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

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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 (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	38-3041398 (I.R.S. EMPLOYER IDENTIFICATION NO.)
905 W. EISENHOWER CIRCLE, SUITE 110 ANN ARBOR, MICHIGAN (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	48103 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 734-747-9790

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $.10 PAR VALUE	NEW YORK STOCK EXCHANGE
8.5% CONVERTIBLE DEBENTURES, DUE 2001	NEW YORK STOCK EXCHANGE
9.25% SERIES A PREFERRED STOCK, $1 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

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 AND 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 IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [ ]

THE AGGREGATE MARKET VALUE OF THE VOTING STOCK OF THE REGISTRANT HELD BY NON-AFFILIATES WAS $745,498,000 BASED ON THE $38.8125 CLOSING PRICE PER SHARE FOR SUCH STOCK ON THE NEW YORK STOCK EXCHANGE ON FEBRUARY 27, 1998.

AS OF FEBRUARY 27, 1998, THERE WERE 19,635,322 SHARES OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1997, ARE INCORPORATED BY REFERENCE IN PART II OF THIS FORM 10-K.

THE REGISTRANT'S DEFINITIVE PROXY STATEMENT, WHICH WILL BE FILED WITH THE COMMISSION ON OR ABOUT APRIL 1, 1998, IS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K.

PART I

ITEM 1 -- BUSINESS OF THE COMPANY

Omega Healthcare Investors, Inc. (the "Company") was incorporated in the state of Maryland on March 31, 1992. It is a self-administered real estate investment trust ("REIT") which invests in income-producing healthcare facilities, principally long-term care facilities located in the United States. The Company anticipates providing lease or mortgage financing for healthcare facilities to qualified operators and acquiring additional healthcare facility types, including assisted living and acute care facilities. Financing for such future investments may be provided by borrowings under the Company's bank line of credit, private placements or public offerings of debt or equity, the assumption of secured indebtedness, or a combination of these methods. The Company also may finance acquisitions through the exchange of properties or the issuance of shares of its capital stock, if such transactions otherwise satisfy the Company's investment criteria.

Effective September 30, 1994, the Company acquired all the outstanding common stock of Health Equity Properties Incorporated ("HEP"), a healthcare real estate investment trust. The total purchase consideration for HEP approximated $180 million, comprising common stock of $143 million represented by 5,826,000 shares, long-term debt assumed of $26 million, and other obligations, professional fees and costs incurred in the transaction.

During 1995, the Company became a primary sponsor of Principal Healthcare Finance Limited ("Principal"), an Isle of Jersey (United Kingdom) company established to provide capital and medium-term financing on a stable, continuing basis to the private-sector healthcare industry in the United Kingdom. The nursing home industry in the United Kingdom, like that in the United States, is consolidating and capital demand exists. At December 31, 1997, Principal owned 154 properties for which it has invested L215 million (approximately $354 million). The Company also provides services for the administration, marketing, identification and evaluation of potential investments and the monitoring of the performance of the healthcare operators financed by Principal.

In November, 1997 the Company formed Omega Worldwide, Inc. (Worldwide), a company which will provide investment advisory and management services and hold equity and debt interests in companies engaged in providing sale/leaseback and other capital financing to healthcare service providers throughout the world. In connection with the formation of Worldwide, the Company will receive on or about April 1, 1998, 8.5 million shares of Worldwide common stock and rights to receive up to 5,000,000 shares of Series B Preferred Stock in exchange for substantially all of the Company's interests in Principal. The Company's interests in Principal which will be exchanged for its ownership in Worldwide include: (a) 3,337,500 ordinary shares of Principal and warrants to purchase 10 million ordinary shares of Principal expiring June 30, 2001 at an exercise price of L1.50 (approximately $2.40) per share and 554,583 ordinary shares of Principal expiring December 31, 2000 at an exercise price of L1.00 (approximately $1.60) per share; (b) the Company's right to payment of L15 million (approximately $24 million) from the Sterling denominated subordinated loan; (c) the Company's interest in a ten-year British pound currency swap contract under which Omega Worldwide, Inc. will have the right to exchange L20,000,000 for $31,740,000 on October 15, 2007; (d) and the Amended and Restated Advisory Services Agreement between the Company and Principal. The Company will retain 900,000 Class A Voting Shares of Principal.

Omega Worldwide, Inc. has filed a Registration Statement with respect to rights to acquire 2,250,000 shares of its common stock, 500,000 shares to be sold in a primary offering and 2.3 million shares to be sold in a secondary offering by the Company. Each common shareholder of the Company will receive a pro-rata share of approximately 5.2 million common shares of Omega Worldwide, Inc. and will be eligible to receive a portion of the 2.25 million rights to purchase Omega Worldwide, Inc. common stock. The Company will retain a 9% interest in Omega Worldwide, Inc. The date of the distribution of Omega Worldwide, Inc. shares has not been set since it depends upon, among other matters, the date of approval by the Securities and Exchange Commission of the Registration Statement. As of the date of the distribution, the cost of assets transferred to Omega Worldwide, Inc., less the net proceeds of the secondary offering received by the Company, will be charged to shareholders' equity in the form of a special dividend. Management estimates the special dividend will approximate $10 million.

As of December 31, 1997, the Company's portfolio of domestic investments consisted of 258 long-term care facilities, 3 medical office buildings and 2 rehabilitation hospitals. The Company owns and leases 178 long-term facilities, 3 medical office buildings and 2 rehabilitation hospitals, and provides mortgages, including participating and convertible participating mortgages, on 80 long-term healthcare facilities. The facilities are located in 26 states and operated by 29 unaffiliated operators. The Company's gross real estate investments at December 31, 1997 totaled $779.4 million. During 1997, new investments approximated $196 million as a result of entering into sale/leaseback transactions and making mortgage loans and other investments.

At March 6, 1998, the Company employed 26 full-time employees. The executive offices of the Company are located at 905 West Eisenhower Circle, Suite 110, Ann Arbor, Michigan 48103. Its telephone number is (734) 747-9790.

INVESTMENT OBJECTIVES

The investment objectives of the Company are to pay regular cash dividends to shareholders; to provide the opportunity for increased dividends from annual increases in rental and interest income from revenue participations and from portfolio growth; to preserve and protect shareholders' capital; and to provide the opportunity to realize capital growth.

INVESTMENT STRATEGIES AND POLICIES

The Company maintains a diversified portfolio of income-producing healthcare facilities or mortgages thereon, with a primary focus on long-term care facilities located in the United States. In evaluating potential investments, the Company considers such factors as: (i) the quality and experience of management and the creditworthiness of the operator of the facility; (ii) the adequacy of the facility's historical, current and forecasted cash flow to meet operational needs, capital expenditures and lease or debt service obligations; (iii) the construction quality, condition and design of the facility; (iv) the geographic area and type of facility; (v) the tax, growth, regulatory and reimbursement environment of the community in which the facility is located; (vi) the occupancy and demand for similar healthcare facilities in the same or nearby communities; and (vii) the payor mix of private, Medicare and Medicaid patients.

In making investments, the Company generally seeks established, creditworthy, middle-market healthcare operators which meet the Company's standards for quality and experience of management. Although the Company has emphasized long-term care investments, it intends to diversify prudently into other types of healthcare facilities or other properties. The Company actively seeks to diversify its investments in terms of geographic location, operators and facility types.

A fundamental investment strategy of the Company is to obtain contractual rent escalations under long-term, non-cancelable, triple-net leases (whereby the tenant is responsible for all maintenance, repairs, taxes and insurance on the leased properties) and revenue participation through participating mortgage loans, and to obtain substantial security deposits. Additional security is typically provided by covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets, and various provisions for cross-default, cross-collateralization and corporate/personal guarantees, when appropriate.

The Company prefers to invest in equity ownership of properties. Due to regulatory, tax or other considerations, the Company sometimes pursues alternative investment structures, including Convertible Participating and Participating Mortgages, that are intended to achieve returns comparable to equity investments. The following summarizes the four primary structures currently used by the Company:

Purchase/Leaseback. The Company's owned properties are generally leased under provisions of leases for terms ranging from 5 to 17 years, plus renewal options. The leases originated by the Company generally provide for minimum annual rentals which are subject to annual formula increases (i.e., based upon such factors as increases in the Consumer Price Index ("CPI") or increases in the revenues of the underlying properties), with certain fixed minimum and maximum levels. Generally, the operator holds an option to repurchase the property at set dates at prices based on specified formulas. The average annualized yield from leases was 11.57% at January 1, 1998.

Convertible Participating Mortgage. Convertible Participating Mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits. Convertible Participating Mortgages afford the Company an option to convert its mortgage into direct ownership of the property, generally at a point six to nine years from inception; they are then subject to a leaseback to the operator for the balance of the original agreed term and for the original agreed participations in revenues or CPI adjustments. This allows the Company to capture a portion of the potential appreciation in value of the real estate. The operator has the right to purchase the Company's option at prices based on specified formulas. The average annualized yield on these mortgages was approximately 12.75% at January 1, 1998.

Participating Mortgage. Participating Mortgages of the Company are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits. The average annualized yield on these investments was approximately 14.36% at January 1, 1998.

Fixed-Rate Mortgage. These mortgages of the Company, with a fixed interest rate for the mortgage term, are also secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. The average annualized yield on these investments was 11.16% at January 1, 1998.

The table set forth in Item 2 -- Properties, herein, contains information regarding the Company's real estate properties, their locations, and the types of investment structures as of December 31, 1997.

BORROWING POLICIES

The Company may incur additional indebtedness, and anticipates attaining and then maintaining a long-term debt-to-capitalization ratio of approximately 40%. The Company intends to review periodically its policy with respect to its debt-to-equity ratio and to adapt such policy as its management deems prudent in light of prevailing market conditions. The Company's strategy generally has been to match the maturity of its indebtedness with the maturity of its assets, and to employ long-term, fixed-rate debt to the extent practicable.

The Company will use the proceeds of any additional indebtedness to provide permanent financing for investments in additional healthcare facilities. The Company may obtain either secured or unsecured indebtedness, which may be convertible into capital stock or accompanied by warrants to purchase capital stock. Where debt financing is present on terms deemed favorable, the Company generally may invest in properties subject to existing loans, secured by mortgages, deeds of trust or similar liens on properties.

The Company has an unsecured acquisition line of credit which permits borrowings of up to $200,000,000, of which approximately $129 million was used at February 27, 1998. This credit facility provides temporary funds for new investments in healthcare facilities. The Company expects to periodically replace funds drawn on the acquisition line through long-term, fixed-rate borrowings, the issuance of equity linked borrowings, or the issuance of additional shares of capital stock.

COMPETITION

The Company competes for additional healthcare facility investments with other healthcare investors, including other real estate investment trusts. The operators of the facilities compete with other regional or local nursing care facilities for the support of the medical community, including physicians and acute care hospitals, as well as the general public. Some significant competitive factors for the placing of patients in skilled and intermediate care nursing facilities include quality of care, reputation, physical appearance of the facilities, services offered, family preferences, physician services and price.

GOVERNMENT HEALTHCARE REGULATION AND REIMBURSEMENTS

Healthcare is an area of extensive government regulation and dynamic regulatory change. The Company's lessees and mortgagors are and will continue to be subject to extensive federal, state and local

regulation, including facility inspections, reimbursement policies, and control over certain expenditures. Changes in laws or regulations, or new interpretations of existing laws or regulations, can have a dramatic effect on methods and costs of doing business, as well as the amounts of reimbursement by government and private third-party payors.

A significant portion of the revenues of the Company's lessees and mortgagors are and will be dependent upon reimbursement from third-party payors, including the Medicaid and Medicare programs, post-retirement benefit plans, private insurance companies and health maintenance organizations. Operators also are subject to extensive federal, state and local regulations relating to their operations, and the Company's facilities are subject to periodic inspection by government and other authorities to assure continual compliance with mandated procedures, licensure requirements under state law and certification standards under the Medicare and Medicaid programs.

Since 1976, healthcare regulation through Certificates of Need ("CON") have tended to limit construction of new long-term care facilities in many states. Several states in which the Company has investments have repealed CON legislation, including Indiana, California and Texas, which may adversely affect customers of the Company.

The levels of revenues and profitability of the Company's lessees and mortgagors will continue to be affected by the ongoing efforts of third-party payors to contain or reduce the costs of healthcare. Recent legislation changes the Medicare payment methodology for skilled nursing facilities effective for cost reporting years commencing after July 1, 1998. The cost-based system is replaced by a federal per diem rate that is phased in over four years. The new per diem rate will be the sole payment for both direct nursing care ("Part A services") and ancillary services that were previously billed separately from the cost-based reimbursement system ("Part B services"). Capital costs are also included in the per diem rate. Many states have also converted to a system based on prospectively determined fixed rates.

Until 1997, state Medicaid programs were required to reimburse nursing facilities based on rates that were reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities in order to provide services in conformity with federal and state standards and to assure reasonable access to patients. This law restricted the ability of the states to reduce Medicaid payments. Congress repealed this requirement in 1997. Under the new law, states need only publish the methodology used to develop the proposed rates, along with a justification for the methodology, and allow public comment. This change could result in reduced Medicaid payments to facilities operated by the Company's customers. The Company expects that there will continue to be proposals to limit Medicaid and Medicare reimbursement for healthcare services in an attempt to reduce the United States federal budget deficit. Proposals have also been made to limit Medicaid reimbursement for healthcare services in many of the states in which the Company's facilities are located. The Company cannot at this time predict whether any of these proposals will be adopted at the federal or state level or, if adopted and implemented, what effect, if any, such proposals will have on the lessees or mortgagors of the Company, and, indirectly, the Company. A significant change in coverage, reduction in payment rates by third-party payors, or the decline in availability of funding could have a material adverse effect on the business and financial condition of the Company's lessees and mortgagors, and, indirectly, the Company's financial condition.

There can be no assurance that the Medicaid reimbursement programs in each of the states where the lessees' and mortgagors' facilities are located will reimburse rent or interest costs of the lessees and mortgagors at increased levels recognizing the initial sales to or borrowings from the Company. Failure by these state Medicaid programs to provide reimbursement at current or increased levels could have an adverse effect upon the cash flow of the facilities and, hence, on the ability of the Company's lessees and mortgagors to meet their respective payment obligations to the Company. Additionally, Medicare regulations provide that effective December 1, 1997, when a facility changes ownership (by sale or under certain lease transactions), reimbursement for depreciation and interest will be based on the cost to the owner of record as of August 5, 1997, less depreciation allowed. Previously, the buyer would use its cost of purchase up to the original owner's historical cost before depreciation. Such changes could adversely affect the resale value of the Company's healthcare facilities.

Healthcare facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance, and may be excluded from the programs -- in some cases without a prior hearing -- for failure to meet program requirements. In 1997, two facilities of the Company in Alabama were excluded from programs for 68 and 72 days. This had no effect on the rents received by the Company and the facilities in question have been reinstated. Other changes in the healthcare industry include continuing trends toward shorter lengths of hospital stay, increased use of outpatient services, increased federal, state and third party oversight of healthcare company operations and business practices, and increased demand for capitated healthcare services (delivery of services at a fixed price per capita basis to a defined group of covered parties). The entrance of insurance companies into managed care programs is also accelerating the introduction of managed care in new localities, and states and insurance companies continue to negotiate actively the amounts they will pay for services. Moreover, the percentage of healthcare services that are reimbursed under Medicare and Medicaid programs continues to increase as the population ages and as states expand their Medicaid programs. Continued eligibility to participate in these programs is crucial to a provider's financial strength. As a result of the foregoing, the revenues and margins of the operators of the Company's facilities may decrease, resulting in a reduction of the Company's rent/interest coverage from investments.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

At all times, the Company intends to make and manage its investments (including the sale or disposition of property or other investments) and to operate in such a manner as to be consistent with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") (or regulations thereunder) to qualify as a REIT, unless, because of changes in circumstances or changes in the Code (or regulations thereunder), the Board of Directors determines that it is no longer in the best interests of the Company to qualify as a REIT. As such, it generally will not pay federal income taxes on the portion of its income which is distributed to shareholders.

EXECUTIVE OFFICERS OF THE COMPANY

At the date of this report, the executive officers of the Company are:

Essel W. Bailey, Jr. (53) has been President, Chief Executive Officer and Secretary of the Company since March 1992, and Chairman of the board since July 1995. Prior to that he was a Managing Director of Omega Capital, a healthcare investment partnership, from 1986 to 1992. He was previously a partner in a major Michigan law firm. Mr. Bailey is also a director of Principal Healthcare Finance Limited and of Vitalink Pharmacy Services, Inc., an NYSE listed company and the fourth largest institutional pharmacy serving the long-term care industry in the United States.

James P. Flaherty (50) joined the Company in 1996 and was appointed Vice President-International of the Company and Managing Director and Chief Executive of Omega U.K. Limited in January 1997. Before he joined the Company, he was Chairman of Black Rock Capital Corporation, a leasing and merchant banking firm he founded in 1994. From April 1991 until December of 1993 Mr. Flaherty was Managing Partner of Pareto Partners, a London based investment management firm. Prior to 1991, he was employed by American Express Bank Ltd. in London and Geneva in a number of senior management capacities and by State National Bank of Connecticut and its successor, The Connecticut Bank & Trust Co.

F. Scott Kellman (41) joined the Company as Senior Vice President-Acquisitions in August 1993, and was appointed Executive Vice President in August 1994. From 1986 to 1989, he was Vice President of Meritor Savings Bank, the last two years as director of the healthcare lending unit. From 1989 to 1991, he served as Vice President of Van Kampen Merritt, Inc., an investment banking subsidiary of Xerox. From 1991 through 1993 he was employed by several investment banking and healthcare investment firms. In March 1998 he was named Chief Operating Officer of the Company.

Susan A. Kovach (38) joined the Company in December 1997 as Vice President, General Counsel and Secretary. Before she joined the Company, she was a lawyer with Dykema Gossett PLLC in Detroit, Michigan for 12 years, the last three years as a senior member of the firm.

