its Affiliates, regardless of whether severance or similar payments are made to the Participant for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability or retirement. The Committee will, in its absolute discretion, determine the effect of all matters and questions relating to a Termination of Employment, including, but not by way of limitation, the question of whether a leave of absence constitutes a Termination of Employment.

SECTION 2 THE STOCK INCENTIVE PLAN

2.1 Purpose of the Plan. The Plan is intended to (a) provide incentive to officers, employees, directors and consultants of the Company and its Affiliates to stimulate their efforts toward the continued success of the Company and to operate and manage the business in a manner that will provide for the long-term growth and profitability of the Company; (b) encourage stock ownership by officers, employees, directors and consultants by providing them with a means to acquire a proprietary interest in the Company, acquire shares of Stock, or to receive compensation which is based upon appreciation in the value of Stock; and (c) provide a means of obtaining, rewarding and retaining officers, employees, directors, and consultants.

2.2 Stock Subject to the Plan. Subject to adjustment in accordance with Section 5.2, three million (3,000,000) shares of Stock (the "Maximum Plan Shares") are hereby reserved exclusively for issuance upon exercise or payment pursuant to Stock Incentives. The shares of Stock attributable to the nonvested, unpaid, unexercised, unconverted or otherwise unsettled portion of any Stock Incentive that is forfeited or cancelled or expires or terminates for any reason without becoming vested, paid, exercised, converted or otherwise settled in full will again be available for purposes of the Plan.

2.3 Administration of the Plan. The Plan is administered by the Committee. The Committee has full authority in its discretion to determine the officers, key employees, directors and consultants of the Company or its Affiliates to whom Stock Incentives will be granted and the terms and provisions of Stock Incentives, subject to the Plan. Subject to the provisions of the Plan, the Committee has full and conclusive authority to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the respective Stock Incentive Agreements and to make all other determinations necessary or advisable for the proper administration of the Plan. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan (whether or not such persons are similarly situated). The Committee's decisions are final and binding on all Participants.

2.4 Eligibility and Limits. Stock Incentives may be granted only to officers, employees, directors, and consultants of the Company, or any Affiliate of the Company; provided, however, that an Incentive Stock Option may only be granted to an employee of the Company or any Subsidiary. In the case of Incentive Stock Options, the aggregate Fair Market Value (determined as at the date an Incentive Stock Option is granted) of stock with respect to which stock options intended to meet the requirements of Code Section 422 become exercisable for the first time by an individual during any calendar year under all plans of the Company and its Subsidiaries may not exceed $100,000; provided further, that if the limitation is exceeded, the Incentive Stock Option(s) which cause the limitation to be exceeded will be treated as Non-Qualified Stock Option(s).

2.5 Non-Employee Director Stock Option Grants. A Non-Qualified Stock Option with respect to 10,000 shares of Stock shall be granted to each non-employee director as of the date he is first elected as a non-employee director of the Company. An additional Non-Qualified Stock Option with respect to 1,000 shares of Stock shall be granted to each non-employee director of the Company as of each January 1 following the initial grant. Each Stock Option granted to a non-employee director will vest with respect to 1/3 of the grant on the first anniversary of the grant, with respect to an additional 1/3 of the grant on the second anniversary of the grant, and with respect to the final 1/3 on the third anniversary of the grant; provided that an Optionee will cease to vest when he or she ceases to provide services to the Company as an employee, consultant, or director.

The existence of the preceding formula grants shall not be construed to preclude further grants of Options or other Stock Incentives to non-employee directors of the Company.