David A. Stover (52) joined the Company as Vice President and Chief Financial Officer in September 1994. Mr. Stover is a Certified Public Accountant and has 23 years' experience with the international accounting firm of Ernst & Young LLP and its predecessor firms. From 1981 through 1990, he was an audit, tax and consulting partner, spending the last of those years as area partner-in-charge of services for the firm's healthcare clients in Western Michigan. From 1992 to 1994, Mr. Stover was principal of his own consulting firm and, from 1990 to 1992, he was Chief Financial Officer of International Research and Development Corporation.

OTHER KEY PERSONNEL

Todd Robinson (32), Assistant Vice President and Director of Acquisitions, is a Certified Public Accountant who joined Omega in June 1995 after five years with the real estate group at Interstate/Johnson Lane, where he was responsible for the healthcare portfolio. Prior to joining Interstate, Mr. Robinson was a tax consultant with Arthur Andersen & Company, LLP.

Laurence Rich (38), Managing Director of Acquisitions, joined the Company in January 1998 after 5 years working as a lawyer with the firms of Dykema Gossett PLLC and Pepper, Hamilton & Scheetz. Previously Mr. Rich was Director of Operations for The Ivanhoe Companies, a residential and commercial land development and construction company located in West Bloomfield, Michigan from 1988 to 1992, and from 1983 to 1987 was Director of Marketing for Acorn Building Components, Inc., a national manufacturer of residential and commercial building products located in Detroit, Michigan. He is a certified public accountant.

Carol Albaugh (35) joined the Company in December 1996 as Controller after completing her MBA at the University of Michigan. Prior to joining the Company, she held various progressively responsible positions for nine years at Borders Group Incorporated, most recently serving as Manager of Financial Planning and Analysis through March 1996.

ITEM 2 -- PROPERTIES

At December 31, 1997, the Company's real estate investments were in long-term care facilities, medical office buildings and rehabilitation hospitals. The investments are either in the form of purchased facilities, which are leased to operators, or mortgages on facilities which are operated by the mortgagors or their affiliates. The facilities are located in 26 states and are operated by 29 unaffiliated operators. Basic information regarding investments as of December 31, 1997 is as follows:

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INVESTMENT STRUCTURE/OPERATOR	NO. OF TOTAL BEDS	NO. OF FACILITIES	OCCUPANCY %
<S>	<C>	<C>	<C>
PURCHASE/LEASEBACK PROPERTIES			
Sun Healthcare Group, Inc.	5,557	51	91
Advocat, Inc.	2,959	28	85
Unison Healthcare Corp.	1,664	17	79
Emerald Healthcare Inc.	1,336	31	75
ExtendaCare, Inc.	880	22	74
Alden Management Services, Inc.	870	4	89
Senior Care Properties, Inc.	644	3	79
Res-Care, Inc.	596	8	93
Five Star Corporation	491	6	82
First Health Care Associates	360	1	71
Hunter Management Group, Inc.	300	1	91
Complete Care, Inc.	278	2	81
Meadowbrook Healthcare of N.C.	192	2	82
Kansas & Missouri, Inc.	173	1	57
Integrated Health Services, Inc.	160	1	67
Liberty Assisted Living Centers, LP.	120	1	92
Tutera Evergreen, LLC.	56	1	97
The Graduate Hospital	0	3	N/A
	16,636	183	84
CONVERTIBLE PARTICIPATING MORTGAGES			
Sun Healthcare Group, Inc.	546	4	94
Unison Healthcare Corp.	347	3	69
ExtendaCare, Inc.	283	3	98
Premiere HCP III Hillsborough, Inc.	180	1	75
Senior Care Properties, Inc.	150	2	82
	1,506	13	81
PARTICIPATING MORTGAGES			
Paragon Health Network, Inc.	1,863	13	88
North Country Healthcare Associates	652	12	87
ExtendaCare, Inc.	203	3	92
Advocat, Inc.	317	3	89
	3,035	31	88
FIXED-RATE MORTGAGES			
Horizon/CMS Healthcare Corp.	1,179	11	N/A
Essex Healthcare Corporation	635	6	88
Advocat, Inc.	423	4	92
Tiffany Care Centers	330	5	80
Emerald Healthcare, Inc.	300	2	97
Quality Care, Inc.	75	1	91
American Healthcare Centers, Inc.	100	1	89

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INVESTMENT STRUCTURE/OPERATOR	NO. OF TOTAL BEDS	NO. OF FACILITIES	OCCUPANCY %
<S>	<C>	<C>	<C>
Other Mortgages	601	6	N/A
	3,643	36	90
Totals	24,820	263	85

</TABLE>

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N/A -- Data are not reported or not applicable.

The distribution of real estate investments by investment type and state is as follows:

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INVESTMENT STRUCTURE/STATE	NUMBER OF FACILITIES	TOTAL BEDS	TOTAL INVESTMENT ($1,000)	INVESTMENT YIELD
<S>	<C>	<C>	<C>	<C>

PURCHASE/LEASEBACK PROPERTIES				
Indiana	68	3,327	$101,391	12.68%
California	18	1,453	56,012	9.76
Texas	14....	2,099	42,221	11.85
Arkansas	12	1,273	37,888	13.55
Illinois	9	1,302	42,973	10.84
Alabama	9	1,121	35,224	12.01
Kentucky	9	943	35,995	10.76
North Carolina	7	891	29,746	10.58
Iowa	7	568	15,693	10.82
West Virginia	6	616	23,184	10.32
Tennessee	5	606	17,447	11.99
Florida	4	770	35,643	11.26
Ohio	4	453	15,954	10.58
Pennsylvania	3	0	30,031	13.14
Washington	2	319	15,900	11.08
Missouri	1	360	9,000	13.15
Kansas	1	173	2,500	8.77
Massachusetts	1	135	8,300	10.71
Louisiana	1	131	4,602	11.25
Colorado	1	56	750	13.06
Idaho	1	40	600	10.71
Total	183...	16,636	561,054	11.57
CONVERTIBLE PARTICIPATING MORTGAGES				
Tennessee	4	546	18,232	14.17
Texas	3	347	10,200	12.54
Kentucky	3	283	10,250	11.09
Florida	3	330	10,934	12.14
Total Convertible Participating	13	1,506	49,616	12.75
PARTICIPATING MORTGAGES				
Michigan	13	1,863	58,800	15.72
Maine	11	619	24,183	12.09
Florida	3	317	7,031	13.42
Kentucky	3	203	4,397	11.26
Massachusetts	1	33	2,096	12.09
Total Participating Mortgages	31	3,035	96,507	14.36

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INVESTMENT STRUCTURE/STATE	NUMBER OF FACILITIES	TOTAL BEDS	TOTAL INVESTMENT ($1,000)	INVESTMENT YIELD
<S>	<C>	<C>	<C>	<C>
FIXED RATE MORTGAGES				
Texas	9	1,026	9,101	10.75
Ohio	7	735	19,141	10.91
Florida	6	723	25,935	11.61
California	3	250	2,851	11.18
Missouri	5	330	5,296	11.32
Iowa	2	250	3,730	10.75
New Mexico	2	156	1,588	10.75
Utah	1	100	1,910	10.75
Nevada	1	73	496	10.75
Other, primarily construction			2,182	10.75
Total Fixed Rate Mortgages	36	3,643	72,230	11.16
Total Real Estate Investments	263	24,820	$779,407	11.95%

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ITEM 3 -- LEGAL PROCEEDINGS

There were no legal proceedings pending as of December 31, 1997, or as of the date of this report, to which the Company is a party or to which the properties are subject, which were likely to have a material adverse effect on the operations of the Company or on its financial condition.

ITEM 4 -- SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to shareholders during the fourth quarter of the year covered by this report.

PART II

ITEM 5 -- MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's shares of common stock are traded on the New York Stock

Exchange under the symbol OHI. The following table sets forth, for the periods shown, the high and low prices as reported on the New York Stock Exchange Composite and dividends per share:

1997				1996			
QUARTER	HIGH	LOW	DIVIDENDS PER SHARE	QUARTER	HIGH	LOW	DIVIDENDS PER SHARE
First	$32.8750	$30.7500	$0.645	First	$29.7500	$26.3750	$0.62
Second	$33.5625	$30.5000	$0.645	Second	$29.1250	$27.1250	$0.62
Third	$36.1875	$31.8125	$0.645	Third	$30.1250	$27.7500	$0.62
Fourth	$38.6250	$35.5000	$0.645	Fourth	$33.5000	$29.1250	$0.62
			$ 2.58				$2.48

The closing price on February 27, 1998 was $38.8125 per share. As of February 27, 1998, there were 19,635,322 shares of common stock outstanding with approximately 3,200 registered holders and approximately 30,000 beneficial owners.

ITEM 6 -- SELECTED FINANCIAL DATA

The following selected financial data with respect to the Company should be read in conjunction with the Company's Consolidated Financial Statements, which are incorporated herein by reference to the Company's 1997 Annual Report to Shareholders, which is included herein as Exhibit 13.

	YEAR ENDED DECEMBER 31				
	1997	1996	1995	1994(1)	1993
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
OPERATING DATA					
Revenues	$90,820	$73,127	$61,430	$37,747	$20,750
Net Earnings Available to Common (before Extraordinary Charge from Prepayment of Debt in 1995)	41,305	34,590	29,490	17,777	11,573
Net Earnings Available to Common	41,305	34,590	23,011	17,777	11,573
Per Share Amounts:					
Net Earnings (before Extraordinary Charge in 1995)	$ 2.16	$ 2.01	$ 1.83	$ 1.70	$ 1.78
Net Earnings Available to Common, Basic	2.16	2.01	1.43	1.70	1.78
Net Earnings Available to Common, Diluted	2.16	2.01	1.43	1.70	1.78
Dividends, Preferred(2)	1.16				
Dividends, Common(2)	2.58	2.48	2.36	2.20	2.04
Weighted Average Shares Outstanding, Basic	19,085	17,196	16,071	10,451	6,513
Weighted Average Shares Outstanding, Diluted	19,137	17,240	16,081	10,459	6,518

	DECEMBER 31,				
	1997	1996	1995	1994	1993
BALANCE SHEET DATA					
Cost of Investments	$839,827	$643,261	$547,923	$475,961	$231,751
Total Assets	816,108	634,836	551,188	500,731	243,587
Acquisition Line of Credit	58,300	6,000	74,690	20,000	14,500
Long-Term Borrowings	208,966	135,659	120,453	133,602	103,573
Subordinated Convertible Debentures	62,485	94,810			
Shareholders' Equity	468,221	383,007	347,129	338,543	122,714

(1) The Company acquired Health Equity Properties Incorporated on September 30, 1994.

(2) Dividends per share are those declared and paid during such period.

ITEM 7 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated herein by reference to the caption "Management's Discussion and Analysis" on Pages 8 through 10 of the Company's Annual Report to Shareholders, included herein as Exhibit 13.

ITEM 8 -- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements included in Pages 11 through 23 of the Company's Annual Report to Shareholders, included herein as Exhibit 13.

ITEM 9 -- CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10 -- DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is contained in Item 1 herein or incorporated herein by reference to the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held on May 7, 1998 at 11:00 a.m. EST, which will be filed on or about April 1, 1998 with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 11 -- EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held on May 7, 1998 at 11:00 a.m. EST, which will be filed on or about April 1, 1998 with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 12 -- SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held on May 7, 1998, which will be filed on or about April 1, 1998 with the Securities and Exchange Commission pursuant to Regulation 14A.

ITEM 13 -- CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held on May 7, 1998, which will be filed on or about April 1, 1998 with the Securities and Exchange Commission pursuant to Regulation 14A.

PART IV

ITEM 14 -- EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Listing of Consolidated Financial Statements -- See Index to Financial Information on Page F-2 of Exhibit 13 of this report.

(a)(2) Listing of Financial Statement Schedules -- See Index to Financial Information on Page F-2 of Exhibit 13 of this report.

(a)(3) Listing of Exhibits -- See Index to Exhibits beginning on Page 16 of this report.

(b) Reports on Form 8-K. The following reports on Form 8-K were filed during the fourth quarter of 1997:

Form 8-K dated November 10, 1997: Report with the following exhibits:

Bylaws of Omega Healthcare Investors, Inc. as Amended and Restated on October 15, 1997

Second Amended and Restated Loan Agreement by and among Omega Healthcare Investors, Inc., the banks signatory hereto and Fleet Bank, N.A., as agent for such banks, dated September 30, 1997

(c) Exhibits -- See Index to Exhibits beginning on Page 16 of this report.

(d) Financial Statement Schedules -- The following consolidated financial statement schedules are included herein:

Schedule III Real Estate and Accumulated Depreciation

Schedule IV Mortgage Loan on Real Estate

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION
OMEGA HEALTHCARE INVESTORS, INC.
DECEMBER 31, 1997

<TABLE>
<CAPTION>

COLUMN A	COLUMN B	COLUMN C	COLUMN D		COLUMN E(5)	COLUMN F
		INITIAL COST TO COMPANY	COST CAPITALIZED SUBSEQUENT TO ACQUISITION		GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD	
DESCRIPTION(1)	ENCUMBRANCES	BUILDINGS AND LAND IMPROVEMENTS	IMPROVEMENTS	CARRYING COSTS	BUILDINGS AND LAND IMPROVEMENTS TOTAL	ACCUMULATED DEPRECIATION(6)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sun Healthcare Group, Inc.:						
Alabama (LTC)................		$ 23,584,956	$ 0	$0	$ 23,584,956	$ 509,221
California (LTC, RH).........		56,012,510	0	0	56,012,510	335,934
Florida (LTC)................		10,700,000	0	0	10,700,000	256,692
Florida (LTC)................		10,796,688	0	0	10,796,688	233,110
Idaho (LTC)..................		600,000	0	0	600,000	14,394
Illinois (LTC)...............		4,900,000	0	0	4,900,000	206,887
Illinois (LTC)...............		3,942,726	0	0	3,942,726	85,127
Indiana (LTC)................		3,000,000	0	0	3,000,000	126,666
Iowa (LTC)...................		2,700,000	0	0	2,700,000	113,999
Louisiana (LTC)..............		4,602,574	0	0	4,602,574	99,374
Massachusetts (LTC)..........		8,300,000	0	0	8,300,000	199,116
North Carolina (LTC).........		8,818,000	0	0	8,818,000	910,442
North Carolina (LTC).........		11,100,131	0	0	11,100,131	1,146,068
North Carolina (LTC).........		2,327,608	0	0	2,327,608	13,960
Ohio (LTC)...................		10,099,452	0	0	10,099,452	60,571
Tennessee (LTC)..............		7,905,139	0	0	7,905,139	816,191
Texas (LTC)..................		7,100,000	0	0	7,100,000	299,776
Texas (LTC)..................		9,415,056	0	0	9,415,056	203,279
Washington (LTC).............		5,900,000	0	0	5,900,000	141,540
West Virginia (LTC)..........		17,397,883	0	0	17,397,883	104,343
		209,202,724	0	0	209,202,724	5,876,690
Advocat, Inc.:						
Alabama (LTC)................		11,638,797	0	0	11,638,797	1,913,325
Arkansas (LTC)...............		37,887,832	0	0	37,887,832	6,228,457
Tennessee (LTC)..............	(2)	9,542,121	0	0	9,542,121	1,568,649
Kentucky (LTC)...............	(3)	16,149,775	1,816,000	0	17,965,775	1,883,442
Ohio (LTC)...................		5,854,186		0	5,854,186	

					472,905
West Virginia (LTC)..........	5,283,525	502,338	0	5,785,863	467,386
	------------	----------		------------	-----------
	86,356,236	2,318,338	0	88,674,574	12,534,164
Emerald Healthcare, Inc.:					
Illinois (LTC)...............	2,963,578	0	0	2,963,578	436,397
Indiana (LTC)................	33,782,788	0	0	33,782,788	4,974,645
	------------	----------		------------	-----------
	36,746,366			36,746,366	5,411,042
Unison Healthcare Corp.:					
Indiana (LTC)................	19,760,000	823,839	0	20,583,839	3,101,876
Texas (LTC)..................	13,810,000	138,515	0	13,948,515	1,324,933
	------------	----------		------------	-----------
	33,570,000	962,354	0	34,532,354	4,426,809
Alden Management Services, Inc:					
Illinois (LTC)...............	31,000,000	166,475	0	31,166,475	3,334,479
The Graduate Hospital:					
Pennsylvania (MOB)...........	30,031,250	0	0	30,031,250	4,557,371

<CAPTION>

COLUMN A	COLUMN G	COLUMN H	COLUMN I
DESCRIPTION(1)	DATE OF RENOVATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENTS IS COMPUTED
<S>	<C>	<C>	<C>
Sun Healthcare Group, Inc.:	1940-1995		
Alabama (LTC)................		March 31, 1997	33 years
California (LTC, RH).........		October 8, 1997	33 years
Florida (LTC)................		February 28, 1997	33 years
Florida (LTC)................		March 31, 1997	33 years
Idaho (LTC)..................		February 28, 1997	33 years
Illinois (LTC)...............		August 30, 1996	30 years
Illinois (LTC)...............		March 31, 1997	33 years
Indiana (LTC)................		August 30, 1996	30 years
Iowa (LTC)...................		August 30, 1996	30 years
Louisiana (LTC)..............		March 31, 1997	33 years
Massachusetts (LTC)..........		February 28, 1997	33 years
North Carolina (LTC).........		June 30, 1994	39 years
North Carolina (LTC).........		September 30, 1994	29 years
North Carolina (LTC).........		October 8, 1997	33 years
Ohio (LTC)...................		October 8, 1997	33 years
Tennessee (LTC)..............		September 30, 1994	30 years
Texas (LTC)..................		August 30, 1996	30 years
Texas (LTC)..................		March 31, 1997	33 years
Washington (LTC).............		March 31, 1997	33 years
West Virginia (LTC)..........		October 8, 1997	33 years
Advocat, Inc.:	1948-1995		
Alabama (LTC)................		August 14, 1992	31.5 years
Arkansas (LTC)...............		August 14, 1992	31.5 years
Tennessee (LTC)..............		August 14, 1992	31.5 years
Kentucky (LTC)...............		July 1, 1994	33 years
Ohio (LTC)...................		July 1, 1994	33 years
West Virginia (LTC)..........		July 1, 1994	33 years
Emerald Healthcare, Inc.:	1960-1975		
Illinois (LTC)...............		April 1, 1996	25 years
Indiana (LTC)................		April 1, 1996	25 years
Unison Healthcare Corp.:	1963-1993		
Indiana (LTC)................		December 23, 1992	31.5 years
Texas (LTC)..................		December 1, 1993	39 years
Alden Management Services, Inc:	1958-1981		
Illinois (LTC)...............		September 30, 1994	30 years
The Graduate Hospital:	1929-1984		
Pennsylvania (MOB)...........		October 28, 1993	27.5 years