SECTION 3 TERMS OF STOCK INCENTIVES

3.1 Terms and Conditions of All Stock Incentives.

(a) The number of shares of Stock as to which a Stock Incentive may be granted will be determined by the Committee in its sole discretion, subject to the provisions of Section 2.2 as to the total number of shares available for grants under the Plan and subject to the limits on Options and Stock Appreciation Rights in the following sentence. On such date as required by Section 162(m) of the Code and the regulations thereunder for compensation to be treated as qualified performance based compensation, the maximum number of shares of Stock with respect to which Options or Stock Appreciation Rights may be granted during any calendar year period to any employee may not exceed 1,100,000. If, after grant, an Option is cancelled, the cancelled Option shall continue to be counted against the maximum number of shares for which options may be granted to an employee as described in this Section 3.1. If, after grant, the exercise price of an Option is reduced or the base amount on which a Stock Appreciation Right is calculated is reduced, the transaction shall be treated as the cancellation of the Option or the Stock Appreciation Right, as applicable, and the grant of a new Option or Stock Appreciation Right, as applicable. If an Option or Stock Appreciation Right is deemed to be cancelled as described in the preceding sentence, the Option or Stock Appreciation Right that is deemed to be canceled and the Option or Stock Appreciation Right that is deemed to be granted shall both be counted against the maximum number of shares for which Options or Stock Appreciation Rights may be granted to an employee as described in this Section 3.1.

(b) Each Stock Incentive will either be evidenced by a Stock Incentive Agreement in such form and containing such terms, conditions and restrictions as the Committee may determine to be appropriate, including without limitation, Performance Goals that must be achieved as a condition to vesting or payment of the Stock Incentive, or be made subject to the terms of a Stock Incentive Program, containing such terms, conditions and restrictions as the Committee may determine to be appropriate, including without limitation, Performance Goals that must be achieved as a condition to vesting or payment of the Stock Incentive. Each Stock Incentive Agreement or Stock Incentive Program is subject to the terms of the Plan and any provisions contained in the Stock Incentive Agreement or Stock Incentive Program that are inconsistent with the Plan are null and void.

(c) The date a Stock Incentive is granted will be the date on which the Committee has approved the terms and conditions of the Stock Incentive and has determined the recipient of the Stock Incentive and the number of shares covered by the Stock Incentive, and has taken all such other actions necessary to complete the grant of the Stock Incentive.

(d) Any Stock Incentive may be granted in connection with all or any portion of a previously or contemporaneously granted Stock Incentive. Exercise or vesting of a Stock Incentive granted in connection with another Stock Incentive may result in a pro rata surrender or cancellation of any related Stock Incentive, as specified in the applicable Stock Incentive Agreement or Stock Incentive Program.

(e) Stock Incentives are not transferable or assignable except by will or by the laws of descent and distribution and are exercisable, during the Participant's lifetime, only by the Participant; or in the event of the Disability of the Participant, by the legal representative of the Participant; or in the event of death of the Participant, by the legal representative of the Participant's estate or if no legal representative has been appointed, by the successor in interest determined under the Participant's will; provided, however, that the Committee may waive any of the provisions of this Section or provide otherwise as to any Stock Incentives other than Incentive Stock Options.

(f) The Committee may establish rules and procedures to permit a holder of a Stock Incentive to defer recognition of taxable income upon the exercise or vesting of a Stock Incentive.

3.2 Terms and Conditions of Options. Each Option granted under the Plan must be evidenced by a Stock Incentive Agreement. At the time any Option is granted, the Committee will determine whether the Option is to be an Incentive Stock Option described in Code Section 422 or a Non-Qualified Stock Option, and the Option must be clearly identified as to its status as an Incentive Stock Option or a Non-Qualified Stock Option. Incentive Stock Options may only be granted to employees of the Company or any Subsidiary. At the time any Incentive Stock Option granted under the Plan is exercised, the Company will be entitled to legend the certificates representing the shares of Stock purchased pursuant to the Option to clearly identify them as representing the shares purchased upon the exercise of an Incentive Stock Option. An Incentive Stock Option may only be granted within ten (10) years from the earlier of the date the Plan is adopted or approved by the Company's stockholders.

(a) Option Price. Subject to adjustment in accordance with Section 5.2 and the other provisions of this Section 3.2, the exercise price (the "Exercise Price") per share of Stock purchasable under any Option must be as set forth in the applicable Stock Incentive Agreement, but in no event may it be less than the Fair Market Value on the date the Option is granted. Except for adjustments as contemplated by Section 5.2 hereof, in no event will the Exercise Price per share of Stock of any Option be reduced after the date of grant of the Option and no Option may be cancelled or surrendered in exchange for an Option with a lower Exercise Price per share of Stock. With respect to each grant of an Incentive Stock Option to a Participant who is an Over 10% Owner, the Exercise Price may not be less than 110% of the Fair Market Value on the date the Option is granted.

(b) Option Term. Any Incentive Stock Option granted to a Participant who is not an Over 10% Owner is not exercisable after the expiration of ten (10) years after the date the Option is granted. Any Incentive Stock Option granted to an Over 10% Owner is not exercisable after the expiration of five (5) years after the date the Option is granted. The term of any Non-Qualified Stock Option must be as specified in the applicable Stock Incentive Agreement.

(c) Payment. Payment for all shares of Stock purchased pursuant to exercise of an Option will be made in any form or manner authorized by the Committee in the Stock Incentive Agreement or by amendment thereto, including, but not limited to, cash or, if the Stock Incentive Agreement provides:

(1) by delivery to the Company of a number of shares of Stock which have been owned by the holder for at least six (6) months prior to the date of exercise having an aggregate Fair Market Value of not less than the product of the Exercise Price multiplied by the number of shares the Participant intends to purchase upon exercise of the Option on the date of delivery;

(2) in a cashless exercise through a broker; or

(3) by having a number of shares of Stock withheld, the Fair Market Value of which as of the date of exercise is sufficient to satisfy the Exercise Price.

In its discretion, and except to the extent precluded by the Sarbanes-Oxley Act of 2002, as amended, the Committee also may authorize (at the time an Option is granted or thereafter) Company financing to assist the Participant as to payment of the Exercise Price on such terms as may be offered by the Committee in its discretion. Payment must be made at the time that the Option or any part thereof is exercised, and no shares may be issued or delivered upon exercise of an option until full payment has been made by the Participant. The holder of an Option, as such, has none of the rights of a stockholder.

(d) Conditions to the Exercise of an Option. Each Option granted under the Plan is exercisable by the Participant or any other designated person, at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee specifies in the Stock Incentive Agreement; provided, however, that subsequent to the grant of an Option, the Committee, at any time before complete termination of such Option, may accelerate the time or times at which such Option may be exercised in whole or in part, including, without limitation, upon a Change in Control as defined in the Stock Incentive Agreement and may permit the Participant or any other designated person to exercise the Option, or any portion thereof, for all or part of the remaining Option term, notwithstanding any provision of the Stock Incentive Agreement to the contrary.

(e) Termination of Incentive Stock Option. With respect to an Incentive Stock Option, in the event of Termination of Employment of a Participant, the Option or portion thereof held by the Participant which is unexercised will expire, terminate, and become unexercisable no later than the expiration of three (3) months after the date of Termination of Employment; provided, however, that in the case of a holder whose Termination of Employment is due to death or Disability, one (1) year will be substituted for such three (3) month period; provided, further that such time limits may be exceeded by the Committee under the terms of the grant, in which case, the Incentive Stock Option will be a Non-Qualified Option if it is exercised after the time limits that would otherwise apply. For purposes of this Subsection (e), Termination of Employment of the Participant will not be deemed to have occurred if the Participant is employed by another corporation (or a parent or subsidiary corporation of such other corporation) which has assumed the Incentive Stock Option of the Participant in a transaction to which Code Section 424(a) is applicable.

(f) Special Provisions for Certain Substitute Options. Notwithstanding anything to the contrary in this Section 3.2, any Option issued in substitution for an option previously issued by another entity, which substitution occurs in connection with a transaction to which Code Section 424(a) is applicable, may provide for an exercise price computed in accordance with such Code Section and the regulations thereunder and may contain such other terms and conditions as the Committee may prescribe to cause such substitute Option to contain as nearly as possible the same terms and conditions (including the applicable vesting and termination provisions) as those contained in the previously issued option being replaced thereby.