</TABLE>

<TABLE>
<CAPTION>

COLUMN A	COLUMN B	COLUMN C	COLUMN D		COLUMN E(5)	COLUMN F
		INITIAL COST TO COMPANY	COST CAPITALIZED SUBSEQUENT TO ACQUISITION		GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD	
DESCRIPTION(1)	ENCUMBRANCES	BUILDINGS AND LAND IMPROVEMENTS	IMPROVEMENTS	CARRYING COSTS	BUILDINGS AND LAND IMPROVEMENTS TOTAL	ACCUMULATED DEPRECIATION(6)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Res-Care Health Services, Inc.:						
Indiana (LTC)..................		20,470,968	0	0	20,470,968	2,293,102
Kentucky (LTC).................		8,029,032	0	0	8,029,032	899,390
		28,500,000	0	0	28,500,000	3,192,492
ExtendaCare, Inc.:						
Indiana (LTC)..................		23,553,634	0	0	23,553,634	2,266,746
Five Star Corporation:						
Iowa (LTC).....................		12,993,318	0	0	12,993,318	74,419
Senior Care Properties, Inc.:						
Texas (LTC)....................		5,200,000	0	0	5,200,000	441,071
Texas (LTC)....................		6,557,143	0	0	6,557,143	62,922
		11,757,143	0	0	11,757,143	503,993
Integrated Health Services, Inc.:						
Washington (LTC)...............		$ 10,000,000	$ 0	$0	$ 10,000,000	$ 1,070,833
First HealthCare Associates:						
Missouri (LTC).................		9,000,000	0	0	9,000,000	1,158,519
Hunter Management Group Inc.:						
Florida (LTC)..................		8,150,000	866	0	8,150,866	779,043
Meadowbrook Healthcare of North Carolina:	(4)					
North Carolina (LTC)...........		7,500,000	0	0	7,500,000	788,895
Liberty Assisted Living Centers LTD Partnership:						
Florida (LTC)..................		5,994,730	760	0	5,995,490	802,712
Miscellaneous Investments:		13,250,000	0	0	13,250,000	1,369,068
		$557,605,401	$3,448,793	$0	$561,054,194	$48,147,275

<CAPTION>

COLUMN A	COLUMN G	COLUMN H	COLUMN I
	DATE OF	DATE	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENTS

DESCRIPTION(1)	RENOVATION	ACQUIRED	IS COMPUTED
<S>	<C>	<C>	<C>
Res-Care Health Services, Inc.:	1962-1972		
Indiana (LTC)..................		September 30, 1994	25-30 years
Kentucky (LTC).................		September 30, 1994	30 years
ExtendaCare, Inc.:	1967-1974		
Indiana (LTC)..................		January 16, 1996	25 years
Five Star Corporation:	1963-1983		
Iowa (LTC).....................		October 7, 1997	33 years
Senior Care Properties, Inc.:	1929-1996		
Texas (LTC)....................		January 1, 1995	31.5 years
Texas (LTC)....................		September 5, 1997	33 years
Integrated Health Services, Inc.:	1965-1967		
Washington (LTC)...............		September 1, 1996	20 years
First HealthCare Associates:	1978-1986		
Missouri (LTC).................		August 14, 1992	31.5 years
Hunter Management Group Inc.:	1977-1978		
Florida (LTC)..................		September 13, 1993	39 years
Meadowbrook Healthcare of North Carolina:	1984-1985		
North Carolina (LTC)...........		September 30, 1994	31.5 years
Liberty Assisted Living Centers LTD Partnership:	1989		
Florida (LTC)..................		September 30, 1994	27 years
Miscellaneous Investments:			
	1956-1985	Various	20-39 years

</TABLE>

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(1) All of the real estate included in this schedule are being used in either the operation of long-term care facilities (LTC), rehabilitation hospitals (RH) or medical office buildings (MOB) located in the states indicated.

(2) Certain of the real estate indicated are security for Industrial Development Revenue Bonds totaling $8,980,000 at December 31, 1997.

(3) Certain of the real estate indicated are security for notes payable totaling $7,900,628 at December 31, 1997.

(4) Certain of the real estate indicated are security for HUD loans totaling $5,380,148 at December 31, 1997.

<TABLE>
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COLUMN E	1995	1996	1997
<S>	<C>	<C>	<C>
(5) Balance at beginning of period.........................	$334,600,764	$357,556,246	$376,177,045
Additions during period:			
Acquisitions..	22,747,486	17,700,000	183,229,915
Improvements and other.................................	207,996	920,799	1,647,234
Balance at close of period..............................	$357,556,246	$376,177,045	$561,054,194

</TABLE>

<TABLE>
<CAPTION>

COLUMN F	1995	1996	1997
<S>	<C>	<C>	<C>
(6) Balance at beginning of period.........................	$ 9,552,587	$20,836,153	$32,884,104
Additions during period:			
Provisions for depreciation............................	11,283,566	12,047,951	15,263,171
Balance at close of period..............................	$20,836,153	$32,884,104	$48,147,275

</TABLE>

SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE
OMEGA HEALTHCARE INVESTORS, INC.
DECEMBER 31, 1997

<TABLE>
<CAPTION>

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
DESCRIPTION(1)	INTEREST RATE	FINAL MATURITY DATE	PERIODIC PAYMENT TERMS	PRIOR

LIENS

<S>	<C>	<C>	<C>	<C>
Michigan (13 LTC facilities)...	15.46%	August 13, 2007	- Interest payable at 14.46% payable monthly - Deferred interest at 1% accrues monthly and is payable at maturity of the note - Quarterly amortization of $1,470,000 commencing in the year 2002	None
Florida (3 LTC facilities).....	13.10%	August 4, 2012	- Interest payable monthly - Quarterly amortization of $50,000 commencing in the year 2002	None
Florida (4 LTC facilities).....	11.50%	February 28, 2010	- Interest plus $1,700 of principal payable monthly	None
Florida (2 LTC facilities).....	11.50%	June 4, 2006	- Interest plus $1,400 of principal payable monthly	None
Maine (11 LTC facilities) Massachusetts (1 LTC facility)....................	11.81%	September 30, 2000	- Interest payable monthly - Quarterly payment of $37,500 commencing in 1996	None
Texas (3 LTC facilities).......	12.23%	December 31, 2005	- Interest payable monthly - Annual amortization of $60,000 commencing in years 1997-1999 and $120,000 commencing in year 2000	None
Kentucky (3 LTC facilities)....	10.75%	July 31, 2011	- Interest payable monthly	None
Texas (9 LTC facilities).......	10.75%	Various	- Interest plus $84,700 of principal payable monthly	None
Tennessee (2 LTC facilities)...	14.81%	April 30, 2001	- Interest payable monthly	None
Tennessee (2 LTC facilities)...	13.36%	August 1, 2016	- Interest payable monthly	None
Ohio (7 LTC facilities)........	11.00%	January 1, 2015	- Interest plus $33,600 of principal payable monthly	None
Other Mortgage Notes: Various.......................	10.75% to 13.5%	1998 to 2007	- Interest payable monthly	None

<CAPTION>

COLUMN A	COLUMN F	COLUMN G	COLUMN H
DESCRIPTION(1)	FACE AMOUNT OF MORTGAGES	CARRYING AMOUNT OF MORTGAGES(2)(3)	PRINCIPAL AMOUNT OF LOANS SUBJECT TO DELINQUENT PRINCIPAL OR INTEREST
<S>	<C>	<C>	<C>
Michigan (13 LTC facilities)...	$ 58,800,000	$ 58,800,000	None
Florida (3 LTC facilities).....	$ 7,031,250	$ 7,031,250	None
Florida (4 LTC facilities).....	$ 12,891,500	$ 12,863,600	None
Florida (2 LTC facilities).....	$ 11,090,000	$ 11,070,996	None
Maine (11 LTC facilities) Massachusetts (1 LTC facility)....................	$ 26,500,000	$ 26,279,402	None
Texas (3 LTC facilities).......	$ 10,200,000	$ 10,200,000	None

Kentucky (3 LTC facilities)....	$ 10,250,000	$ 10,250,000	None
Texas (9 LTC facilities).......	$ 10,370,450	$ 9,101,416	None
Tennessee (2 LTC facilities)...	$ 8,932,000	$ 8,932,000	None
Tennessee (2 LTC facilities)...	$ 9,300,000	$ 9,300,000	
Ohio (7 LTC facilities)........	$ 20,031,888	$ 19,141,118	None
Other Mortgage Notes:			
Various........................	$ 36,188,898	$ 35,383,225	None
	$221,585,986	$218,353,007	

</TABLE>

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(1) The mortgage loans included in this schedule represent first mortgages on facilities used in the delivery of long-term healthcare, such facilities are located in the states indicated.

(2) The aggregate cost for federal income tax purposes is equal to the carrying amount.

<TABLE>
<CAPTION>

	COLUMN G RECONCILIATION	1995	1996	1997
<S>	<C>	<C>	<C>	<C>
(3)	Balance at beginning of period..................	$141,359,387	$158,289,097	$217,474,072
	Additions during period -- Placements...........	21,131,000	66,222,620	11,155,491
	Deductions during period -- Collection of principal.......................................	(850,959)	(956,646)	(13,365,432)
	Conversion to purchase leaseback/other changes...	(3,350,331)	(6,080,999)	3,088,876
	Balance at close of period......................	$158,289,097	$217,474,072	$218,353,007

</TABLE>

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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.

By: /s/ DAVID A. STOVER

David A. Stover
Chief Financial Officer

Dated: March 27, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities on the date indicated.

<TABLE>
<CAPTION>

SIGNATURES	TITLE	DATE
<C>	<S>	<C>
PRINCIPAL EXECUTIVE OFFICER		
/s/ ESSEL W. BAILEY, JR. --- Essel W. Bailey, Jr.	Chairman, President, Chief Executive Officer, Secretary and Director	March 27, 1998
PRINCIPAL FINANCIAL OFFICER and PRINCIPAL ACCOUNTING OFFICER		
/s/ DAVID A. STOVER --- David A. Stover	Vice President, Chief Financial Officer and Chief Accounting Officer	March 27, 1998
DIRECTORS		
--- Martha A. Darling	Director	March , 1998

/s/ JAMES A. EDEN James A. Eden	Director	March 27, 1998
/s/ THOMAS F. FRANKE Thomas F. Franke	Director	March 27, 1998
/s/ HAROLD J. KLOOSTERMAN Harold J. Kloosterman	Director	March 27, 1998
/s/ BERNARD J. KORMAN Bernard J. Korman	Director	March 27, 1998
/s/ EDWARD LOWENTHAL Edward Lowenthal	Director	March 27, 1998
/s/ ROBERT L. PARKER Robert L. Parker	Director	March 27, 1998

</TABLE>

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGES
<C>	<S>	<C>
3.1	Articles of Incorporation, as amended (Incorporated by reference to the Registrant's Form 10-Q for the quarter ended March 31, 1995)......................................	
3.2	Amended and Restated Bylaws, as amended October 15, 1997 (Incorporated by reference to Exhibit 3 to the Registrant's Form 8-K dated November 10, 1997)..........................	
4.1	Form of Convertible Debenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)..	
4.2	Form of Indenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)..........	
4.3	Indenture dated December 27, 1993 (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated December 29, 1993)..	
4.4	First Supplemental Indenture dated January 23, 1996 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated January 19, 1996)...........................	
4.5	1993 Stock Option and Restricted Stock Plan, as amended (Incorporated by reference to Exhibit 10.11 to the Company's Form 10-Q for the quarterly period ended March 31, 1995)....	
4.6	Form of Articles Supplementary for Series A Preferred Stock (Incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q for the quarterly period ended March 31, 1997)....	
4.7	Form of Series A Preferred Stock Certificate (Incorporated by reference to Exhibit 4.2 of the Company's Form 10-Q for the quarterly period ended March 31, 1997)..................	
10.1	1993 Retirement Plan for Directors, effective March 2, 1993 to (Incorporated by reference Exhibit 10.15 to the Company's Form 10-K ended for the year December 31, 1992)............	
10.2	1993 Deferred Compensation Plan, effective March 2, 1993 (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1992)............	
10.3	Form of Note Exchange Agreement -- 10% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)..	
10.4	Form of Note Exchange Agreement -- 7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)......................................	
10.5	Form of Note Purchase Agreement -- 7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995)..	
10.6	Second Amended and Restated Loan Agreement by and among Omega Healthcare Investors, Inc., the banks signatory hereto and Fleet Bank, N.A., as agent for such banks, dated September 30, 1997 (Incorporated by reference to Exhibit 10 to the Company's Form 8-K dated November 10, 1997)..........	

10.7	Purchase Agreement and Agreement of Lease between Delta Investors I, LLC, Delta Investors II, LLC and subsidiaries of Regency Health Services, Inc. dated October 7, 1997*.....	
11	Statement re: computation of per share earnings*............	
12	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends*...	
13	Excerpts from Omega Healthcare Investors, Inc. Annual Report to Shareholders for the period ended December 31, 1997, to the extent referred to in Part II of this Form 10-K*........	

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGES
21	Subsidiaries of the Registrant*.............................	
23	Consent of Independent Auditors*............................	
27	Financial Data Schedule*....................................	

- ------------------------
* Exhibits which are filed herewith on the indicated sequentially numbered page.

EXHIBIT 10.7

PURCHASE AGREEMENT

AND

AGREEMENT OF LEASE

BETWEEN

DELTA INVESTORS I, LLC,

DELTA INVESTORS II, LLC

AND

SUBSIDIARIES OF REGENCY HEALTH SERVICES, INC.

As of OCTOBER 7, 1997

PURCHASE AGREEMENT AND AGREEMENT OF LEASE

This Purchase Agreement and Agreement of Lease ("Agreement") is entered into as of October 7, 1997 by and between DELTA INVESTORS I, LLC, a Maryland limited liability company ("Delta I"), DELTA INVESTORS II, LLC, a Maryland limited liability company ("Delta II") (the "Purchasers") and each of the entities identified, and whose capacity as a "Seller" or "Lessee" or both a "Seller" and a "Lessee" is set forth, on the signature page hereto.

RECITALS

A. Capitalized terms used but not otherwise defined herein have the respective meanings given them in Article I, below.

B. Sellers are corporations that are wholly owned by Regency Health Services, Inc. ("Regency").

C. Each Seller is the owner or lessee of certain Real Property, Personal Property and Related Rights (collectively, as to each Seller, the "Seller's Assets") which it has agreed to sell either to Delta I or Delta II and which either Delta I and Delta II has agreed to simultaneously lease back to such Seller or an Affiliate thereof pursuant to a Facility Lease. The Seller's Assets to be purchased and leased back by Delta I are listed on Exhibit A-1 attached hereto; the Seller's Assets to be purchased and leased back by Delta II are listed on Exhibit A-2 attached hereto.

B. Immediately after the consummation of the transactions hereinafter set forth, Sun Healthcare Group, Inc. ("Sun") will be acquiring all of the issued and outstanding stock of Regency, and as a condition precedent to Delta I and Delta II entering into this transaction, Sun has agreed to

guaranty the obligations and undertakings of the Sellers herein and in the other Transaction Documents and the payment of all amounts due and the performance of all obligations of the Sellers and Affiliates of Sellers under the Facility Leases to which they are parties.

C. As a condition precedent to the obligations of the Sellers and Sun hereunder and in the other Transaction Documents, Omega Healthcare Investors, Inc. ("Omega"), as the sole Member of Delta I and Delta II, has agreed to guaranty the obligations of Delta I and Delta II hereunder and in the other Transaction Documents to which Delta I or Delta II is a party and will execute this Agreement for the purpose of setting forth such guaranty.

D. The parties hereto desire to create a definitive Purchase Agreement, reducing to writing the terms which have been the subject of the negotiations among them.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement, the following capitalized terms have the respective meaning set forth after them.

Appraisal - An MAI appraisal obtained by Delta I or Delta II.

Assignment - A form of assignment of leasehold interest meeting the requirements of Section 2.8.

Bill of Sale - A Bill of Sale in the form described in Section 2.5

Closing - The consummation of the transactions contemplated by this Agreement.

Closing Date - October 7, 1997, or such other time and date as shall be agreed upon by the parties for the acquisition and leasing of a Seller's Assets pursuant to this Agreement.

Contamination - The presence, release or threatened release in violation of any Environmental Law of any Hazardous Substance , including but not limited to the existence of any injury or potential injury to public health, safety, natural resources or the environment associated therewith, or any other environmental condition at, in, about, under or migrating from or to the Real Property.

Deed - A deed meeting the requirements of Section 2.8.

Environmental Assessment - A Phase I Environmental Report with respect to the Real Property included in a Seller's Assets.

Environmental Law - All federal, state and local laws (including, without limitation, common law), statutes, codes, ordinances, regulations, rules, orders, permits or decrees relating to the introduction, emission, discharge or release of Hazardous Substances into the indoor or outdoor environment (including without limitation air, surface, water, groundwater, land or soil) or otherwise related to the manufacture, processing, distribution, use, treatment, storage, transportation or disposal of Hazardous Substances, or to the investigation, removal, restoration, remediation and/or elimination of, or other response to, Contamination.

Escrow Agent - Chicago Title Insurance Company.

Escrow Instructions - Written Escrow Instructions to the Escrow Agent from the Purchasers and the Sellers in the form of Exhibit "B" attached hereto.

Facility - The licensed nursing home or other health care facility being operated on Real Property covered by this Purchase Agreement, including such Real Property and associated Personal Property and Related Rights.

Facility Lease - A lease of Real Property, Personal Property and Related Rights, substantially in the designated form for the Facility that is attached hereto as one of Exhibits "C-1" through "C- 4".