3.3 Terms and Conditions of Stock Appreciation Rights. Each Stock Appreciation Right granted under the Plan must be evidenced by a Stock Incentive Agreement. A Stock Appreciation Right entitles the Participant to receive the excess of (1) the Fair Market Value of a specified or determinable number of shares of the Stock at the time of payment or exercise over (2) a specified or determinable price which, in the case of a Stock Appreciation Right granted in connection with an Option, may not be less than the Exercise Price for that number of shares subject to that Option. A Stock Appreciation Right granted in connection with a Stock Incentive may only be exercised to the extent that the related Stock Incentive has not been exercised, paid or otherwise settled.

(a) Settlement. Upon settlement of a Stock Appreciation Right, the Company must pay to the Participant the appreciation in cash or shares of Stock (valued at the aggregate Fair Market Value on the date of payment or exercise) as provided in the Stock Incentive Agreement or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Exercise. Each Stock Appreciation Right granted under the Plan is exercisable or payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee specifies in the Stock Incentive Agreement; provided, however, that subsequent to the grant of a Stock Appreciation Right, the Committee, at any time before complete termination of such Stock Appreciation Right, may accelerate the time or times at which such Stock Appreciation Right may be exercised or paid in whole or in part.

3.4 Terms and Conditions of Stock Awards. The number of shares of Stock subject to a Stock Award and restrictions or conditions on such shares, if any, will be as the Committee determines, and the certificate for such shares will bear evidence of any restrictions or conditions. Subsequent to the date of the grant of the Stock Award, the Committee has the power to permit, in its discretion, an acceleration of the expiration of an applicable restriction period with respect to any part or all of the shares of Stock awarded to a Participant. The Committee may require a cash payment from the Participant in an amount no greater than the aggregate Fair Market Value of the shares of Stock awarded determined at the date of grant in exchange for the grant of a Stock Award or may grant a Stock Award without the requirement of a cash payment.

3.5 Terms and Conditions of Dividend Equivalent Rights. A Dividend Equivalent Right entitles the Participant to receive payments from the Company in an amount determined by reference to any cash dividends paid on a specified number of shares of Stock to Company stockholders of record during the period such rights are effective. The Committee may impose such restrictions and conditions on any Dividend Equivalent Right as the Committee in its discretion shall determine, including the date any such right shall terminate and may reserve the right to terminate, amend or suspend any such right at any time.

(a) Payment. Payment in respect of a Dividend Equivalent Right may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the Stock Incentive Agreement or Stock Incentive Program, or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Dividend Equivalent Right granted under the Plan is payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee specifies in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Dividend Equivalent Right, the Committee, at any time before complete termination of such Dividend Equivalent Right, may accelerate the time or times at which such Dividend Equivalent Right may be paid in whole or in part.

3.6 Terms and Conditions of Performance Unit Awards. A Performance Unit Award shall entitle the Participant to receive, at a specified future date, payment of an amount equal to all or a portion of the value of a specified or determinable number of units (stated in terms of a designated or determinable dollar amount per unit) granted by the Committee. At the time of the grant, the Committee must determine the base value of each unit, the number of units subject to a Performance Unit Award, and the Performance Goals applicable to the determination of the ultimate payment value of the Performance Unit Award. The Committee may provide for an alternate base value for each unit under certain specified conditions.

(a) Payment. Payment in respect of Performance Unit Awards may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the applicable Stock Incentive Agreement or Stock Incentive Program or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Performance Unit Award granted under the Plan shall be payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee shall specify in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Performance Unit Award, the Committee, at any time before complete termination of such Performance Unit Award, may accelerate the time or times at which such Performance Unit Award may be paid in whole or in part.

3.7 Terms and Conditions of Phantom Shares. Phantom Shares shall entitle the Participant to receive, at a specified future date, payment of an amount equal to all or a portion of the Fair Market Value of a specified number of shares of Stock at the end of a specified period. At the time of the grant, the Committee will determine the factors which will govern the portion of the phantom shares so payable, including, at the discretion of the Committee, any performance criteria that must be satisfied as a condition to payment. Phantom Share awards containing performance criteria may be designated as performance share awards.

(a) Payment. Payment in respect of Phantom Shares may be made by the Company in cash or shares of Stock (valued at Fair Market Value as of the date payment is owed) as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, or, in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Phantom Share granted under the Plan is payable at such time or times, or upon the occurrence of such event or events, and in such amounts, as the Committee may specify in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Phantom Share, the Committee, at any time before complete termination of such Phantom Share, may accelerate the time or times at which such Phantom Share may be paid in whole or in part.

3.8 Terms and Conditions of Restricted Stock Units. If permitted by the Committee, a Participant may defer the receipt of Stock from the exercise of an Option or defer the receipt of Stock from a Stock Award or other Stock Incentive. If a Participant defers receipt of such Stock, the Company's obligation to issue the shares of Stock will be reflected in a bookkeeping account in the form of Restricted Stock Units, with each unit representing the Company's obligation to issue one share of Stock, or the cash value thereof. All such deferrals shall be subject to such terms and conditions as the Committee may establish.

(a) Payment. Payment in respect of Restricted Stock Units may be made by the Company in cash or shares of Stock (valued at Fair Market Value at the date payment is owed) as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, or in the absence of such provision, as the Committee may determine.

(b) Conditions to Payment. Each Restricted Stock Unit granted under the Plan is payable at such time or times or on the occurrence of such event or events, and in such amounts as the Committee may specify in the applicable Stock Incentive Agreement or Stock Incentive Program; provided, however, that subsequent to the grant of a Restricted Stock Unit, the Committee, at any time before complete termination of such Restricted Stock Unit, may accelerate the time or times at which the Restricted Stock Units may be paid in whole or in part.

3.9 Treatment of Awards Upon Termination of Employment Except as otherwise provided by Plan Section 3.2(e), any award under this Plan to a Participant who has experienced a Termination of Employment may be cancelled, accelerated, paid or continued, as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, or, in the absence of such provision, as the Committee may determine. The portion of any award exercisable in the event of continuation or the amount of any payment due under a continued award may be adjusted by the Committee to reflect the Participant's period of service from the date of grant through the date of the Participant's Termination of Employment or such other factors as the Committee determines are relevant to its decision to continue the award.

SECTION 4 RESTRICTIONS ON STOCK

4.1 Escrow of Shares. Any certificates representing the shares of Stock issued under the Plan will be issued in the Participant's name, but, if the applicable Stock Incentive Agreement or Stock Incentive Program so provides, the shares of Stock will be held by a custodian designated by the Committee (the "Custodian"). Each applicable Stock Incentive Agreement or Stock Incentive Program providing for transfer of shares of Stock to the Custodian must appoint the Custodian as the attorney-in-fact for the Participant for the term specified in the applicable Stock Incentive Agreement or Stock Incentive Program, with full power and authority in the Participant's name, place and stead to transfer, assign and convey to the Company any shares of Stock held by the Custodian for such Participant, if the Participant forfeits the shares under the terms of the applicable Stock Incentive Agreement or Stock Incentive Program. During the period that the Custodian holds the shares subject to this Section, the Participant is entitled to all rights, except as provided in the applicable Stock Incentive Agreement or Stock Incentive Program, applicable to shares of Stock not so held. Any dividends declared on shares of Stock held by the Custodian must provide in the applicable Stock Incentive Agreement or Stock Incentive Program, to be paid directly to the Participant or, in the alternative, be retained by the Custodian or by the Company until the expiration of the term specified in the applicable Stock Incentive Agreement or Stock Incentive Program and shall then be delivered, together with any proceeds, with the shares of Stock to the Participant or to the Company, as applicable.