Financial Statement - For a fiscal year or other accounting period, a statement of earnings and retained earnings and of changes in financial position and profits and loss for such period and for the period from the beginning of the respective fiscal year to the end of such period and the related balance sheet as at the end of such period, together with the notes thereto, all in reasonable detail and setting forth in comparative form the corresponding figures for the corresponding period in the preceding fiscal year, and prepared in accordance with GAAP and reported on by a "Big Six" accounting firm or other qualified certified public accounting firm acceptable to Omega.

GAAP - Generally accepted accounting principles.

Government Authorizations - As defined in Section 3.17(ii).

Guarantor - Sun.

Guaranty - The Amended and Restated Guaranty, dated as of October 7, 1997, between Sun and Omega.

Hazardous Substances - Any and all dangerous, toxic or hazardous material, substance, pollutant, contaminant, chemical, or waste (including medical waste), including petroleum products, asbestos and PCBs, defined, listed or described as such under any Environmental Law.

Lessee - A party identified as a lessee on the signature page hereof.

Letter of Credit Agreement - The Amended and Restated Letter of Credit Agreement dated as of October 7, 1997 between Omega and Sun.

Permitted Encumbrances - With respect to the Seller's Assets owned by a Seller, the title exceptions and other matters set forth under its name on attached Exhibit "D".

Permitted Exceptions - With respect to the Seller's Assets owned by a Seller, the liens and encumbrances, including equipment leases, affecting the Personal Property as of the Closing Date, listed by Facility on attached Exhibit "E".

Personal Property - All personal property, including without limitation, furniture, equipment, rugs, carpeting, drapes and linens, owned or leased by a Seller and located in and upon such Seller's Real Property, or used in connection with the operation of such Seller's Facility, and the Certificate of Need with respect to such Facility, if and to the extent in existence as of the date hereof and transferable by such Seller.

Purchaser - Delta I, with respect to each Facility listed on Exhibit A-1, and Delta II, with respect to each Facility listed on Exhibit A-2.

Real Property - All of a Seller's right, title and interest in and to the real property owned by it, the legal description of which is set forth under its name in the applicable Exhibit "A1" or "A2" attached hereto, including the buildings, structures, landscaping, paving, fencing, Fixtures (as defined in the Standard Terms and Conditions) and Improvements (as defined in the Standard Terms and Conditions) thereon.

Related Rights - As defined in the Standard Terms and Conditions.

Security Agreements - The two Security Agreements between the Purchasers, as secured parties, and the Lessees, as debtors, granting security interests in any and all Personal Property of such Lessees that for any reason was not leased to Lessees on the Closing Date, or thereafter during the term of the Facility Leases is acquired by such Lessees but is not Lessor's Personal Property (as defined in the Standard Terms and Conditions), as herein required.

Seller's Assets - The Real Property, Personal Property and Related Rights owned or being leased by a Seller .

Standard Terms and Conditions: The Standard Terms and Conditions attached hereto as Exhibit "F", which are to be incorporated in each Facility Lease by reference.

State - the State in which a Seller's Assets are located. Surrounding Area - The area within a one half mile radius of a Facility. Survey - A current Real Property survey meeting the requirements of Section 3.16 and delivered in connection with the issuance of the Title Policy. Title Commitment - The commitment of the Title Company to issue the Title Policy. Title Company - Chicago Title Insurance Company. Title Policy - The standard form of ALTA extended coverage owner's (or, with respect to the assignment of a leasehold interest, lessee's) policy of title insurance in use on the Closing Date in the State in which a Facility is located, with the survey and other standard exceptions deleted, subject only to Permitted Encumbrances, and with such endorsements as may be required by Delta I or Delta II if and to the extent available in the State.

Transaction Documents - This Agreement, each Facility Lease, each Security Agreement, the Guaranty, the Letter of Credit Agreement, each Bill of Sale, each Deed, and each and every other document, instrument, certificate and financing statement required by the foregoing documents.

ARTICLE II
TERMS OF THE SALE AND LEASE

Section 2. 1. Agreement to Sell and Acquire. On the Closing Date, each Seller listed on Exhibit A-1 shall sell, warrant and convey the Seller's Assets owned by it to Delta I and Delta I shall purchase the same from each such Seller, and each Seller listed on Exhibit A-2 shall sell, warrant and convey the Seller's Assets owned by it to Delta II and Delta II shall purchase the same from each such Seller, provided, however, that if a Seller's Assets consist of or include a leasehold interest therein such leasehold interest shall be assigned to the applicable Purchaser as hereinafter provided.

Section 2.2. Purchase Price. The Purchasers will purchase all of the Sellers Assets for a total purchase price of Ninety Million Three Hundred Twenty Two Thousand Dollars ($90,322,000.00) (the "Purchase Price"), which shall be allocated among the Sellers and Purchasers as set forth on Exhibit "G" attached hereto. The Purchase Price, adjusted as set forth in this Agreement, shall be paid in immediately available funds (wire transfer or other form acceptable to Omega) at the Closing.

Section 2.3. Escrow. The Closing of the transactions contemplated by this Agreement and the Transaction Documents shall occur through an escrow with the Escrow Agent. Each Purchaser and Seller shall execute and deliver this Agreement and the other Transaction Documents to which it is a party into escrow with the Escrow Agent, along with the Escrow Instructions. The Purchase Price shall be deposited by the Purchasers into escrow with the Escrow Agent in immediately available funds for disbursement in accordance with the Escrow Instructions. The Closing shall be deemed completed when the Escrow Agent disburses the entire Purchase Price (excluding any agreed-upon holdbacks) pursuant to the Escrow Instructions and this Agreement.

Section 2.4. Adjoining Streets. The conveyance to Omega of the Real Property shall include all right, title and interest, if any, of the Seller thereof in and to any land lying in the bed of any street opened or proposed in front of or adjoining the Real Property owned by such Seller to the centerline thereof, and the Seller thereof shall execute or obtain and deliver to Omega, on the Closing Date or thereafter, on demand, all proper instruments for the conveyance of such title.

Section 2.5. Bill of Sale. Each Seller shall convey to Omega the Personal Property owned by it pursuant to a Bill of Sale, which shall be in the form attached hereto as Exhibit "H", free and clear of any and all encumbrances of any nature whatsoever (except the Permitted Exceptions), and shall include an assignment of all of the right, title and interest of the Seller thereof, if any, in all warranties, guarantees and sureties relating to the Real Property or Personal Property as may be provided in the Bill of Sale.

Section 2.6. Permitted Encumbrances. Each Seller shall convey the Real Property or assign the leasehold interest owned by it to the Purchaser thereof subject only to the Permitted Encumbrances applicable to such Real Property.

Section 2.7. No Violations. Each Seller shall convey its Seller's Assets, or assign its leasehold interest, to the Purchaser thereof free of all known material violations of applicable law or municipal ordinances or of any material rule or regulation of any federal, state or local government agency or authority having jurisdiction over such Seller's Assets or use thereof for the business presently conducted by the Seller thereof, except as disclosed in Exhibit "I" attached hereto.

Section 2.8. Deed; Assignment. Each Seller holding a fee interest in Real Property shall convey to the Purchaser thereof good marketable title in fee simple by a deed in a conventional form used in the State in which such Real Property is located, and each Seller whose interest in Real Property is a leasehold shall assign all its right, title and interest in such Real

Property to the Purchaser thereof, in each case subject only to Permitted Encumbrances, and each such instrument shall be duly executed and acknowledged and delivered to the applicable Purchaser in recordable form.

Section 2.9. No Prorations. Each Seller shall be obligated for all Real Property and Personal Property taxes, assessments, water charges, sewer rents, utilities or for premiums on existing insurance policies or any other items relating to its Seller's Assets; it being understood by the parties that each Seller is responsible for such expenses prior to Closing, and after Closing each Lessee shall be obligated to pay the same under the terms of the Facility Lease applicable to such Seller's Assets.

Section 2.10. Expenses. All costs and expenses of conveying all of the Seller's Assets covered by this Agreement to the Purchasers as contemplated by this Agreement and the Transaction Documents, including without limitation the following costs and expenses, shall be paid for by the Sellers thereof:

(i) all taxes, including, without limitation, any transfer taxes, documentary stamp taxes, and sales and similar taxes, applicable to the sale of any or all of the Seller's Assets to the Purchasers and the simultaneous lease-back thereof by the Purchasers to the Lessees, together with interest and penalties, if any, thereon;

(ii) all recording costs, fees and charges and all escrow fees; (iii) all legal and accounting fees and disbursements for or to the attorneys and accountants for Sellers;

(iv) all costs relating to the Title Commitments and Title Policies;

(v) all costs relating to the Surveys;

(vi) all costs relating to the Appraisals;

(vii) all costs relating to the Environmental Assessments and to any remediation required thereby;

(viii) all legal fees of legal counsel to the Purchasers and reasonable disbursements for costs incurred by such counsel;

(ix) the Purchasers' physical inspection costs, including travel and out-of-pocket expenses and a site inspection fee, not to exceed $1,000.00 in the aggregate, per Facility;

(x) any prepayment premium, fees or charges, recording fees or charges, legal fees, reconveyance or release fees or charges, and other costs associated with the discharge and payment of any debt against the Seller's Assets, other than any such debt incurred by the Purchasers; and

(xi) Omega's commitment fee of Six Hundred Sixty Three Thousand One Hundred Eighty Dollars ($663,180), the receipt of Fifty Thousand Dollars ($50,000.00) of which is acknowledged by Omega.

Section 2.11. Facility Lease and Transaction Documents. At the Closing, (a) each Lessee shall enter into a Facility Lease of the Seller's Assets which are to be leased by such Lessee with the Purchaser thereof and (b) the Purchasers, Sellers and Lessees shall execute the other Transaction Documents to which they are parties.

Section 2.12. Guaranty. At the Closing, Sun shall execute and deliver the Guaranty.

Section 2.13.No Severance; Default. It is a condition precedent to any liability of any Seller, Lessee or Purchaser under this Agreement that Sun, Omega, each Seller, each Lessee and

each Purchaser execute the Transaction Documents to which they are a party. A material default by any Seller or Lessee hereunder shall constitute a material default hereunder by all Sellers and Lessees and a material default hereunder by one Purchaser shall constitute a material default hereunder by both Purchasers. In the event of a material default by any party, the non-defaulting party shall have the right, but shall not be required, to terminate this Agreement (which shall have the effect of terminating all Transaction Documents) and seek against the defaulting party or any guarantor of its obligations hereunder such remedies as may be provided by this Agreement and the Transaction Documents. If the non-defaulting party does not terminate this Agreement, it shall continue in full force and effect.

Section 2.14. Other Documents. Sellers, Lessees and Purchasers agree that they will execute and deliver all other documents, and take all actions, as any party may reasonably request in order to effectuate the purpose and carry out the terms of this Agreement and the Transaction Documents.

ARTICLE III

CONDITIONS TO THE OBLIGATIONS OF THE PURCHASERS

The obligations of the Purchasers are subject to the following conditions. If any condition is not fulfilled or waived on the Closing Date to the satisfaction of the Purchasers, the Purchasers will, at their option, but without waiving any rights, be relieved of all obligations under this Agreement and the other Transaction Documents.

Section 3.1. Compliance. Sellers and Lessees must comply in all material respects with all provisions of this Agreement and the other Transaction Documents.

Section 3.2. Conveyance. Each Seller shall convey to the Purchaser thereof good and marketable fee simple title to, or shall assign to the Purchaser thereof its leasehold interest in, the Real Property and Related Rights owned by it, free and clear of all liens and encumbrances except the Permitted Encumbrances.

Section 3.3. Documents. This Agreement, together with the applicable Deed, Assignment, Bill of Sale, Facility Lease, other Transaction Documents, and all other documents to be executed by a Seller or a Lessee must be duly authorized, validly executed and delivered by all such Sellers and Lessees.

Section 3.4. Recordation. Sellers must have (a) made arrangements for the Assignments, Deeds and Short Form Memoranda of Facility Lease to be duly recorded or filed for recordation in the manner required by the laws of the States in which the Facilities are located, and (b) paid, or arranged to be paid, all costs and fees to be paid by Sellers pursuant to this Agreement, and such arrangements must be satisfactory to the Purchasers and their counsel.

Section 3.5. Title Commitment. A "Pro-Forma" Title Policy with respect to each Facility, issued by the Title Company, must be delivered to the Purchaser thereof, dated as of the Closing Date, in current form. The Pro-Forma Title Policy shall provide that the Title Policy, when issued, shall:

(a) insure, as part of the Real Property, any easements required for ingress and egress or otherwise required for operation of the Real Property;

(b) not take exception to parties in possession except patients receiving health care services pursuant to written admission agreements;

(c) be in the amount requested by Purchasers, provided the aggregate amount of all Title Policies does not exceed the Purchase Price; and

(d) include such endorsements as the Purchaser of the Facility shall reasonably require and are available in the State.

The Pro-Forma Title Policy shall be accompanied by copies of all documents affecting the Real Property as disclosed thereby. Title to (or, as the case may be, the Purchaser's leasehold interest in) to the Real Property shall be insured subject only to the Permitted Encumbrances. On or prior to the

Closing Date, Sellers shall remove any encumbrances other than Permitted Encumbrances.

Section 3.6. Facility Lease. Each Lessee must have delivered to the Escrow Agent a duly executed Facility Lease and Short Form Memorandum of Lease (together with the other documents or instruments required under the Facility Lease).

Section 3.7. Insurance. Certificates of insurance must be delivered to the applicable Purchaser fulfilling the insurance requirements set forth in the Facility Lease.

Section 3.8. Improvements. Each Lessee must accept the Real Property leased to it for all purposes under the Facility Lease, and there must be no material damage to the buildings and improvements thereon. No condemnation or eminent domain proceedings may be pending with respect to the Real Property.

Section 3.9. Representations. The representations and warranties made by the Sellers in this Agreement and in the other Transaction Documents to which any Seller or Lessee is a party and in any certificates delivered by any Seller must be true and correct in all material aspects on and as of the Closing Date as if they had been made on the Closing Date.

Section 3.10. Authority. All corporate proceedings of Sellers and Lessees in connection with the transactions contemplated herein and all documents and certificates incident thereto must be satisfactory in form and substance to Purchasers and their counsel. Purchasers must have received such other documents and certificates incident to the transaction as Purchasers or their counsel may reasonably request.

Section 3.11. Opinion. An opinion of counsel for Sellers and Lessees must be delivered to Purchasers dated as of the Closing Date in the form attached hereto as Exhibit "J".

Section 3.12. Health Care Law Opinion. Intentionally omitted.

Section 3.13. Financial Statements. Purchasers must have received Financial Statements reasonably satisfactory to Purchasers.

Section 3.14. Bill of Sale. Each Seller must deliver a Bill of Sale to the Purchaser of such Seller's Assets, together with any other documents reasonably required to perfect such Purchaser's ownership interest in the Personal Property. The Personal Property shall be free and clear of all liens and encumbrances, other than the Permitted Exceptions. Purchasers shall obtain, at Sellers' expense, UCC searches in each State and in each county where a Facility is located and in the state in which each Seller has its principal place of business, verifying that the Personal Property is free and clear of all liens and encumbrances other than Permitted Exceptions.

Section 3.15. Financing Statements. Financing Statements executed pursuant to the provisions of the Security Agreements must be duly filed in each governmental office in which filing is necessary to perfect the security interests granted to the Purchasers pursuant to the Security Agreements and with the New Mexico Secretary of State.

Section 3.16. Survey. Sellers shall deliver to Purchasers final, "as-built," surveys of all of the Real Property, showing the Real Property in reasonable detail, with all encroachments, setbacks, utilities, and easements shown, including a Surveyor's Certificate in favor of the applicable Purchaser and the Title Company dated after the date hereof and in form acceptable to Purchasers. If the legal description of any of the Real Property on the Survey differs from the legal description contained in the applicable Exhibit hereto, the legal description set forth on the Survey (subject to the applicable Purchaser's review and approval) will be used on all Transaction Documents.

Section 3.17. Verification. Each Seller must deliver to the Purchaser of such Seller's Facility evidence, satisfactory to such Purchaser in its sole discretion, verifying with respect to such Facility that:

(i) All certificates of need, licenses, permits, franchises, approvals and provider agreements to (a) lawfully operate all beds contained in the Facility as they are currently being operated; (b) provide the services offered at the Facility; and (c) receive payment under the Medicare and respective State Medicaid programs and for the continued operation of the Facility as it is currently being operated ("Government Authorizations") have been obtained and are and will continue to be in full force and effect at Closing;

(ii) There are no outstanding violations of any law, code, rule, regulation, writ, injunction, decree, certificate, agreement, condition for participation or standard (or their separate and respective terms and conditions) affecting the Seller's Assets or the current operations thereof, or, if any such violations exist, that there is a detailed explanation of each such violation, together with a Plan of Correction approved by the body alleging such violation, which Plan of Correction shall be subject to the applicable Seller's reasonable satisfaction and approval, such verification to be provided by delivering to the applicable Seller copies of the most recent licensure survey and Plan of Correction.

(iii) That the current zoning of the Real Property allows for use of the Facility as currently operated, which evidence may include a zoning endorsement to the Title Policy for such Facility; and

(iv) That with respect to such Facility, all utilities enter the Real Property from public rights-of-way or from uninterrupted private utility company easements.

Section 3.18. Environmental. Environmental Assessments, prepared by environmental consultants acceptable to Purchasers, must be received by Purchasers stating, with respect to all of the Real Property, that there is no Contamination and that all of the Real Property is in strict compliance with Environmental Laws or Purchasers and Lessees have agreed upon such corrective action as will be taken after Closing with respect to any non-compliance with such environmental laws.

Section 3.19. Engineer's Reports. Written reports as to the physical condition of all of the Improvements, in form acceptable to Purchasers and prepared by structural engineers satisfactory to Purchasers, must be received by Purchasers or Purchasers and Lessees have agreed upon such corrective action as will be taken after Closing with respect to any structural problems identified in such reports.

Section 3.20. Assumed Names. Each Seller must have furnished to the Purchaser of its Facility a list of all assumed or fictitious names under which, to such Seller's knowledge, the Facility owned by it has been operated during the twelve (12) months prior to the date on which the parties enter into this Agreement.

Section 3.21 Other Leases. The following leases:

Lease dated February 28, 1997 between Omega and Mediplex Management of Palm Beach County, Inc.(Sun Health of the Palm Beaches)

Lease dated February 28, 1997 between Omega and Mediplex of Massachusetts, Inc. (Milford Meadows)

Lease dated February 28, 1997 between Omega and Sunrise Healthcare Corporation (Holly Hills)

Lease dated March 25, 1997 between Omega and Sunrise Healthcare Corporation (Laurelwood)

must be amended by the parties thereto to (a) increase the First Extension Term and Second Extension Term (as defined therein) from ten (10) to fourteen (14) years; (b) Change the definition of the term "Related Leases" to include all of the leases listed above on Exhibit A-1 hereto, and (c) add the following definition: "Transaction Documents: As defined in the Purchase Agreement." In addition, the Laurelwood lease must be amended to change the Expiration Date to February 28, 2011.

ARTICLE IV
REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLERS AND LESSEES

To induce Purchasers to enter into this Agreement and the other Transaction Documents, to purchase the Seller's Assets from Sellers and to lease the Seller's Assets as provided herein, each Seller represents, warrants and covenants to Omega as of the date hereof, and as of the Closing Date, as follows with respect to itself and to the Facility or Facilities owned by it and being conveyed to a Purchaser in accordance with the terms hereof:

Section 4.1. Organization. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State set opposite its name on the signature page of this

Agreement, and properly qualified to do business and in good standing in the State in which the Facility or Facilities it owns is or are located.

Section 4.2. Financial Statements. To Seller's knowledge, no material adverse change has occurred in the operation, physical condition, licensing, or financial results of the Facility or Facilities owned by it following any statements or reports delivered to Purchasers pertaining thereto. The Financial Statements for the Seller and Facility are true and correct copies of the Facility Financial Statements furnished to Purchasers by Seller. The Financial Statements prepared by Seller and its Affiliates:

(a) are in all material respects prepared in accordance with the books and records of the applicable entities and any consolidated subsidiaries;

(b) are in all material respects true and complete statements of the financial conditions and results of operations of the applicable entities and any consolidated subsidiaries as, at and for the periods therein specified, all prepared in accordance with GAAP applied on a basis consistent with the financial statements of prior years;

(c) contain and reflect all material adjustments so as to present a fair and accurate statement of the results of operations and financial conditions for the periods covered by said Financial Statements on the basis of the applicable methods of accounting; and (d) contain and reflect reserves, if any, for contingent and known liabilities and for all reasonably anticipated losses and costs in excess of the expected receipts.

Section 4.3. Facility. The Facility or Facilities owned or leased by the Seller is or are (or shall be as of the Closing) duly licensed. Except as disclosed on Exhibit "K" attached hereto and made a part hereof, each such Facility is fully-equipped with all necessary equipment, properly

licensed, and in compliance with all applicable laws, ordinances, rules and regulations, operating as a Medicare and Medicaid provider under a valid Provider Agreement therefor.

Section 4.4. Improvements. To Seller's knowledge and except as disclosed in the Survey, the Environmental Assessment and the reports described in Section 3.19:

(a) The buildings and improvements on the Real Property owned by the Seller have been constructed in substantial compliance with the requirements of all material laws, ordinances, rules, regulations and restrictions of record applicable thereto, except as disclosed on Exhibit "L" attached hereto, and except as disclosed to the Title Company all bills for labor and materials in connection with the construction thereof have been paid in full or provided for;

(b) All public utilities, including, but not limited to, water, sewer, gas and electricity, to the extent necessary for the operation of the Facility or Facilities owned by the Seller, have been connected to the Facility or Facilities and are adequate for the intended use of the Facility or Facilities;

(c) Means of ingress and egress, streets, parking and drainage facilities are available to service the Facility or Facilities owned by the Seller and will be adequate for the continuation of the current use of such Facility or Facilities;

(d) All permits, licenses, conditional use permits and other certificates (including, if issued in the applicable jurisdiction, permanent, unconditional certificates of occupancy) and certificates of need or any other governmental approvals or authorizations, which are necessary to permit the use of the Facility or Facilities owned by the Seller in accordance with the provisions of this Agreement and the other Transaction Documents and the Facility Lease or Leases, have been obtained and are in full force and effect, and Seller has not received any notice of any default

under any such permits and licenses, other than deficiencies, if any, cited in the most recent State surveys of the Facility or Facilities, complete and correct copies of which have been provided to Purchasers, as to each of which deficiencies a Plan of Correction approved by the applicable Purchaser has been submitted and accepted by the State. There are no unresolved citations which have been issued to Seller by any local public health, Medicare or Medicaid agencies (except for any citations that may have been issued in the ordinary course and are being duly appealed and would not have a material adverse effect on the Purchaser if such appeal were determined in a manner adverse to the Seller or Lessee thereof), and except as disclosed to Purchasers there are no temporary or permanent waivers which have been issued to Seller as to any condition or fact respecting the Facility or Facilities under the laws or regulations of the foregoing;

(e) Except as disclosed on Exhibit "M" attached hereto, under applicable zoning and use laws, ordinances, rules and regulations, the current use of the Facility owned by the Seller may be continued;

(f) No event has occurred and no condition exists which would ripen into an Event of Default under a Facility Lease with respect to the Facility or Facilities owned by the Seller either with or without notice or lapse of time, or both.

Section 4.5. No Proceedings. No actions, suits, claims or proceedings have been instituted or threatened against or affecting Seller at law or in equity or before any federal, state or municipal governmental department or agency or instrumentality thereof, which action, suit, claim or proceeding, if decided adversely to Seller, would have a material adverse affect on the operation of its business or its financial condition. All litigation pending against Seller with respect to the Facility is described in detail in Exhibit "N".

Section 4.6. Personal Property. As of the Closing Date, upon delivery of the Bill of Sale, the Purchaser thereof will be the owner of the Personal Property free and clear of all liens, encumbrances, pledges or leases, other than the Permitted Exceptions.

Section 4.7. No Defects. Except as disclosed in the engineer's report under Section 3.19 and in the Environmental Assessment, Seller has no knowledge of any latent or patent material defect or deficiency with regard to the structures, roofs, soils, furniture, fixtures, or equipment of the Facility or Facilities owned by it which would materially impair the continuation of the current use of such Facility or Facilities or the value of such Facility or Facilities, and the same are in good working order and condition. Except as disclosed in the engineer's report under Section 3.19 and in the Environmental Assessment, Seller has no knowledge of any latent or patent material defect or deficiency with regard to the plumbing, electrical, mechanical or other systems of the Facility or Facilities owned by it which would materially impair the continuation of the current use of such Facility or the value of such Facility, and (except as shown on Exhibit "O") the same are in good working order. Each Seller shall inform the Purchaser of its Facility or Facilities of any latent or patent defect in the structures, roofs, soils, furniture, fixtures or equipment, or the plumbing, electrical, mechanical or other systems, of such Facility or Facilities which comes to such Seller's attention between the execution of this Agreement and the Closing Date.

Section 4.9. No Encroachments. To Seller's knowledge, there exist no encroachments onto the Real Property owned by it or by the Real Property owned by it onto any adjoining property, other than as reflected in the Survey with respect to such Real Property and approved by the Purchaser thereof.

Section 4.10. No Condemnation. Seller knows of no pending, contemplated or threatened condemnation of the Real Property or Related Rights owned by it or any part thereof.

Section 4.11. Insurance. Each Lessee shall have as of the Closing Date policies of insurance which satisfy the requirements of its Lease; and there have been no gaps or lapses in the insurance coverage at any time during ownership by Seller of the Facility or Facilities owned by it.

Section 4.12. Taxes. To the best of Seller's knowledge, all taxes, including, but not limited to, employee withholding taxes and individual taxes, for all periods prior to the Closing with respect to its Seller's Assets have been paid or the Purchaser thereof has been given satisfactory evidence that reasonable reserves for their payment have been established.

Section 4.13. No Defaults. The transactions contemplated by this Agreement and the Transaction Documents will not constitute or result in any default or event that, with a notice or lapse of time, or both, would be a default, breach or violation of any lease, mortgage, deed of trust, covenant or other agreement, instrument or arrangement by which the Seller's Assets will be bound as of the Closing Date. No consent or joinder by any governmental agency or any other person is required for the execution of this Agreement and the other Transaction Documents by Seller, for the performance of Seller's obligations as herein contemplated, except as set forth in Exhibit "P".

Section 4.14. No Assessments. To the best of Seller's knowledge, no assessments for public improvements have been made or threatened against the Facility or Facilities owned by it which are not of record and which remain unpaid, including, without limitation, those for extension and/or continuation of sewer and water lines and mains, retaining walls, streets, sidewalks and curbs.

Section 4.15. Non-Foreign Persons. Seller is not a "foreign person" as that term is defined in Section 1445 of the United States Internal Revenue Code of 1986, as amended.

Section 4.16. No Release of Discharge. To Seller's knowledge, and except as disclosed in the Environmental Assessment, the land on which the Facility or Facilities owned by it is located has not been used as a landfill, and there is no Contamination.

Section 4.17. No Hazardous Substances. Except as disclosed in the Environmental Assessment and approved by the Purchaser thereof, none of the following is used, generated, transported, treated, constructed, deposited, stored, disposed, placed or located in, on or under the Real Property owned by Seller in violation of an Environmental Law or in a condition or quantity that would give rise to any affirmative cleanup or other remedial obligation under an Environmental Law:

(a) asbestos;
(b) ureaformaldehyde foam insulation;
(c) transformers or other equipment which contain dialectic fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million; or
(d) any other chemical, material, substance or other matter of any kind whatsoever.

Section 4.18. Information is Accurate. All written information heretofore or hereafter given prior to Closing by Seller to the Purchasers concerning Seller and the Facility or Facilities owned by it is true and complete in all material respects.

Section 4.19. Representations are True. No warranty or representation by Seller set forth herein, or in any certificate or other document furnished to a Purchaser by Seller, contains any

untrue statement of material fact or omits to state a material fact necessary to make the warranty or representation not misleading in light of the circumstances under which it was made.

Section 4.20. No Commissions. Sellers and Purchasers represent and warrant to each other that no real estate commission, finder's fee or the like is due and owing to any person other than Omega in connection with this Agreement. Sellers jointly and severally agree to save, indemnify and hold Purchasers harmless from and against any and all claims, liabilities or obligations for brokerage, finder's fees or the like in connection with this Agreement or the transactions contemplated hereby, asserted by any person on the basis of any statement or act alleged to have been made or taken by any Seller. Purchasers jointly and severally agree to save, indemnify and hold the Sellers harmless from and against any and all claims, liabilities or obligations for brokerage, finder's fees or the like in connection with this Agreement or the transactions contemplated hereby, asserted by any person on the basis of any statement or act alleged to have been made or taken by Purchasers.

Section 4.21. Survival. In addition to the foregoing representations, warranties and covenants, it shall be a condition to Purchasers' obligations hereunder that each Seller and Lessee shall represent and warrant as of the Closing Date that to its knowledge each of the conditions to the obligations of the Purchasers under this Agreement and the other Transaction Documents for which it is responsible under the terms hereof which have not been waived by Purchasers has been fulfilled as of the Closing Date. The representations, warranties and covenants contained in or to be made pursuant to this Agreement and the other Transaction Documents shall be deemed to be continuing and shall survive the Closing. If Omega discovers after the Closing any material

violation of any of the foregoing representations, warranties or covenants, such violation shall be a default hereunder and an Event of Default under and as defined in the Facility Lease.

ARTICLE V
MISCELLANEOUS

Section 5.1. Indemnity. Sellers agree, with counsel selected by Omega and reasonably acceptable to Sellers, to defend Purchasers and their members against, and to indemnify, protect and hold Purchasers and their members harmless from and against, any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including but not limited to interest, penalties, attorneys' fees, costs and expenses) which Purchasers or their members may suffer as a result of the untruth of any of the representations and breach of the warranties of any Seller herein or given pursuant hereto, or which Purchasers or their members may suffer as a result of any default by any Seller in the performance of any of its commitments, covenants or conditions under this Agreement and the other Transaction Documents, or with respect to the ownership and operation of the Seller's Assets prior to the Closing Date, or (notwithstanding the inclusion thereof in the list of Permitted Encumbrances onExhibit D) with respect to the Deed of Trust dated November 8, 1993 from Braswell Enterprises, Inc., as Trustor, for the benefit of C. Allen Braswell, Braswell Management, Inc., Dorothy Braswell and Cecil Mays, as Beneficiary, which encumbers the Facilities known as: Laurel Park, St. Theresa Rehabilitation Center, Sierra Vista, Olive Vista, Vista Knoll and Claremont. The rights of the Purchasers and their members expressed in this Agreement are without prejudice to any other remedies at law or in equity which they may have. Purchasers and Omega agree, with counsel selected by Sellers and Lessees and reasonably acceptable to Omega and Purchasers, to defend Sellers and Lessees against, and to indemnify, protect and hold Sellers and

Lessees harmless from and against, any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including but not limited to interest, penalties, attorneys' fees, costs and expenses) which Sellers or Lessees may suffer as a result of any default by either Purchaser or Omega in the performance of any of its commitments, covenants or conditions under this Agreement and the other Transaction Documents. The rights of the Sellers and Lessees expressed in this Agreement are without prejudice to any other remedies at law or in equity which they may have.

Section 5.2. Defense. Upon receiving notice of a claim which is the subject of the indemnity provisions of Section 5.1, Sellers shall jointly defend and contest the claim at their own cost and expense.

Section 5.3. Risk of Loss. Each Seller shall bear the risk of loss or damage to any of the Seller's Assets owned by it from fire or other casualty until the Closing Date. In the event of any damage to or destruction of all or any part of any of the Seller's Assets by fire or other casualty, whether or not insured, or the taking of all or any part of the Seller's Assets by power of eminent domain or deed in lieu thereof, prior to the Closing Date, the Purchaser thereof may, at its option:

(a) terminate this Agreement and all of its obligations hereunder with respect to the Facility or Facilities that was damaged or destroyed, in which event the Purchase Price shall be reduced by the portion thereof allocated to the Facility or Facilities as to which this Agreement is terminated; or

(b) elect to proceed with the purchase of the damaged or destroyed Facility or Facilities, in which event the applicable Seller shall deliver possession of such Facility or Facilities to

Omega at the close of the escrow together with: (i) all insurance proceeds received by such Seller(s) in connection with the damage or destruction; and (ii) an assignment of all rights and claims of such Seller(s) under any applicable insurance policies.

If the applicable Purchaser or Purchasers elect to proceed with the purchase of the Facility or Facilities, such election shall be conditioned upon the agreement of the applicable Seller(s) thereof to fully cooperate with and assist such Purchaser or Purchasers in adjusting any loss and perfecting and pursuing any claims under any applicable insurance policy or policies.

Section 5.4. Statements. All statements contained in any certificate or other instrument delivered by or on behalf of a Seller or Lessee pursuant to this Agreement and the other Transaction Documents, or in connection with the transaction contemplated hereby, shall be deemed representations and warranties by such Seller or Lessee with respect to any matters of fact set forth therein.

Section 5.5. Attorneys' Fees. If any legal action, arbitration or other proceeding is brought for the enforcement or interpretation of this Agreement, or because of an alleged or actual dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding, and in any post judgment proceedings or appeals, in addition to any other relief to which it may be entitled.

Section 5.6. No Assignment. Neither this Agreement nor the rights, duties or obligations arising hereunder shall be assignable or delegable by any Seller or Lessee without the express prior written consent of Purchasers. All the terms and provisions of this Agreement and the other

Transaction Documents shall be binding upon and inure to the benefit of and be enforceable by Purchasers and each and every Seller and their respective permitted successors and assigns.

Section 5.7. No Third Party Beneficiaries. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies on any persons other than Purchasers, their members, Sellers, Lessees and their respective permitted successors and assigns. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provisions give any third persons any right of subrogation or action over or against any party to this Agreement.

Section 5.8. Public Announcements. Any public announcement concerning this Agreement before the Closing Date or any of the terms hereof may be made only with the prior written approval of Purchasers and Sellers.

Section 5.9. Exhibits. All exhibits, schedules, and documents referred to in or attached to this Agreement are integral parts of this Agreement as if fully set forth herein.

Section 5.10. Further Assurances. Sellers shall give further assurances and execute further documents as are necessary or desirable to effectuate the purpose of this Agreement and the other Transaction Documents.

Section 5.11. Notices. Except as required by law for the posting of notices, all notices, requests, demands and other communications hereunder must be in writing and shall be personally served or mailed (by registered or certified mail, return receipt requested and postage prepaid), or delivered by a national overnight delivery service such as Federal Express or D.H.L., or by facsimile transmission addressed to the respective parties, as follows:

(a) if to any Seller or Lessee:

c/o Sunrise Healthcare Corporation
101 Sun Lane N. E.
Albuquerque, New Mexico 87109
ATTN: Mr. Warren McInteer
Telephone No.: (505) 821-3355
Fax No.: (505) 822-0747

with a copy to:

The Nathanson Group
1411 Fourth Avenue, Suite 905
Seattle, Washington 98101
ATTN: Randi S. Nathanson, Esq.
Telephone No.: (206) 623-6239
Fax No.: (206) 623-1738

(b) if to Omega:

Omega Healthcare Investors, Inc.
905 W. Eisenhower Circle, Suite 1 10
Ann Arbor, Michigan 48103
ATTN: Essel W. Bailey, Jr.
Telephone No.: (313) 747-9790
Fax No.: (313) 996-0020

with a copy to:

Dykema Gossett PLLC
1577 North Woodward Ave.
Bloomfield, Michigan 48304-2820
ATTN: Fred J. Fechheimer, Esq.
Telephone No.: (248) 540-0743
Fax No.: (248) 540-0763

In the event of service by mail, service shall be deemed to be complete on the day of actual delivery as shown by the addressee's certified mail receipt or at the expiration of five (5) days after such mailing, whichever is earlier in time. In the event of service by personal delivery, overnight

delivery or facsimile transmission, service shall be deemed to be complete on the day of the confirmed receipt or refusal of the receipt thereof.

Section 5.12. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MICHIGAN, EXCEPT THAT AS TO EACH FACILITY THE LAWS OF THE STATE SHALL GOVERN THIS AGREEMENT TO THE EXTENT NECESSARY (I) TO OBTAIN THE BENEFIT OF THE RIGHTS AND REMEDIES SET FORTH HEREIN WITH RESPECT TO THE FACILITY AND (II) FOR PROCEDURAL REQUIREMENTS WHICH MUST BE GOVERNED BY THE LAWS OF THE STATE.

Section 5.13. Counterparts. This Agreement and the other Transaction Documents may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 5.14. Captions. The captions of sections and subsections of this Agreement have been inserted solely for convenience and reference, and shall not control or affect the meaning or construction of any of the provisions of this Agreement.

Section 5.15. Entire Agreement. This Agreement, the other Transaction Documents and the exhibits hereto and thereto constitute the entire agreement between Purchasers and Sellers pertaining to the subject matter contained in them, and supersede all prior agreements, representations and understandings of the parties. No supplement, modification or amendment of this Agreement will be binding unless expressed as such and executed in writing by each Purchaser and Seller. No waiver of any of the provisions of this Agreement will be deemed or constitute a waiver of any other

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provision, whether or not similar, nor will any waiver constitute a continuing waiver. No waiver will be binding unless expressed as such in a document executed by the party granting the waiver.

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SIGNATURE PAGES TO PURCHASE AGREEMENT
AND AGREEMENT OF LEASE

IN WITNESS WHEREOF, the parties hereby execute this Agreement as of the day and year first set forth above.

DELTA INVESTORS I, LLC, a Maryland
limited liability company

By: Omega Healthcare Investors, Inc.,
a Maryland corporation

By: ______________________________
F. Scott Kellman, Executive
Vice President

DELTA INVESTORS II, LLC, a Maryland
limited liability company

By: Omega Healthcare Investors, Inc.,
a Maryland corporation

By: ______________________________
F. Scott Kellman, Executive
Vice President

SELLERS:

Beckley Health Care Corp., a West Virginia
corporation
Braswell Enterprises, Inc., a California
corporation
Care Enterprises, Inc., a Delaware
corporation
Care Enterprises West, a Utah corporation
Putnam Health Care Corp., a West Virginia
corporation
Regency Health Services, Inc., a Delaware
corporation
Regency - North Carolina, Inc., a North
Carolina corporation
Regency Rehab Properties, Inc., a
California corporation
Salem Health Care Corp., a West Virginia
corporation

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LESSEES:

Care Enterprises West, a Utah corporation
Circleville Health Care Corp., an Ohio
corporation
Coalinga Rehabilitation Center, a
California corporation
Dunbar Health Care Corp., a West Virginia
corporation
Fullerton Rehabilitation Center, a
California corporation
Marion Health Care Corp., an Ohio
corporation
Meadowbrook Rehabilitation Center, a
California corporation
Newport Beach Rehabilitation Center, a
California corporation
Regency Rehab Hospitals, Inc., a

California corporation
San Bernardino Rehabilitation Hospital,
Inc., a California corporation
Shandin Hills Rehabilitation Center,
a California corporation
Vista Knoll Rehabilitation Center,
Inc., a California corporation

By:____
David A. Grant, Vice President

MEGA HEALTHCARE INVESTORS, INC., a
Maryland corporation (solely for the purpose
of guaranteeing the obligations of the
Purchasers hereunder pursuant to Recital C)

By:____
F. Scott Kellman, Executive Vice President

SUN HEALTHCARE GROUP, INC., a Delaware
corporation (solely for the purpose of
delivering the guaranty pursuant to
Paragraph 2.12)

By:____
Warren McInteer, Vice President

EXHIBITS

A-1 Seller's Assets to be Purchased by Delta I (including legal descriptions)
A-2 Seller's Assets to be Purchased by Delta II (including legal descriptions)
B. Escrow Instructions
C-1 Facility Lease Form for Continental Rehab Hospital of San Diego
C-2 Facility Lease Form for St. Theresa
C-3 Facility Lease Form for All Other Facilities to be purchased by Delta I
C-4 Facility Lease Form for All Other Facilities to be purchased by Delta II
D. Permitted Encumbrances
E. Permitted Exceptions
F. Standard Terms and Conditions
G. Purchase Price Schedule
H. Bill of Sale
I. Violations of Laws, Rules, Regulations and Ordinances (if any)
J. Form of Opinion of Legal Counsel for Seller
K. Schedule of License or Permit Irregularities (if any)
L. Schedule of Construction Regulatory Exceptions
M. Zoning
N. Schedule of Facility Litigation (if any)
O. Schedule of Construction Deficiencies (if any)
P. Required Consents and Joinders

EXHIBIT 11

STATEMENT RE: COMPUTATION OF PER-SHARE EARNINGS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN THOUSANDS EXCEPT PER-SHARE DATA)		
Net earnings available to common before extraordinary charge from prepayment of debt	$41,305	$34,590	$29,490
Net earnings	$41,305	$34,590	$23,011
Average shares outstanding	19,085	17,196	16,071
Basic per-share amounts:			
Net earnings	$2.16	$2.01	$1.43
Net earnings before extraordinary charge	$2.16	$2.01	$1.83
Average shares outstanding	19,085	17,196	16,071
Stock option incremental shares	52	44	10
Average shares outstanding, diluted	19,137	17,240	16,081
Diluted per-share amounts:			
Net earnings	$2.16	$2.01	$1.43
Net earnings before extraordinary charge	$2.16	$2.01	$1.83
Diluted assuming conversion of debt:			
Net earnings	$41,305	$34,590	
Add interest expense associated with Convertible Debentures	6,279	7,778	
Total	$47,584	$42,368	
Average shares outstanding	19,085	17,196	
Assumed conversion of debentures	2,583	3,095	
Stock option incremental shares	52	72	
Total	21,720	20,363	
Per-share amount (antidilutive)	$2.19	$2.08	

EXHIBIT 12

RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS

The ratio of earnings to combined fixed charges and preferred stock dividends are as follows:

	YEAR ENDED DECEMBER 31				
	1997	1996	1995	1994	1993
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends(1)......................................	2.60X	2.66X	2.92X	2.69X	3.51X

- -------------------------
(1) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, net earnings (before extraordinary charge from prepayment of debt in 1995) has been added to fixed charges and that sum has been divided by such fixed charges. Fixed charges consist of interest expense, amortization of deferred financing costs and, starting with the period ended December 31, 1997, preferred stock dividends for the Series A Cumulative Preferred Stock, which is the only series of preferred stock outstanding at December 31, 1997.

EXHIBIT 13

RESPONSE TO ITEM 14(a)(1) AND (2) AND 14(d)

INFORMATION INCORPORATED BY REFERENCE FROM
ANNUAL REPORT TO SHAREHOLDERS

LISTING OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

INDEX TO FINANCIAL INFORMATION

YEAR ENDED DECEMBER 31, 1997

OMEGA HEALTHCARE INVESTORS, INC.

ANN ARBOR, MICHIGAN

INDEX TO FINANCIAL INFORMATION

The following consolidated financial statements of Omega Healthcare Investors, Inc. and subsidiaries, included on pages 11 through 22 of the Annual Report of the registrant to its shareholders for the year ended December 31, 1997, are incorporated by reference in Item 8:

Consolidated Balance Sheets -- December 31, 1997 and 1996.

Consolidated Statements of Operations -- Years ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Shareholders' Equity -- Years ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Cash Flows -- Years ended December 31, 1997, 1996 and 1995.

Notes to Consolidated Financial Statements -- December 31, 1997.

The following consolidated financial statement schedules of Omega Healthcare Investors, Inc. and subsidiaries are included in Item 14(d):

Schedule III Real Estate and Accumulated Depreciation

Schedule IV Mortgage Loan on Real Estate

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are are not required under the related instructions or are inapplicable and therefore have been omitted.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OMEGA HEALTHCARE INVESTORS, INC.

"SAFE HARBOR" STATEMENT UNDER THE
UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements that are not historical facts contained in Management's Discussion and Analysis are forward-looking statements that involve risks and uncertainties that could cause actual results to differ from projected results. Some of the factors that could cause actual results to differ materially include: the financial strength of the operators of the Company's facilities as it affects their continuing ability to meet their obligations to the Company under the terms of the Company's agreements with such operators; changes in operators or ownership of operators; government policy relating to the healthcare industry, including changes in the reimbursement levels under the Medicare and Medicaid programs; operators' continued eligibility to participate in the Medicare and Medicaid programs; changes in reimbursement by other third party payors; occupancy levels at the Company's facilities; the availability and cost of capital; the strength and financial resources of the Company's competitors; the Company's ability to make additional real estate investments at attractive yields and changes in tax laws and regulations affecting real estate investment trusts.

Following is a discussion of the consolidated results of operations, financial position and liquidity and capital resources of the Company which should be read in conjunction with the consolidated financial statements and accompanying notes.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues for the year ended December 31, 1997 totaled $90,820,000, increasing $17.7 million over 1996 revenues. The 1997 revenue growth stems primarily from additional investments during 1996 and 1997. A partial year of revenues from 1997 investments provided revenue increases of approximately $9.8 million, while a full year of revenues from 1996 investments added $5.1 million to revenues. Additionally, approximately $1.9 million of the revenue growth stems from participating incremental revenues which became effective during 1997.

Real estate investments of $779.4 million as of December 31, 1997 will provide 1998 annualized revenues of $93.1 million. Revenues will continue at this level until additional 1998 investments are made and additional escalation provisions commence in 1998. Annualized revenues for 1998 represent a $20.1 million increase over the 1997 annualized revenues of $73.0 million based on real estate investments of $593.7 million as of January 1, 1997.

The following table summarizes the years of expiration of the Company's revenues based on the contractual maturity dates of the leases and mortgages:

<TABLE>
<CAPTION>

<S>	RENT <C>	MORTGAGE INTEREST <C>	TOTAL <C>	% <C>
		(IN THOUSANDS)		
1998		$ 243	$ 243	0.28%
1999	$ 2,462	29	2,491	2.85%
2000	1,026	3,328	4,354	4.98%
2001	3,268	1,825	5,093	5.83%
2002	8,224	9,462	17,686	20.23%
Thereafter	45,511	12,026	57,537	65.83%
	$60,491	$26,913	$87,404	100.00%

</TABLE>

The total excludes approximately $5.7 million of annualized revenues from Unison (see Note 5).

Expenses for the year ended December 31, 1997 totaled $45,969,000, increasing approximately $7.4 million over expenses of $38.5 million for 1996. The 1997 provision for depreciation and amortization of real estate totaled $16,910,000, increasing $3.2 million over 1996. This increase stems from a full year provision for 1996 investments, plus a partial year of provision for 1997 investments.

Interest expense for the year ended December 31, 1997 was approximately $24,423,000, compared with $20.8 million for 1996. The increase in interest expense is primarily due to an increase in average outstanding borrowings on the acquisition line of credit, partially offset by lower rates.

General and administrative expenses for 1997 totaled $4.6 million or approximately 5.1% of revenues as compared to 5.5% for 1996. The 1997 percentage decrease stems primarily from economies of scale resulting from additional investments made in 1997.

No provision for Federal income taxes has been made since the Company intends to continue to qualify as a real estate investment trust under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Accordingly, the Company will not be subject to Federal income taxes on amounts distributed to shareholders provided it distributes at least 95% of its real estate investment trust taxable income and meets certain other conditions.

Funds from operations (FFO) for the year ended December 31, 1997 totaled $58,815,000 an increase of $9.8 million over the $49.0 million for 1996. FFO is net earnings available to common shareholders, excluding any gains or losses from debt restructuring and sales of property, plus depreciation and amortization associated with real estate investments and charges to earnings for non-cash common stock based compensation. The 1997 growth in cash flow is primarily due to the additional investments in 1997 and 1996 and the increase in operating earnings before provisions for depreciation and amortization.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Revenues for the year ended December 31, 1996 totaled $73,127,000, increasing $11.7 million over 1995 revenues. The 1996 revenue growth stems primarily from additional investments during 1995 and 1996. A partial year of revenues from 1996 investments provided revenue increases of approximately $6.1 million, while a full year of revenues from 1995 investments added $3.8 million to revenues. Additionally, approximately $1.4 million of the revenue growth stems from participating incremental revenues which became effective during 1996.

Total real estate investments of $594 million as of December 31, 1996 will provide 1997 annualized operating revenues of $73.0 million. Revenues will continue at this level until additional 1997 investments are made and additional escalation provisions commence in 1997. Annualized revenues for 1997 represent an $10.5 million increase over the 1996 annualized revenues of $62.5 million based on investments of $516 million as of January 1, 1996.

Expenses for the year ended December 31, 1996 totaled $38,537,000, increasing $6.6 million over expenses of $31.9 million for 1995. The 1996 provision for depreciation and amortization of real estate totaled $13,693,000, increasing $698,000 over 1995. This increase stems from additional investments funded in 1995 and 1996.

Interest expense for the year ended December 31, 1996 was approximately $20,836,000, compared with $15.3 million for 1995. The increase in interest expense is due to higher average borrowings of approximately $88 million, offset by lower interest rates and reduced amortization of debt issue costs.

General and administrative expenses for 1996 totaled $4,008,000 or approximately 5.5% of revenues as compared to 5.9% for 1995. The 1996 percentage decrease relates to economies of scale stemming from additional investments made in 1996 and 1995.

Funds from operations available for distribution for 1996 were $48,989,000, an increase of $5.5 million from the $43.5 million for 1995. Funds from operations for the year ended December 31, 1996 totaled $49,008,000, an increase of $6.0 million over the $43.0 million for 1995. The 1996 growth in cash flow is primarily due to the additional investments in 1996 and 1995 and the related increase in operating earnings before provisions for depreciation and amortization.

LIQUIDITY AND CAPITAL RESOURCES

The Company continually seeks new investments in healthcare properties, primarily long-term care facilities, with the objective of profitable growth and further diversification of the investment portfolio. Permanent financing for future investments is expected to be provided through a combination of private and public offerings of debt and equity securities. Management believes the Company's liquidity and sources of available capital are adequate to finance operations, fund future investments, and meet debt service requirements.

At December 31, 1997, the Company has a strong financial position with total assets of $816.1 million, shareholders' equity of $468.2 million, and long-term debt of $271.5 million, representing approximately 33% of total capitalization. Long-term debt excludes funds borrowed under its acquisi-

tion credit agreement. The Company anticipates eventually attaining and then maintaining a long-term debt-to-capitalization ratio of approximately 40%. The Company has a $200 million acquisition credit facility, of which $58.3 million was drawn at year end and an additional $64.8 million was subsequently drawn through February 19, 1998.

In February 1997, the Company filed a Form S-4 shelf registration statement with the Securities and Exchange Commission registering common stock totaling $100 million to be issued in connection with future property acquisitions. Additionally, on August 29, 1997 the Company filed a Form S-3 registration statement with the Securities and Exchange Commission permitting the issuance of up to $200 million related to common stock, unspecified debt, preferred stock and convertible securities.

The Company has demonstrated a strong capacity to access the capital markets, raising more than $1 billion in capital since it was organized in 1992. The Company has raised more than $450 million in equity, including $130 million from the initial public offering in 1992, $73 million from a follow-on common stock offering in 1994, $165 million from the HEP acquisition in 1994 and two additional offerings, the latest being the $57.5 million issuance of preferred stock in April 1997. Over $600 million of debt capital has been raised, some of which has been used to retire secured borrowing debt with higher interest rates. In 1996, the Company completed a placement of $95 million of 8.5% Convertible Subordinated Debentures due 2001. In August 1997 the Company completed a $100 million 10-year senior note offering priced to yield 6.99%. In September 1997 the Company executed a Second Amended and Restated Loan Agreement with its banks which provides for total borrowings of up to $200 million, reduces interest rates from previous levels, and extends the term of the agreement to September 2000.

The Company distributes a large portion of the cash available from operations. Cash dividends paid totaled $2.58 per share for 1997 compared with $2.46 per share for the year ended December 31, 1996. The dividend pay-out ratio, that is the ratio of per share amounts for dividends paid to the diluted per share amount of funds from operations, was approximately 86% for 1997, compared with 89% for 1996, and 88% for 1995. The Company believes that cash provided from quarterly operating activities at current levels will continue to be sufficient to fund normal working capital requirements and pay 1998 dividends at a quarterly rate of $0.67 per share as declared at the January 15, 1998 Board of Directors meeting. Approximately 45-50% of incremental cash flow from operations is retained annually through gradual reductions in the dividend payout ratio, to fund additional investments and provide financial flexibility.

New investments generally are funded from borrowings under the Company's acquisition credit agreement. Interest cost incurred by the Company on borrowings under the acquisition line will vary depending upon fluctuations in prime and/or LIBOR rates, and upon changes in the Company's ratings by national agencies. Borrowings bear interest at LIBOR plus 1.00% or, at the Company's option at the prime rate. The Company expects to periodically replace funds drawn on the acquisition credit agreement through fixed-rate long-term borrowings, the placement of convertible debentures, or the issuance of additional shares of capital stock. Historically, the Company's strategy has been to match the maturity of its indebtedness with the maturity of its assets and to employ fixed-rate long-term debt to the extent practicable.

YEAR 2000 IMPLICATIONS

The Company has assessed its current computer software for proper functioning with respect to dates in the year 2000 and thereafter. The year 2000 issue and related costs are not expected to have a material impact on the operations of the Company.

CONSOLIDATED BALANCE SHEETS
OMEGA HEALTHCARE INVESTORS, INC.

<TABLE>
<CAPTION>

	DECEMBER 31 1997	1996
	(IN THOUSANDS)	
<S>	<C>	<C>
ASSETS		
Investments in real estate:		
Real estate properties - net	$ 512,907	$ 343,293
Mortgage notes receivable	218,353	217,474
	731,260	560,767
Investment in Principal Healthcare Finance Limited	30,730	29,970
Other investments	29,790	19,640
	791,780	610,377
Cash and short-term investments	500	6,244
Non-compete agreements and goodwill - net	5,981	7,605
Other assets	17,847	10,610
TOTAL ASSETS	$ 816,108	$ 634,836
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Acquisition line of credit	$ 58,300	$ 6,000
6.95% Notes	100,000	
Bank term loan		25,000
Senior notes	81,381	81,381
Other long-term borrowings	27,585	29,278
Subordinated convertible debentures	62,485	94,810
Accrued expenses and other liabilities	18,136	15,360
TOTAL LIABILITIES	347,887	251,829
Shareholders' equity:		
Preferred stock $1.00 par value:		
Authorized - 10,000 shares		
Issued and outstanding - 2,300 shares Class A in 1997 with an aggregate liquidation preference of $ 57,500	$ 57,500	
Common stock $.10 par value:		
Authorized - 50,000 shares		
Issued and outstanding - 19,475 shares in 1997 and 18,175 shares in 1996	1,947	1,817
Additional paid-in capital	439,214	404,311
Cumulative net earnings	136,225	91,374
Cumulative dividends paid	(165,824)	(114,393)
Unamortized restricted stock awards	(841)	(102)
TOTAL SHAREHOLDERS' EQUITY	468,221	383,007
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 816,108	$ 634,836

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENT OF OPERATIONS
OMEGA HEALTHCARE INVESTORS, INC.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31 1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
REVENUE:			
Rental income	$54,073	$42,688	$40,335
Mortgage interest income	28,727	24,692	18,621

Other investment income	6,888	5,213	2,158
Miscellaneous	1,132	534	316
	90,820	73,127	61,430
EXPENSES:			
Depreciation and amortization	16,910	13,693	12,995
Interest	24,423	20,836	15,325
General and administrative	4,636	4,008	3,620
	45,969	38,537	31,940
Net earnings before extraordinary charge	44,851	34,590	29,490
Extraordinary charge from prepayment of debt			6,479
Net earnings	44,851	34,590	23,011
Preferred stock dividends	3,546		
Net earnings Available to Common	$41,305	$34,590	$23,011
PER SHARE:			
Net earnings before extraordinary charge	$2.16	$2.01	$1.83
Net earnings available to Common, Basic	$2.16	$2.01	$1.43
Net earnings available to Common, Diluted	$2.16	$2.01	$1.43
Weighted average number of shares outstanding, basic	19,085	17,196	16,071
Weighted average number of shares outstanding, diluted	19,137	17,240	16,081

</TABLE>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	PREFERRED STOCK
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Balance at January 1, 1995	$ 1,570	$ 337,524	
Issuance of common stock:			
Grant of restricted stock (7,699 shares at $24.25 per share), net of provisions charged to operations	1	187	
Dividend Reinvestment Plan	96	23,183	
Stock options exercised	1	163	
Redemption of common stock and other	(2)	(254)	
Net earnings for 1995			
Common Dividends paid ($2.36 per share)			
Balance at December 31, 1995	1,666	360,803	
Issuance of common stock:			
Grant of restricted stock (7,995 shares at 26.625 per share), net of provisions charged to operations	1	212	
Proceeds from November 1996 equity offering, less offering costs of $325	100	30,075	
Dividend Reinvestment Plan	48	12,755	
Conversion of debentures, net of issue costs	1	181	
Stock options exercised	1	223	
Other	0	62	
Net earnings for 1996			
Common Dividends paid ($2.48 per share)			
Balance at December 31, 1996 (18,175 shares)	1,817	404,311	
Issuance of common stock:			
Grant of restricted stock (20,105 shares at $32.125 per share and 18,914 shares at $37.00 per share), net of provisions charged to operations (39 shares)	4	1,310	
Dividend Reinvestment Plan (53 shares)	5	1,676	
Conversion of debentures, net of issue costs (1,129 shares)	113	31,535	
Stock options exercised (12 shares)	1	270	
Acquisition of real estate (67 shares)	7	2,423	
Issuance of preferred stock		(2,311)	$ 57,500
Net earnings for 1997			
Common Dividends paid ($2.58 per share)			
Preferred Dividends paid ($1.156 per share)			
Balance at December 31, 1997 (19,475 shares)	$ 1,947	$ 439,214	$ 57,500

<CAPTION>

	CUMULATIVE NET EARNINGS	CUMULATIVE DIVIDENDS	UNAMORTIZED RESTRICTED STOCK AWARDS

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Balance at January 1, 1995	$ 33,773	$ (34,246)	$ (78)
Issuance of common stock:			
Grant of restricted stock (7,699 shares at $24.25 per share), net of provisions charged to operations	25		
Dividend Reinvestment Plan			
Stock options exercised			
Redemption of common stock and other			
Net earnings for 1995	23,011		
Common Dividends paid ($2.36 per share)		(37,825)	
Balance at December 31, 1995	56,784	(72,071)	(53)
Issuance of common stock:			
Grant of restricted stock (7,995 shares at 26.625 per share), net of provisions charged to operations			(49)
Proceeds from November 1996 equity offering, less offering costs of $325			
Dividend Reinvestment Plan			
Conversion of debentures, net of issue costs			
Stock options exercised			
Other			
Net earnings for 1996	34,590		
Common Dividends paid ($2.48 per share)		(42,322)	
Balance at December 31, 1996 (18,175 shares)	91,374	(114,393)	(102)
Issuance of common stock:			
Grant of restricted stock (20,105 shares at $32.125 per share and 18,914 shares at $37.00 per share), net of provisions charged to operations (39 shares)			(739)
Dividend Reinvestment Plan (53 shares)			
Conversion of debentures, net of issue costs (1,129 shares)			
Stock options exercised (12 shares)			
Acquisition of real estate (67 shares)			
Issuance of preferred stock			
Net earnings for 1997	44,851		
Common Dividends paid ($2.58 per share)		(48,772)	
Preferred Dividends paid ($1.156 per share)		(2,659)	
Balance at December 31, 1997 (19,475 shares)	$ 136,225	$(165,824)	$ (841)

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
OMEGA HEALTHCARE INVESTORS, INC.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31 1997	1996	1995
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net earnings	$ 44,851	$ 34,590	$ 23,011
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization	16,910	13,693	12,995
Extraordinary charge from prepayment of debt			6,479
Other non-cash charges	1,232	706	1,052
Funds available for distribution and investment	62,993	48,989	43,537
Net change in operating assets and liabilities	(2,562)	5,897	1,298
Net cash provided by operating activities	60,431	54,886	44,835
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of unsecured note offering	100,000		
Proceeds from issuance of preferred stock offering	57,500		
Proceeds from issuance of common stock		30,500	
Proceeds from issuance of Subordinated Convertible Debentures		95,000	
Proceeds (payments) of bank term loan	(25,000)	25,000	
Proceeds (payments) of acquisition line of credit	52,300	(68,690)	54,690
Prepayment of Senior Mortgage Notes			(88,504)
Proceeds from Senior Unsecured Notes			81,381
Payments of long-term borrowings	(6,578)	(9,794)	(9,202)
Cost of raising capital	(4,702)	(3,048)	(800)

Receipts from Dividend Reinvestment Plan	1,681	12,803	23,279
Dividends paid	(51,431)	(42,322)	(37,825)
Other	(587)	327	(2,358)
Net cash provided by financing activities	123,183	39,776	20,661
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of real estate	(184,877)	(18,621)	(22,955)
Placement of mortgage loans	(11,155)	(66,222)	(21,131)
Funding of other investments	(6,237)	(13,037)	3,350
Investment in Principal Healthcare Finance Limited	(760)	2,108	(32,078)
Collection of mortgage principal	13,365	957	851
Other	306	(29)	(58)
Net cash used in investing activities	(189,358)	(94,844)	(72,021)
Decrease in cash and short-term investments	(5,744)	(182)	(6,525)
Cash and short-term investments at beginning of year	6,244	6,426	12,951
Cash and short-term investments at end of year	$ 500	$ 6,244	$ 6,426

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OMEGA HEALTHCARE INVESTORS, INC.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Omega Healthcare Investors, Inc. (the "Company") was incorporated on March 31, 1992, in the State of Maryland to (a) own and lease, and (b) provide mortgage financing secured by income-producing healthcare facilities, with a principal focus on diversified investments in long-term care facilities located primarily in the United States.

The Company's operations commenced on August 14, 1992, the date of the closing of the Company's initial public offering. It has elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The Company intends to continue to qualify as such and, therefore, will distribute at least 95% of its real estate investment trust taxable income to its shareholders.

In 1995, the Company began to provide advisory services to Principal Healthcare Finance Limited, a Company which owns and leases nursing homes in the United Kingdom. (See Note 4.)

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all material intercompany accounts and transactions.

REAL ESTATE INVESTMENTS

As of December 31, 1997 the Company's real estate investments include interests in 3 medical office buildings, 2 rehabilitation hospitals and 258 long-term care facilities, operated by 29 independent operators.

Investments in real estate properties and mortgage notes are recorded at cost and original mortgage amount, respectively. The cost of the properties acquired is allocated between land and buildings based generally upon independent appraisals. Depreciation for buildings is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 39 years. The Company considers the need to provide for reserves for potential losses on its investments based on management's periodic review of its portfolio. On the basis of this review to date, a provision for losses on investments has not been deemed necessary.

CASH AND SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments with a maturity date of three months or less when purchased. These investments are stated at cost which approximates fair value.

NON-COMPETE AGREEMENTS AND GOODWILL

Non-compete agreements and the excess of the purchase price over the value of tangible net assets acquired (i.e., goodwill from the purchase of Health Equity Properties Incorporated) is amortized on a straight-line basis over periods ranging from five to ten years. Accumulated amortization was $5,277,000 and $3,653,000 at December 31, 1997 and 1996, respectively.

DEFERRED FINANCING COSTS

Deferred financing costs are amortized on a straight-line basis over the terms of the related borrowings. Amortization of financing costs totaling $829,000, $524,000 and $1,072,000 in 1997, 1996, and 1995, respectively, is classified as interest expense in the Consolidated Statements of Operations. Unamortized deferred financing costs applicable to debt which is converted to common stock are charged to paid-in capital at the date of conversion.

REVENUE RECOGNITION

Rental income and mortgage interest income is 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 as defined in the master leases and mortgage loan agreements. Certain mortgage agreements include provisions for deferred interest which is not payable by the borrower until maturity of the related note. The portion of deferred interest recognized as earned approximates $614,000, $608,000 and $602,000 in 1997, 1996, and 1995, respectively.

FEDERAL AND STATE INCOME TAXES

As a qualified real estate investment trust, the Company will not be subject to Federal income taxes on its income, and no provisions for Federal income taxes have been made. The reported amounts of the Company's assets and liabilities as of December 31, 1997 exceeds the tax basis of assets by approximately $70 million.

EARNINGS PER SHARE

Net earnings per share is computed based on the weighted average number of common shares outstanding during the respective periods. Per share amounts for prior periods have been restated as required by Financial Accounting Standards Board Statement No. 128. Among the changes stemming from the new pronouncement is a requirement to present both basic and diluted per share amounts. Diluted earnings per share amounts reflect the dilutive effect of stock options of 52,394 shares, 44,240 shares and 9,501 shares for 1997, 1996, and 1995, respectively. The assumed conversion of debentures is not materially dilutive.

STOCK BASED COMPENSATION

The Company grants stock options to employees and directors with an exercise price equal to the fair value of the shares at the date of the grant. In accordance with the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, compensation expense is not recognized for these stock option grants.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. REAL ESTATE PROPERTIES

The Company's real estate properties, represented by 178 long-term care facilities, 3 medical office buildings and 2 rehabilitation hospitals at December 31, 1997, are leased under provisions of master leases with initial terms ranging from 8 to 17 years, plus renewal options. Substantially all of the master leases provide for minimum annual rentals which are subject to annual increases based upon increases in the Consumer Price Index or increases in revenues of the underlying properties, with certain maximum limits. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

A summary of the Company's investment in real estate properties is as follows:

<TABLE>
<CAPTION>

	DECEMBER 31 1997	DECEMBER 31 1996
	(IN THOUSANDS)	
<S>	<C>	<C>
Buildings	$539,274	$363,404
Land	21,780	12,773
	561,054	376,177
Less accumulated depreciation	(48,147)	(32,884)
Total	$512,907	$343,293

</TABLE>

The following table summarizes the changes in real estate properties and accumulated depreciation during 1997, 1996 and 1995:

	REAL ESTATE PROPERTIES	ACCUMULATED DEPRECIATION
	(IN THOUSANDS)	
Balance at January 1, 1995	$334,601	$9,553
Additions/provision for 1995	22,955	11,283
Balance at December 31, 1995	357,556	20,836
Additions/provision for 1996	18,621	12,048
Balance at December 31, 1996	376,177	32,884
Additions/provision for 1997	184,877	15,263
Balance at December 31, 1997	$561,054	$48,147

The future minimum rentals expected to be received for the remainder of the initial terms of the leases are as follows:

	(IN THOUSANDS)
1998	$ 59,769
1999	59,641
2000	57,816
2001	57,280
2002	52,489
Thereafter	278,753
	$565,748

The foregoing amounts exclude approximately $4.3 million of annual rents from properties previously leased to Unison (see Note 5).

3. MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable relate to 80 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. On an ongoing basis, management reviews mortgage notes for collectibility. Based on management's review, no provision for loss is considered necessary. The following table summarizes the changes in mortgage notes during 1997 and 1996:

	1997	1996
	(IN THOUSANDS)	
Balance at January 1	$217,474	$158,290
New mortgage notes	11,155	66,222
Collection of principal	(13,365)	(957)
Conversion/reclassification	3,089	(6,081)
Balance at December 31	$218,353	$217,474

The face amount of mortgage notes receivable follow:

	DECEMBER 31 1997	1996
	(IN THOUSANDS)	
Participating mortgage note due 2007; interest at 14.13% payable monthly, plus amortization of $1,470,000 per quarter commencing in 2002	$ 58,800	$ 58,800
Participating mortgage note due 2012; interest at 13.09% payable monthly, plus amortization of $50,000 per quarter commencing in 2002	7,031	7,031
Participating mortgage note due 2000; interest at 11.80% payable monthly plus amortization of $37,500 quarterly	26,279	26,425

Convertible participating mortgage note due 2005; interest at 12.23% payable monthly, plus annual amortization of $60,000 for 1997 to 1999, and $120,000 commencing in 2000	10,200	10,200
Convertible participating mortgage note due 2001; monthly interest payments at 14.79% with principal due at maturity	8,932	8,932
Convertible participating mortgage note due 2011; monthly interest payments at 10.75%	10,250	
Convertible participating mortgage notes due 2000 and 2016; monthly interest payments at 13.40%	9,300	9,300
Mortgage notes due 2015; monthly payments of $207,570, including interest at 11.06%	19,141	19,481
Mortgage note due 2010; monthly payment of $124,826, including interest at 11.50%	12,864	12,880
Mortgage note due 2006; monthly payment of $107,382, including interest at 11.50%	11,071	11,084
Other mortgage notes	29,154	37,977
Other convertible participating mortgage notes	10,934	4,941
Other participating mortgage notes	4,397	10,423
	$218,353	$217,474

</TABLE>

The stated interest rates indicated above for Participating Mortgages and Convertible Participating Mortgages are subject to annual increases based upon increases in the Consumer Price Index or increases in revenues of the underlying long-term care facilities, with certain maximum limits. Certain of the mortgage notes, designated as "Convertible Participating" also permit the Company to convert the note into ownership of the related real and personal property. Conversions would generally result in purchase/leaseback transactions with annual economic benefit to the Company substantially the same as under the mortgage notes.

The estimated fair value of the Company's mortgage loans at December 31, 1997 is approximately $248,433,000. Fair value is based on the estimates of management and on rates currently prevailing for comparable loans.

On the basis of contractual provisions of the various agreements, the principal balances of mortgage notes receivable as of December 31, 1997 are expected to mature or to be converted to purchase/leaseback transactions approximately as follows: $4,368,000 in 1998, $2,064,000 in 1999, $29,358,000 in 2000, $13,664,000 in 2001, $61,657,000 in 2002, and $107,242,000 thereafter.

4. INVESTMENT IN PRINCIPAL HEALTHCARE FINANCE LIMITED AND OMEGA WORLDWIDE, INC.

In July, 1995, the Company formed and provided the initial funding for Principal Healthcare Finance Limited ("Principal"), an Island of Jersey based company organized to purchase and lease back nursing homes in the United Kingdom. The Company's initial funding for Principal included approximately $24,000,000 in the form of a Sterling denominated subordinated loan due December 31, 2000. The Company manages and provides advisory services to Principal under a renewable contract. In October 1996, Principal completed a private placement of equity to unaffiliated investors. Following the completion of that placement, the Company owns directly or indirectly non-voting ordinary shares of Principal, with total equity investment approximating $7,000,000. The Company's non-voting ownership interest is stated on the basis of cost. At December 31, 1997, Principal owns and leases 154 nursing homes acquired at a cost of approximately $354 million.

In July, 1997, the Company provided Principal a guarantee of borrowings of up to (pound)46 million (approximately $75 million), pending its placement of permanent financing for the purchase of nursing home facilities from a public company which operated nursing homes in the United Kingdom. Principal has borrowed substantially all the funds available subject to such guarantee. The Company received a fee for this guarantee of approximately $360,000 and the nursing home facilities have been leased to third party nursing home operators. Principal completed permanent financing for these facilities on February 27, 1998, thereby removing the requirement for the Company's guarantee.

In November 1997 the Company formed Omega Worldwide, Inc., a company which will provide investment advisory services to and hold equity and debt interests in real estate companies engaged in providing sale/leaseback and other capital financing to healthcare providers throughout the world. In connection with the formation of Omega Worldwide, Inc., the Company will receive 8.5 million shares of Omega Worldwide, Inc. common stock in exchange for substantially all of the interests which the Company now has with respect to Principal, including: (a) 3,337,500 Class A voting ordinary shares of Principal and warrants to purchase 10 million Class B non-voting ordinary shares of Principal expiring June 30, 2001 at an exercise price of (pound)1.50 (approximately $2.40) per share and 554,583 Class A ordinary shares of Principal expiring December 31, 2000 at an exercise price of (pound)1.00 (approximately $1.60) per share; (b) the Company's right to payment of (pound)15 million (approximately $24 million) from the Sterling denominated subordinated loan; (c) the Company's interest in a ten-year British pound currency swap contract under which Omega Worldwide, Inc. will have the right to exchange (pound)20,000,000 for $31,740,000 on October 15, 2007; and (d) the Advisory Services Agreement between the Company and Principal.

Omega Worldwide, Inc. has filed a Registration Statement with respect to rights to acquire 2,250,000 shares of its common stock and 2.3 million shares to be sold in a secondary offering by the Company. Each common shareholder of the Company will receive a pro-rata share of approximately 5.2 million common shares of Omega Worldwide, Inc. and will be eligible to receive a portion of the 2.25 million rights to purchase Omega Worldwide, Inc. common stock. The Company will retain a 9% interest in Omega Worldwide, Inc. The date of the distribution of Omega Worldwide, Inc. shares has not been set since it depends upon, among other matters, the date of approval by the Securities and Exchange Commission. As of the date of the distribution, the cost of assets transferred to Omega Worldwide, Inc., less the net proceeds of the secondary offering received by the Company, will be charged to shareholders' equity in the form of a special dividend. Management estimates the special dividend will approximate $15 million.

5. CONCENTRATION OF RISK

As of December 31, 1997, 94% of the Company's real estate investments related to long-term care facilities. The Company's facilities are located in 26 states and are operated by 29 independent healthcare operating companies. Approximately 63% of the Company's real estate investments are operated by 7 public companies: Sun Healthcare Group, Inc., (29.2%), Advocat, Inc. (14.5%), Paragon Health Network, Inc. (formerly GranCare, Inc.) (7.5%), Unison Healthcare Corp. (5.7%), Res-Care, Inc. (3.7%), Integrated Health Services, Inc. (1.4%) and CMS Health South (formerly Horizon/CMS Healthcare Corp.) (1.4%). Of the remaining 22 independent operators, none operate investments in facilities representing more than 6.2% of the total real estate investments.

As of December 31, 1997, Unison Healthcare Corp. (Unison), was in default of certain provisions of its lease agreements and mortgages with the Company. In January, 1998, BritWill I and BritWill II, two subsidiaries of Unison, filed for bankruptcy protection from creditors. The Company leased to these subsidiaries fourteen facilities located in Indiana and Texas, and has made a mortgage loan that is secured by first mortgages on six facilities located in Texas. The Company's total investment approximates $45 million related to approximately 2,000 beds. Prior to bankruptcy filings by the Unison subsidiaries, the Company terminated the leases and accelerated the mortgage loan indebtedness due to non-payment of rents and interest totaling approximately $1.5 million. The Company also has instituted foreclosure proceedings with respect to the mortgages and filed suit in federal court in Texas against Unison and the Chairman of the Board of Directors of Unison to enforce their respective guarantees to the Company of obligations under the leases and the mortgage loan documents. To date in the bankruptcy proceeding the parties have stipulated that the Unison subsidiaries will pay to the Company a monthly payment for occupancy in an amount equal to the rent that would have been payable by the BritWill subsidiaries under the leases. In January, 1998, the Company applied $1.6 million of security deposits to the mortgage interest and principal outstanding. The Company continues to hold approximately $2.3 million in liquidity and security deposits to secure obligations under the leases and the mortgage loan documents and continues to pursue its remedies against Unison and its chairman under their respective guarantees. Annual rents and interest from the Unison subsidiaries total approximately 5.9% of annualized revenues at December 31, 1997.

6. LIQUIDITY DEPOSITS AND ADDITIONAL SECURITY

Liquidity deposits and letters of credit received from certain operators pursuant to leases and mortgages total $26,835,000 at December 31, 1997. These generally represent the initial monthly rental and mortgage interest income for periods ranging from three to six months with respect to certain of the investments. The deposits consist of $13,965,000 held by the company, $5,047,000 held by escrow agents, and $7,823,000 in the form of letters of credit.

Additional security for rental and mortgage interest revenue from operators is provided by covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets of the operators, provisions for cross default, provisions for cross collateralization and by corporate/personal guarantees.

7. BORROWING ARRANGEMENTS

On September 30, 1997, the Company consummated an amended and restated loan agreement for a $200,000,000 unsecured revolving line of credit facility. Under the restated agreement, which expires in September, 2000, the Company may use the equivalent of $50,000,000 of the commitment for Sterling denominated borrowings. Borrowings under the facility bear interest at LIBOR plus 1.00% or, at the Company's option at the prime rate. Permitted borrowings under the agreement are based upon levels of eligible real estate investments. Borrowings of $58,300,000 at December 31, 1997 bear interest at a rate of 7.04% and borrowings of $6,000,000 at December 31, 1996 bear interest at 7.43%.

The following is a summary of long-term borrowings:

	DECEMBER 31 1997	1996
	(IN THOUSANDS)	
Unsecured borrowings:		
6.95% Notes due August 2007	$100,000	
Bank term loan due October 2000		25,000
Senior Unsecured Notes due July 2000	81,381	81,381
Subordinated Convertible Debentures	62,485	94,810
Other	5,324	5,000
	249,190	206,191
Secured borrowings:		
Industrial Development Revenue Bonds	8,980	9,150
HUD loans	5,380	6,968
Mortgage notes payable to bank	7,901	8,160
	22,261	24,278
Total long-term borrowings	$271,451	$230,469

In 1995, the Company exchanged 9.88% Senior Subordinated Collateralized Mortgage Accrual Notes and 7.11% Senior Mortgage Collateralized Notes for 10% and 7.4% Unsecured Notes due July 15, 2000. The effective interest rate for the new unsecured notes is 8.8%, with interest-only payments due semi-annually through July 2000.

On January 24, 1996, the Company issued $95 million of 8.5% Convertible Subordinated Debentures (the Debentures) due 2001. The Debentures are convertible at any time into shares of Common Stock at a conversion price of $28.625 per share. The Debentures are unsecured obligations of the Company and are subordinate in right and payment to the Company's senior unsecured indebtedness. As of December 31, 1997 there were 2,182,882 shares reserved for issuance under the Debentures.

On August 5, 1997 the Company completed a $100 million public offering of unsecured 6.95% notes due 2007. The notes were priced to yield 6.99% with interest paid semi-annually.

Real estate investments with an original cost of approximately $33,259,000 are secured by outstanding secured borrowings totaling $22,261,000 at December 31, 1997. These borrowings are payable in aggregate monthly installments of approximately $215,000, including interest at rates ranging from 8.3% to 9.7%.

Assuming none of the Company's borrowing arrangements are refinanced, converted or prepaid prior to maturity, required principal payments for each of the five years following December 31, 1997 and the aggregate due thereafter are set forth below:

	(IN THOUSANDS)
1998	$ 1,033
1999	673
2000	89,130
2001	63,057
2002	619
Thereafter	116,939
	$ 271,451

The estimated fair values of the Company's long-term borrowings is approximately $270,539,000 at December 31, 1997 and $236,128,000 at December 31, 1996. Fair values are based on the estimates of management and on rates currently prevailing for comparable loans.

8. FINANCIAL INSTRUMENTS

At December 31, 1997 and 1996, the carrying amounts and fair values of the Company's financial instruments are as follows:

<TABLE>
<CAPTION>

	1997		1996	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Cash and short-term investments	$ 500	$ 500	$ 6,244	$ 6,244
Mortgage notes receivable	218,353	248,433	217,474	245,700
Principal Healthcare Finance Limited	30,730	31,852	29,970	32,291
Other investments	29,790	30,628	19,640	20,400
	$279,373	$311,413	$273,328	$304,635
LIABILITIES:				
6.95% Notes	$100,000	$ 95,275		
Acquisition line of credit	58,300	58,300	$ 6,000	$ 6,465
Bank term loan			25,000	26,935
Senior Unsecured Notes	81,381	83,320	81,381	86,194
Subordinated Convertible Debentures	62,485	64,107	94,810	94,810
Other long-term borrowings	27,585	27,837	29,278	28,189
	$329,751	$328,839	$236,469	$242,593

</TABLE>

Fair value estimates 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 above are not necessarily indicative of the amounts the Company would realize in a current market exchange.

On October 15, 1997, the Company entered into a 10-year forward contract to exchange (pound)20,000,000 at a rate of $1.587 per British Pound Sterling. This contract was entered into in order to hedge the currency risk associated with the Company's investment in Principal. The carrying value of the investment in Principal is based on the rate established in the forward exchange contract. Foreign exchange rate contracts mitigate the risk of currency movements because any gain or loss on the contract offsets any losses or gains, respectively, on the investment in Principal and other assets denominated in British Pounds Sterling.

9. RETIREMENT ARRANGEMENTS

The Company has a 401(k) Profit Sharing Plan covering all eligible employees. Under the Plan, employees are eligible to make contributions, and the Company, at its discretion, may match contributions and make a profit sharing contribution.

In 1993, the Company adopted the 1993 Retirement Plan for Directors, an unfunded plan covering all members of the Board of Directors upon completion of not less than five years service on the Board. The benefits payable upon retirement from the Board are based on years of service and the director fees in effect as of the date the director ceases to be a member of the Board.

In 1993, the Company also adopted the 1993 Deferred Compensation Plan which covers all eligible employees and members of the Board. Under this unfunded plan, the Company may award units which result in participation in the dividends and future growth in the value of Company's common stock. The total number of units permitted by the plan is 200,000. Units awarded to eligible participants (59,000 units and 63,500 at December 31, 1997 and 1996, respectively) vest over a period of five years based on the participant's initial service date.

Provisions charged to operations with respect to these retirement arrangements totaled $667,000 in 1997, $654,000 in 1996, and $366,000 in 1995.

10. SHAREHOLDERS' EQUITY AND STOCK OPTIONS

In April, 1997 the Company issued 2.3 million shares of 9.25% Series A Cumulative Preferred Stock at $25 per share. Dividends on the Preferred Stock are cumulative from the date of original issue and are payable quarterly. The Preferred Stock, which carries a liquidation preference of $25 per share, is redeemable on or after July 1, 2002 at the option of the Company, at a redemption price of $25 per share plus dividends accrued and unpaid at the redemption date. Holders of Series A Preferred Stock generally have no voting rights.

Under the terms of the 1993 Stock Option and Restricted Stock Plan as amended in 1995, the company reserved 750,000 shares of common stock for grants to be issued during a period of up to 10 years. Directors, officers, and key employees are eligible to participate in the Plan. The Company

has submitted for shareholder approval an amendment to the Plan to increase the number of shares available under the Plan to 1,100,000. Options for 739,415 shares have been granted to eligible participants, including options for approximately 57,000 shares granted in December, 1997 subject to shareholder approval of the 1998 amendment. Additionally, 67,263 shares of restricted stock have been granted under the provisions of the Plan. The market value of the restricted shares on the date of the award has been recorded as unearned compensation-restricted stock, with the unamortized balance shown as a separate component of shareholders' equity. Unearned compensation is amortized to expense over the vesting period, with charges to operations of $402,000, $240,000 and $253,000 in 1997, 1996 and 1995, respectively.

The following is a summary of activity under the plan.

	STOCK OPTIONS		
	NUMBER OF SHARES	EXERCISE PRICE	WEIGHTED AVERAGE PRICE
Outstanding at January 1, 1995	199,750	$21.125-$25.750	$23.630
Granted during 1995	48,000	24.250-26.625	24.789
Exercised	(7,666)	21.125-25.750	21.636
Canceled	(9,084)	21.125-25.750	23.401
Outstanding at December 31, 1995	231,000	21.125-26.625	23.946
Granted during 1996	83,500	26.625-30.000	26.838
Exercised	(9,499)	21.500-25.750	23.671
Canceled	(27,001)	24.250-26.625	25.812
Outstanding at December 31, 1996	278,000	21.125-30.000	24.637
Granted during 1997	444,250	31.625-37.000	34.980
Exercised	(11,524)	21.125-25.750	23.586
Outstanding at December 31, 1997	710,726	$21.125-$37.000	$31.009

At December 31, 1997, options currently exercisable (208,808) have a weighted average exercise price of $24.205. There were no shares available for future grants as of December 31, 1997. At December 31, 1996 options currently exercisable (155,162) have a weighted average exercise price of $23.42. Shares available for future grants as of December 31, 1996 were 426,591.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." This standard prescribes a fair value based method of accounting for employee stock options or similar equity instruments and requires certain pro forma disclosures. For purposes of the pro forma disclosures required under Statement 123, the estimated fair value of the options is amortized to expense over the option's vesting period. Based on the Company's option activity, net earnings and net earnings per share on a pro forma basis does not differ significantly from that determined under APB 25. The estimated weighted average fair value of options granted in 1997 and 1996 was $1.3 million and $0.2 million, respectively. In determining the estimated fair value of the Company's stock options as of the date of grant, a Black-Scholes option pricing model was used with the following weighted-average assumptions: risk-free interest rates of 6.5%; a dividend yield of 6.75%; volatility factors of the expected market price of the Company's common stock at 15%; and a weighted-average expected life of the options of 8 years.

The Black-Scholes option 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 the Company's 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 its employee stock options.

11. DIVIDENDS

In order to qualify as a real estate investment trust, the Company must, among other requirements, distribute at least 95% of its real estate investment trust taxable income to its shareholders. Per share common dividend payments by the Company were characterized in the following manner for income tax purposes:

	1997	1996	1995
Ordinary income	$2.4252	$2.232	$2.124
Return of capital	.1548	.248	.236
Total dividends paid	$2.58	$2.48	$2.36

</TABLE>

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Following are details of changes in operating assets and liabilities (excluding the effects of noncash expenses), and other noncash transactions:

<TABLE>
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	FOR THE YEAR ENDED DECEMBER 31		
	1997	1996	1995
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Increase (decrease) in cash from changes in operating assets and liabilities:			
Operating assets	$(4,361)	$ (211)	$ (97)
Accrued interest	1,431	5,462	1,091
Other liabilities	368	646	304
	$(2,562)	$ 5,897	$ 1,298
Other noncash investing and financing transactions:			
Acquisition of real estate:			
Value of real estate acquired	$ 2,430		
Common stock issued	(2,430)		
Common stock issued for conversion of debentures	31,648	$ 182	
Interest paid during the period	22,122	13,939	$13,171

</TABLE>

13. EXTRAORDINARY CHARGE FOR PREPAYMENT OF DEBT

During 1995, the Company entered into three transactions to prepay various secured borrowings. The Company consummated a $100,000,000 unsecured line of credit to replace a $60,000,000 secured line of credit. Also, as discussed in Note 7, the Company redeemed its outstanding senior mortgage notes through the issuance of unsecured notes. The prepayment of these borrowings resulted in an extraordinary charge of $6,479,000, representing the fees and costs associated with the prepayment and the write-off of unamortized deferred financing costs.

14. LITIGATION

The Company is subject to certain legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position.

15. COMMITMENTS

The Company has commitments, subject to certain conditions, to provide additional financing totaling approximately $68 million as of December 31, 1997.

16. SUBSEQUENT EVENTS

A quarterly dividend of $.67 per common share was declared by the Board of Directors on January 22, 1998, payable on February 13, 1998 to shareholders of record on January 30, 1998. In addition, the Board declared a regular quarterly dividend of $.578 per share to be paid on February 13, 1998 to Series A Cumulative Preferred shareholders of record on January 30, 1998.

On January 27, 1998 the Board of Directors set the record date of February 1, 1998 for the distribution of Omega Worldwide, Inc. shares (see Note 4).

On January 14, 1998, the Company purchased five nursing homes containing 628 nursing beds in Florida, Illinois, Pennsylvania and New Hampshire for a total of $44,900,000. Simultaneously, the Company entered into lease agreements with Lyric Health Care Holdings, Inc., a wholly-owned subsidiary of Lyric Health Care LLC, an affiliate of Integrated Health Services, Inc. (NYSE: IHS). The initial term of the lease is thirteen years, at initial rents of $4,490,000 annually.

On February 27, 1998, Principal completed financing of (pound)61 million related to it's acquisition of certain nursing homes during June, 1997, thereby removing the requirement for the Company's guarantee of up to (pound)46 million of Principal's borrowings (see Note 4).

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Omega Healthcare Investors, Inc.

We have audited the accompanying consolidated balance sheets of Omega

Healthcare Investors, Inc. and subsidiaries as of December 31, 1997, and 1996 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omega Healthcare Investors, Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

February 9, 1998 (except for Note 16
as to which the date is February 27, 1998)
Detroit, Michigan

EXHIBIT 21

LIST OF SUBSIDIARIES

OMEGA HEALTHCARE INVESTORS, INC.

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NAMES	JURISDICTION OF INCORPORATION
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Bayside Street, Inc.	Maryland
OHI (Kansas), Inc.	Kansas
OHI (Illinois), Inc.	Illinois
OHI (Florida), Inc.	Florida
OHI (Clemmons), Inc.	North Carolina
OHI (Greensboro), Inc.	North Carolina
Sterling Acquisition Corp.	Kentucky
Sterling Acquisition Corp. II	Kentucky
OS Leasing	Kentucky
Omega (UK) Limited	London, England
Delta Investors I, LLC	Maryland
Delta Investors II, LLC	Maryland
Jefferson Clark, Inc	Maryland
OHI (Iowa), Inc	Iowa

</TABLE>

EXHIBIT 23

CONSENT AND REPORT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in (1) Registration Statement No. 33-67084 dated August 6, 1993 related to the 1993 Stock Option and Restricted Stock Plan, (2) Registration Statement No. 33-308415 on Form S-3 dated July 19, 1996 related to the Dividend Reinvestment and Common Stock Purchase Plan, (3) Shelf Registration Statement No. 33-34763 on Form S-3 dated August 29, 1997, and (4) Shelf Registration Statement No. 33-32119 on Form S-4 dated February 4, 1997, of our report dated February 9, 1998 (except for Note 16, as to which the date is February 27, 1998) with respect to the consolidated financial statements and schedules of Omega Healthcare Investors, Inc. included in this annual Report (Form 10-K) for the year ended December 31, 1997.

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Omega Healthcare Investors, Inc. of our report dated February 9, 1998 (except for Note 16, as to which the date is February 27, 1998), included in the 1997 Annual Report to Shareholders of Omega Healthcare Investors, Inc.

Our audits also included the financial statement schedules of Omega Healthcare Investors, Inc. listed in Item 14(a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young

March 25, 1998

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