4.2 Restrictions on Transfer. The Participant does not have the right to make or permit to exist any disposition of the shares of Stock issued pursuant to the Plan except as provided in the Plan or the applicable Stock Incentive Agreement or Stock Incentive Program. Any disposition of the shares of Stock issued under the Plan by the Participant not made in accordance with the Plan or the applicable Stock Incentive Agreement or Stock Incentive Program will be void. The Company will not recognize, or have the duty to recognize, any disposition not made in accordance with the Plan and the applicable Stock Incentive Agreement or Stock Incentive Program, and the shares so transferred will continue to be bound by the Plan and the applicable Stock Incentive Agreement or Stock Incentive Program.

SECTION 5 GENERAL PROVISIONS

5.1 Withholding. The Company must deduct from all cash distributions under the Plan any taxes required to be withheld by federal, state or local government. Whenever the Company proposes or is required to issue or transfer shares of Stock under the Plan or upon the vesting of any Stock Award, the Company has the right to require the recipient to remit to the Company an amount sufficient to satisfy any federal, state and local tax withholding requirements prior to the delivery of any certificate or certificates for such shares or the vesting of such Stock Award. A Participant may pay the withholding obligation in cash, or, if the applicable Stock Incentive Agreement or Stock Incentive Program provides, a Participant may elect to have the number of shares of Stock he is to receive reduced by, or with respect to a Stock Award, tender back to the Company, the smallest number of whole shares of Stock which, when multiplied by the Fair Market Value of the shares of Stock determined as of the Tax Date (defined below), is sufficient to satisfy federal, state and local, if any, withholding obligation arising from exercise or payment of a Stock Incentive (a "Withholding Election"). A Participant may make a Withholding Election only if both of the following conditions are met:

(a) The Withholding Election must be made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed notice of Withholding Election as prescribed by the Committee; and

(b) Any Withholding Election made will be irrevocable except on six months advance written notice delivered to the Company; however, the Committee may in its sole discretion disapprove and give no effect to the Withholding Election.

5.2 Changes in Capitalization; Merger; Liquidation.

(a) The number of shares of Stock reserved for the grant of Options, Dividend Equivalent Rights, Performance Unit Awards, Phantom Shares, Stock Appreciation Rights and Stock Awards; the number of shares of Stock reserved for issuance upon the exercise or payment, as applicable, of each outstanding Option, Dividend Equivalent Right, Phantom Share and Stock Appreciation Right and upon vesting or grant, as applicable, of each Stock Award; the Exercise Price of each outstanding Option and the specified number of shares of Stock to which each outstanding Dividend Equivalent Right, Phantom Share and Stock Appreciation Right pertains must be proportionately adjusted for any increase or decrease in the number of issued shares of Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Stock to holders of outstanding shares of Stock or any other increase or decrease in the number of shares of Stock outstanding effected without receipt of consideration by the Company.

(b) In the event of a merger, consolidation, reorganization, extraordinary dividend, spin-off, sale of substantially all of the Company's assets, other change in capital structure of the Company, tender offer for shares of Stock, or a change in control of the Company (as defined by the Committee in the applicable Stock Incentive Agreement) the Committee may make such adjustments with respect to awards and take such other action as it deems necessary or appropriate to reflect such merger, consolidation, reorganization or tender offer, including, without limitation, the substitution of new awards, or the adjustment of outstanding awards, the acceleration of awards, the removal of restrictions on outstanding awards, or the termination of outstanding awards in exchange for the cash value determined in good faith by the Committee of the vested and/or unvested portion of the award. Any adjustment pursuant to this Section 5.2 may provide, in the Committee's discretion, for the elimination without payment therefor of any fractional shares that might otherwise become subject to any Stock Incentive, but except as set forth in this Section may not otherwise diminish the then value of the Stock Incentive.

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

5.3 Cash Awards. The Committee may, at any time and in its discretion, grant to any holder of a Stock Incentive the right to receive, at such times and in such amounts as determined by the Committee in its discretion, a cash amount which is intended to reimburse such person for all or a portion of the federal, state and local income taxes imposed upon such person as a consequence of the receipt of the Stock Incentive or the exercise of rights thereunder.

5.4 Compliance with Code. All Incentive Stock Options to be granted hereunder are intended to comply with Code Section 422, and all provisions of the Plan and all Incentive Stock Options granted hereunder must be construed in such manner as to effectuate that intent.

5.5 Right to Terminate Employment. Nothing in the Plan or in any Stock Incentive confers upon any Participant the right to continue as an employee or officer of the Company or any of its Affiliates or affect the right of the Company or any of its Affiliates to terminate the Participant's employment or services at any time.

5.6 Non-Alienation of Benefits. Other than as provided herein, no benefit under the Plan may be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge; and any attempt to do so shall be void. No such benefit may, prior to receipt by the Participant, be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the Participant.

5.7 Restrictions on Delivery and Sale of Shares; Legends. Each Stock Incentive is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by such Stock Incentive upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the granting of such Stock Incentive or the purchase or delivery of shares thereunder, the delivery of any or all shares pursuant to such Stock Incentive may be withheld unless and until such listing, registration or qualification shall have been effected. If a registration statement is not in effect under the Securities Act of 1933 or any applicable state securities laws with respect to the shares of Stock purchasable or otherwise deliverable under Stock Incentives then outstanding, the Committee may require, as a condition of exercise of any Option or as a condition to any other delivery of Stock pursuant to a Stock Incentive, that the Participant or other recipient of a Stock Incentive represent, in writing, that the shares received pursuant to the Stock Incentive are being acquired for investment and not with a view to distribution and agree that the shares will not be disposed of except pursuant to an effective registration statement, unless the Company shall have received an opinion of counsel that such disposition is exempt from such requirement under the Securities Act of 1933 and any applicable state securities laws. The Company may include on certificates representing shares delivered pursuant to a Stock Incentive such legends referring to the foregoing representations or restrictions or any other applicable restrictions on resale as the Company, in its discretion, shall deem appropriate.

5.8 Listing and Legal Compliance. The Committee may suspend the exercise or payment of any Stock Incentive so long as it determines that securities exchange listing or registration or qualification under any securities laws is required in connection therewith and has not been completed on terms acceptable to the Committee.

5.9 Termination and Amendment of the Plan. The Board of Directors at any time may amend or terminate the Plan without stockholder approval; provided, however, that the Board of Directors may condition any amendment on the approval of stockholders of the Company if such approval is necessary or advisable with respect to tax, securities or other applicable laws. No such termination or amendment without the consent of the holder of a Stock Incentive may adversely affect the rights of the Participant under such Stock Incentive.

5.10 Stockholder Approval. The Plan must be submitted to the stockholders of the Company for their approval within twelve (12) months before or after the adoption of the Plan by the Board of Directors of the Company. If such approval is not obtained, any Stock Incentive granted hereunder will be void.

5.11 Choice of Law. The laws of the State of Maryland shall govern the Plan, to the extent not preempted by federal law, without reference to the principles of conflict of laws.

5.12 Effective Date of Plan. This Plan was approved by the Board of Directors as of April 20, 2004.

OMEGA HEALTHCARE INVESTORS, INC.

By: /S/ C. TAYLOR PICKETT

Title: President & Chief Executive Officer

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2004

/S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

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.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2004

/S/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer

EXHIBIT 32.1

SECTION 1350 CERTIFICATION
OF THE CHIEF EXECUTIVE OFFICER

I, C. Taylor Pickett, Chief Executive Officer of Omega Healthcare Investors, Inc. (the "Company"), hereby 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 three months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: November 2, 2004

/S/C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

EXHIBIT 32.2

SECTION 1350 CERTIFICATION
OF THE CHIEF FINANCIAL OFFICER

I, Robert O. Stephenson, Chief Financial Officer of Omega Healthcare Investors, Inc. (the "Company"), hereby 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 three months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

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

Date: November 2, 2004

/S/ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer