

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

FORM 10-K

(Mark One)

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, 1999.

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 or organization)

38-3041398
(I.R.S. Employer Identification No.)

900 Victors Way, Suite 350
Ann Arbor, Michigan
(Address of Principal Executive Offices)

48108
(Zip Code)

Registrant's telephone number, including area code: 734-887-0200

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
8.625% Series B 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 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 \$244,815,000 based on the \$12.6875 closing price per share for such stock on the New York Stock Exchange on December 31, 1999.

As of December 31, 1999 there were 19,877,371 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement, which will be filed with the Commission on or before February 29, 2000, 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 revolving 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.

During 1995, the Company became a primary sponsor of Principal Healthcare Finance Limited ("Principal"), an Isle of Jersey (United Kingdom) company established to provide sale/leaseback and mortgage financing to the private-sector healthcare industry in the United Kingdom.

In November 1997, the Company formed Omega Worldwide, Inc. ("Worldwide"), a company which provides asset management services and management advisory services, as well as equity and debt capital to the healthcare industry, particularly residential healthcare services to the elderly. On April 2, 1998 the Company contributed substantially all of its Principal assets to Worldwide in exchange for approximately 8.5 million shares of Worldwide common stock and 260,000 shares of Series B preferred stock. Of the 8,500,000 shares of Worldwide received by the Company, approximately 5,200,000 were distributed on April 2, 1998 to the shareholders of the Company on the basis of one Worldwide share for every 3.77 common shares of the Company held by shareholders of the Company on the record date of February 1, 1998. Of the remaining 3,300,000 shares of Worldwide received by the Company, 2,300,000 shares were sold by the Company on April 3, 1998 for net proceeds of approximately \$16,250,000 in a secondary offering pursuant to a registration statement of Worldwide. The market value of the distribution to shareholders approximated \$39 million or \$1.99 per share. A non-recurring gain of \$30.2 million was recorded on the distribution and secondary offerings of Worldwide common shares during 1998. (See Note 10 to the Consolidated Financial Statements).

As of December 31, 1999, the Company holds an \$8,015,000 investment in Worldwide represented by 1,163,000 shares of common stock and 260,000 shares of Preferred stock. It also holds a \$1,615,000 investment in Principal represented by 990,000 ordinary shares of Principal.

The Company and Worldwide have entered into an Opportunity Agreement to provide each other with rights to participate in certain transactions and make certain investments. The Opportunity Agreement provides, subject to certain terms, that, regardless of whether the following kinds of investments (each a "REIT Opportunity") first come to the attention of the Company or Worldwide, the Company will have the right to: make any investment within the United States (a) in real estate, real estate mortgages, real estate derivatives or entities that invest exclusively in or have a substantial portion of their assets in any of the foregoing, so long as the Company's REIT status would not be jeopardized by the investment; and (b) that, if made by a REIT, would not result in the termination of the REIT's status as a REIT under Sections 856 through 860 of the Internal Revenue Code ("Code"). However, Worldwide will have the right, regardless of whether the following kinds of investments (each a "Worldwide Opportunity") first come to the attention of the Company or Worldwide, to: (a) provide advisory services and/or management services to any healthcare investors, wherever located; (b) acquire or make debt and/or equity investments (through a joint venture or otherwise) in any healthcare investor or in healthcare real estate-related assets outside the United States; (c) make investments in any entity conducting healthcare operations; and (d) make any other real estate, finance or other investments not customarily undertaken by a qualified REIT. If Worldwide declines to pursue a Worldwide Opportunity, it must offer that opportunity to the Company, and if the Company declines to pursue a REIT Opportunity, it must offer that opportunity to Worldwide. Each of the Company and Worldwide may participate, in its discretion, in any REIT Opportunity or Worldwide Opportunity that the other requests be pursued jointly. The terms upon which each of the Company and Worldwide elect to participate in such an opportunity will be negotiated in good faith and must be mutually acceptable to the respective boards of directors of the Company and Worldwide,

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with the affirmative votes of the independent directors of the board of directors of the Company and Worldwide. Each of the Company and Worldwide has agreed to notify the other of and make available to the other investment opportunities developed by such party or of which such party becomes aware but is unable or unwilling to pursue. The Opportunity Agreement has a term of ten years and automatically renews for successive five-year terms unless terminated. In response to an opportunity offered to the Company by Worldwide, the Company acquired the equivalent of up to 9.9% of the common shares of Principal Healthcare Finance Trust ("the Trust"), an Australian Unit Trust, which owns 40 nursing home facilities and 475 assisted living units in New South Wales.

As of December 31, 1999, the Company's portfolio of domestic investments consisted of 211 long-term care facilities, 3 medical office buildings and 2 rehabilitation hospitals. The Company owns and leases 147 long-term facilities, 3 medical office buildings and 2 rehabilitation hospitals, and provides mortgages, including participating and convertible participating mortgages on 64

long-term healthcare facilities. The facilities are located in 28 states and operated by 24 unaffiliated operators. The Company's gross real estate investments at December 31, 1999 totaled \$892 million.

The Company initiated a plan during 1998 to dispose of certain properties judged to have limited incremental potential and to re-deploy the proceeds from sale. Following a review of the portfolio, assets identified for sale had a cost of \$95 million, a net carrying value of \$83 million, and annualized revenues of approximately \$11.4 million. After consideration of the results of sales and other developments identified as part of the continuing evaluation of the assets held for sale, the Company recorded a provision for impairment of \$6.8 million to adjust the carrying value of those assets judged to be impaired to their estimated fair value, less cost of disposal. During 1998, the Company completed sales of two groups of assets, yielding sales proceeds of \$42,036,000. Gains realized in the dispositions approximated \$2.8 million.

During 1999, new investments approximated \$103 million as a result of entering into sale/leaseback transactions and making mortgage loans and other investments. Also during 1999, the Company completed asset sales yielding net proceeds of \$18.2 million. In 1999 a loss of \$10.5 million was recognized on these assets. In the 1999 fourth quarter, management initiated a plan for additional asset sales. The assets identified as for sale in 1999 had a cost of \$33.8 million, a net carrying amount of \$28.6 million and annualized revenue of approximately \$3.4 million. As a result of this review, the Company recorded a provision for impairment of \$19.5 million to adjust the carrying value of assets targeted for sale to their estimated fair value, less cost of disposal. The Company is committed to sell the remaining facilities as soon as practicable.

At January 15, 1999 the Company employed 28 full-time employees. The executive offices of the Company are located at 900 Victors Way, Suite 350, Ann Arbor, Michigan, 48108. Its telephone number is (734) 887-0200.

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.

Given the current challenging operating environment and the Company's limited access to new equity capital, the Company may invest through joint ventures or partnerships with capital partners rather than directly.

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 making investments, the Company generally seeks and intends to focus on 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 seeks to diversify its investments in terms of geographic locations, operators and facility types.

In evaluating potential investments, the Company considers such factors as: (i) the quality and experience of management and the credit worthiness of the

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operator of the facility; (ii) the facility's historical, current and forecasted cash flow and its adequacy to meet operational needs, capital expenditures and lease or debt service obligations, while providing a competitive return on investment to the Company; (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.

A fundamental investment strategy of the Company is to obtain contractual rent escalations under long-term, non-cancelable, "triple-net" leases and revenue participation through participating mortgage loans, and to obtain substantial liquidity 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 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 8 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 at set dates at prices based on specified formulas. The average annualized yield from leases was 11.42% at January 1, 2000.

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 buy out the Company's option at prices based on specified formulas. The average annualized yield on these mortgages was approximately 13.08 % at January 1, 2000.

Participating Mortgage. 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. The average annualized yield on these investments was approximately 13.01% at January 1, 2000.

Fixed-Rate Mortgage. These Mortgages have a fixed interest rate for the mortgage term and are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. The average annualized yield on these investments was 11.17% at January 1, 2000.

The following table summarizes as of December 31, 1999 the years of expiration of the Company's revenues based on the contractual maturity dates of the leases and mortgages:

	Rent	Mortgage Interest	Total	%
	----	-----	-----	--
	(In thousands)			
2000	\$ -	\$ -	\$ -	0%
2001	3,180	1,846	5,026	4.82
2002	8,849	9,645	18,494	17.75
2003	518	3,920	4,438	4.26
2004	1,221	587	1,808	1.73
Thereafter	63,762	10,690	74,452	71.44
	-----	-----	-----	-----
	\$77,530	\$26,688	\$104,218	100.00%
	=====	=====	=====	=====

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, 1999.

Borrowing Policies

The Company may incur additional indebtedness and anticipates it will generally maintain a long-term debt-to-capitalization ratio in the range of 40% to 45%. 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 (the revolving

credit facility) which permits borrowings of up to \$200,000,000 and a secured acquisition line of credit which permits borrowings of up to \$50,000,000. These credit facilities provide temporary funds for new investments in healthcare facilities. The Company intends to periodically replace funds drawn on the acquisition lines through long-term, fixed-rate borrowings, the issuance of equity linked borrowings, or the issuance of additional shares of capital stock.

The Company has approximately \$80 million of indebtedness that matures July 15, 2000 and the term of its unsecured revolving credit facility expires September 30, 2000. The Company intends to extend the maturity of its revolving credit facility and to refinance the term indebtedness and may fix debt represented by the revolving credit facility and liquidate assets to pay such indebtedness or implement a plan which includes a combination of the foregoing. There can be no assurance the Company will be able to successfully extend the maturity of its unsecured line of credit or implement other alternatives, and any failure to do so could lead to an Event of Default under certain of the Company's indebtedness. Industry turmoil and continuing adverse economic conditions could cause the terms on which the Company can obtain additional borrowings to become unfavorable. If the Company is in need of capital to repay indebtedness as it matures, the Company may be required to liquidate investments in properties at times which may not permit realization of the maximum recovery on such investments. This also could result in adverse tax consequences to the Company.

Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations contains additional information concerning liquidity and capital resources.

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Government Healthcare Regulation and Reimbursements

The healthcare industry is highly regulated by federal, state and local law, and is directly affected by state and local licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The Balanced Budget Act of 1997 (Budget Act) enacted a number of anti-fraud and abuse provisions and contains civil monetary penalties for an operator's violation of the anti-kickback laws. The Budget Act also imposes an affirmative duty on operators to ensure they do not employ or contract with persons excluded from the Medicare or other governmental programs. It also provides a minimum ten-year period for exclusion for participation in federal healthcare programs for operators convicted of a prior healthcare offense.

Governmental investigations and enforcement of healthcare laws have increased dramatically and are expected to continue to increase. The increase in governmental investigations could have adverse effects on an operator's results of operations, liquidity and financial condition which could also adversely affect an operator's ability to make timely rent or interest payments to the Company. Additionally, the Budget Act, future healthcare legislation or other changes in administration or interpretation of governmental healthcare programs may have a material adverse effect on the liquidity, financial condition or results of operations of the Company's operators, which could also have a material adverse effect on their ability to make rent and interest payments to the Company.

Potential Reduction in Revenues of Lessees/Borrowers Due to Healthcare Reform. All of the Company's properties are used as healthcare facilities, and therefore, the Company is directly affected by the risk associated with the healthcare industry. The Company's lessees and mortgagors derive a substantial portion of their net operating revenues from third party payers, including the Medicare and Medicaid programs. Such programs are highly regulated and subject to frequent and substantial changes. Effective January 1, 1999, the majority of skilled nursing facilities shifted from payments based on reimbursable cost to a prospective payment system (PPS) for services provided to Medicare beneficiaries. Implementation of PPS will affect each long-term care facility to a different degree depending upon the amount of revenue it derives from Medicare patients. Long-term care facilities may need to restructure their operations to operate profitably under the new Medicare PPS reimbursement.

In addition, private payers, including managed care payers, are increasingly demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk of operating a healthcare facility. Efforts to impose greater discounts and more stringent cost controls are expected to continue. Any changes in reimbursement policies which reduce reimbursement levels could adversely affect revenues of the Company's lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their monthly lease or debt payments to the Company.

The possibility that the healthcare facilities will not generate income sufficient to meet operating expenses or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in healthcare related real estate. Income from properties and yields from investments in such properties may be affected by

many factors, including changes in governmental regulation (such as zoning laws), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as earthquakes and floods) or similar factors.

Real estate investments are relatively illiquid and, therefore, tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. All of the Company's properties are "special purpose" properties that could not be readily converted to general residential, retail or office use. Healthcare facilities that participate in Medicare and/or Medicaid programs 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. Transfers of nursing homes and other healthcare-related facilities between operators are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of the Company's properties becomes unprofitable due to competition, age of improvements or other factors such that the lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan,

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the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses.

Other changes in the healthcare industry include continuing trends toward shorter lengths of stay, increased use of outpatient services, increased federal, state and third party regulation and 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. Finally, healthcare regulation through Certificates of Need ("CON") has 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 California and Texas. 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.

Potential Risks from Bankruptcies

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

Generally, with respect to the Company's mortgage loans, the imposition of an automatic stay under the Bankruptcy Code precludes lenders from exercising foreclosure or other remedies against the debtor. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and (2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as the Company

is entitled to the recovery of interest and costs only if and to the extent that the value of the collateral exceeds the amount owed. If the value of the collateral is less than the debt, a lender such as the Company would not receive or be entitled to any interest for the time period between the filing of the case and confirmation. If the value of the collateral does exceed the debt, interest and allowed costs may not be paid during the bankruptcy proceeding, but accrue until confirmation of a plan or reorganization or some other time as the court orders. Finally, while a lease generally would either be rejected or assumed with all of its benefits and burdens intact, the terms of a mortgage, including the rate of interest and timing of principal payments, may be modified if the debtor is able to effect a "cramdown" under the Bankruptcy Code.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment (such as real estate taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment. In order to protect its investments, the Company may take possession of a property or even become licensed as an operator, which might expose the Company to successorship liability to government programs or require indemnity of subsequent operators to whom it might transfer the operating rights and licenses. Should such events

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occur, the Company's income and cash flows from operations would be adversely affected. See Note 3 - Mortgage Notes Receivable and Note 4 - Concentration of Risk to the Company's consolidated financial statements with respect to certain of the Company's tenants and mortgagors.

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.

Possible Change of Investment Strategies and Policies and Capital Structure

The Board of Directors, without the approval of the shareholders, may alter the Company's investment strategies and policies if they determine in the future that such a change is in the best interests of the Company and its shareholders. The methods of implementing the Company's investment strategies and policies may vary as new investments and financing techniques are developed.

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. (55) has been President and Chief Executive Officer of the Company since March 1992, and Chairman of the Board of Directors 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 was formerly a director of Evergreen Healthcare, Inc., which was a NYSE Company engaged in the operation of long-term healthcare facilities, and of Vitalink Pharmacy Services Inc., a NYSE listed company and the operator of institutional pharmacies serving the long-term care industry in the United States. Mr. Bailey serves as President, Chief Executive Officer and a director of Omega Worldwide Inc. and is the Managing Director of Principal Healthcare Finance Limited and Principal Healthcare Finance Trust.

F. Scott Kellman (43) joined the Company as Senior Vice President-Acquisitions in August 1993, and was appointed Executive Vice President in August 1994 and Chief Operating Officer in March 1998. 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 September 1991 to December 1992, he was employed by Philadelphia First Group, and from January 1993 through August of 1993 he was the Chief Operating Officer of Medical REIT. Since April 1998 Mr. Kellman also has been a Vice President of Omega Worldwide Inc.

David A. Stover (54) 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

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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. From April 1998 through February 1999, Mr. Stover was the Vice President and Chief Financial Officer of Omega Worldwide Inc.

James P. Flaherty (52) joined the Company in 1996 and was appointed Vice President-International and Managing Director 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. Since April 1998 Mr. Flaherty also has been Chief Operating Officer of Omega Worldwide Inc.

Susan A. Kovach (40) 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. Since April 1998 Ms. Kovach has served as Vice President, General Counsel and Secretary of Omega Worldwide Inc.

Laurence Rich (40) joined the Company in January 1998 after five years as a lawyer with the firms of Dykema Gossett PLLC and Pepper, Hamilton & Scheetz. He was appointed Vice President of Acquisitions in January 1999. 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.

Other Key Personnel

Carol Albaugh (37), Contoller, joined the Company in December 1996 after completing her MBA at the University of Michigan. Prior to joining the Company, she held various progressively responsible positions at Borders Group Incorporated, most recently serving as Manager of Financial Planning and Analysis through March 1996.

Mike Clark (45), Managing Director of Information Technology, joined the Company in May 1998. Prior to joining the Company, he was the Vice President of Information Technology for Argonaut Relocation Services. Mr. Clark has over 20 years experience in all aspects of information technology, with particular expertise in information modeling and database design. He holds a B.S. in chemical engineering from the University of Michigan.

Thomas Peterson (40), Managing Director -- Acquisitions, joined the Company in May 1998 after 13 years of investment banking and financial advisory experience. Prior to joining the Company, he served as a Principal with Cornerstone Resources in New York, a venture capital and financial advisory firm, and from 1993 to 1996 as a Vice President for First Albany Corporation. Prior to 1993, he managed various financial advisory and investment banking activities, ultimately serving as a partner in a senior services company. He has an MBA in finance from the State University of New York at Albany.

Stephen E. Kile (34), Credit and Compliance Manager, joined the Company in June, 1998. Prior to joining the Company, he was the Contoller for Arbor Intelligent Systems and a Commercial Lending Officer and Credit Analyst with Comerica Bank. Mr. Kile holds an MBA from the University of Michigan.

Jonathan M. Veniar (50) Managing Director, joined the Company in December 1999. Prior to joining the Company, he was Vice President of Acquisitions for the Arnold Palmer Golf Management Company in San Francisco, California. Mr. Veniar received his MBA, with a concentration in finance, from Rutgers University in Newark, New Jersey.

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At December 31, 1999, 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 28 states and are operated by 24 unaffiliated operators. Basic information regarding investments as of December 31, 1999 is as follows:

<TABLE>
<CAPTION>

Investment Structure/Operator -----	No. Of Beds ----	No. Of Facilities -----	Occupancy % (1) -----
<S>	<C>	<C>	<C>
Purchase/Leaseback			
Sun Healthcare Group, Inc	5,410	50	91
Advocat, Inc	2,976	28	80
RainTree Healthcare Corporation	1,780	18	81
Integrated Health Services, Inc	1,581	11	82
TLC Healthcare, Inc	1,260	9	81
Alden Management Services, Inc	868	4	81
USA Healthcare, Inc	668	8	73
Alterra Healthcare Corporation (f.k.a. Alternative Living Services)	361 *	10	N/A
Hunter Management Group, Inc	300	1	81
HQM of Floyd County, Inc	283	3	97
Peak Medical of Idaho, Inc	224	2	78
Eldorado Care Center, Inc. & Magnolia Manor, Inc	171	2	78
Kansas & Missouri, Inc	120	1	88
Liberty Assisted Living Centers, LP	120	1	89
Tutera Evergreen, LLC	57	1	85
Tenet Healthcare Corp	0	3	N/A
	-----	-----	-----
	16,179	152	84
Convertible Participating Mortgages			
Colony of North Carolina/Sun Healthcare Group, Inc	546	4	94
Integrated Health Services, Inc	180	1	82
Senior Care Properties, Inc	150	2	70
	-----	-----	-----
	876	7	87
Participating Mortgages			
Mariner Post-Acute Network	2,310	16	85
Integrated Health Services, Inc	1,144	9	91
Advocat, Inc	317	3	67
TLC Healthcare, Inc	75	1	95
	-----	-----	-----
	3,846	29	86
Fixed Rate Mortgages			
Texas Health Enterprises/HEA Mgmt. Group, Inc	679	5	64
Essex Healthcare Corporation	633	6	82
Advocat, Inc	423	4	74
Emerald Healthcare, Inc	300	2	92
Tiffany Care Centers, Inc	319	5	79
Integrated Health Services, Inc	160	2	92
Covenant Care, Inc	150	1	69
TLC Healthcare, Inc	100	1	84
Rocky Mountain Health Care	86	1	76
Senior Care Properties, Inc	76	1	83
	-----	-----	-----
	2,926	28	77
	-----	-----	-----
Total	23,827	216	84
	=====	=====	=====

</TABLE>

(1) Generally represents data for the twelve month period ending September 30, 1999.

*Represents Assisted Living Units.

N/A - Data not reported or not applicable.

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<TABLE>
<CAPTION>

Investment Structure/State -----	Number of Facilities -----	Total Beds (1) -----	Total Investment (in \$1,000) -----	Investment Yield -----
<S>	<C>	<C>	<C>	<C>
Purchase/Leaseback Properties:				
Florida	9	1,469	\$74,643	11.17 %
Illinois	12	1,736	66,067	10.57
California	18	1,454	65,913	10.22

Texas	14	1,874	50,499	12.36
Pennsylvania	5	413	49,931	13.06
Ohio	7	649	39,908	10.77
Arkansas	12	1,281	39,361	14.10
Alabama	9	1,152	35,932	12.70
West Virginia	7	734	30,579	10.82
Kentucky	9	757	26,963	12.80
Arizona	4	378	24,029	9.74
Indiana	8	523	23,026	11.99
North Carolina	5	709	22,709	10.61
Washington	3	362	21,574	11.53
Tennessee	6	636	21,553	12.13
Colorado	5	314	17,504	9.60
Iowa	8	668	17,213	10.61
Missouri	2	286	12,302	10.20
Idaho	3	264	11,100	10.33
Massachusetts	1	135	8,300	11.47
Kansas..	2	154	5,919	9.63
New Hampshire	1	68	5,800	10.61
Louisiana	1	131	4,603	11.97
Oklahoma	1	32	3,177	10.37
	---	---	---	---
Total Purchase/Leaseback	152	16,179	678,605	11.42
Convertible Participating Mortgages:				
Tennessee	4	546	21,560	14.20
Florida	3	330	10,796	10.86
	-	---	---	---
Total Convertible Participating Mortgages ...	7	876	32,356	13.08
Participating Mortgages:				
Michigan	13	1,863	46,240	15.47
Florida	8	917	35,899	10.97
North Carolina	3	447	12,560	15.47
Georgia	2	304	12,000	10.08
Texas	2	240	8,633	10.20
Indiana	1	75	4,438	10.40
	--	---	---	---
Total Participating Mortgages	29	3,846	119,770	13.01
Fixed Rate Mortgages:				
Florida	6	723	25,860	11.62
Ohio	6	633	16,656	11.01
Texas	6	755	7,033	9.73
Missouri	5	319	5,122	11.45
Iowa	2	250	3,589	12.00
Utah	1	86	1,886	11.00
California	1	87	1,056	9.00
Nevada	1	73	289	9.00
	-	---	---	---
Total Fixed Rate Mortgages	28	2,926	61,491	11.17
	---	---	---	---
Total Real Estate Investments	216	23,827	\$892,222	11.68 %
	===	=====	=====	=====

</TABLE>

(1) Beds include a total of 361 assisted living units.

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Item 3 -- Legal Proceedings

There were no legal proceedings pending as of December 31, 1999, 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 closing prices as reported on the New York Stock Exchange Composite and cash dividends per share:

<TABLE>

<CAPTION>

<S>	-----			Dividends Per Share	-----			Dividends Per Share
	Quarter	High	Low		Quarter	High	Low	
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
First	\$30.5000	\$21.1875	\$ 0.70	First	\$ 39.9375	\$ 37.9375	\$ 0.67	
Second	28.6875	21.3750	0.70	Second	39.7500	33.8125	0.67	
Third	25.8125	19.8125	0.70	Third	35.6250	27.4375	0.67	
Fourth	21.0000	12.5625	0.70	Fourth	32.6250	28.0625	0.67	
			-----				-----	
			\$ 2.80				\$ 2.68	

</TABLE>

The closing price on December 31, 1999 was \$12.6875 per share. As of December 31, 1999, there were 19,877,371 shares of common stock outstanding with approximately 2,800 registered holders and approximately 26,000 beneficial owners.

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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 listed herein under Item 14 and are included on pages F-1 through F-20.

<TABLE>
<CAPTION>

	Year ended December 31,			
	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>
1995	----	----	----	----

	(In thousands, except per share amounts)			
<C>	<C>	<C>	<C>	<C>
Operating Data				
Revenues	\$122,375	\$108,738	\$ 90,820	\$ 73,127
61,430				
Net Earnings Available to Common (before loss on assets sold and held for sale in 1999, gain on asset dispositions in 1998 and Extraordinary Charge in 1995)				
29,490	40,047	41,777	41,305	34,590
Net Earnings Available to Common	10,040	68,015	41,305	34,590
23,011				
Per Share Amounts:				
Net Earnings (before loss on assets sold and held for sale in 1999, gain on asset dispositions in 1998 and Extraordinary Charge in 1995):				
Basic	\$2.01	\$2.09	\$2.16	\$2.01
\$1.83				
Diluted	2.01	2.08	2.16	2.01
1.83				
Net Earnings Available to Common:				
Basic	0.51	3.39	2.16	2.01
1.43				
Diluted	0.51	3.39	2.16	2.01
1.43				
Dividends, Common Stock (1)	2.80	2.68	2.58	2.48
2.36				
Dividends, Series A Preferred (1)	2.31	2.31	1.16	
Dividends, Series B Preferred (1)	2.16	1.08		
Weighted Average Shares Outstanding, Basic	19,877	20,034	19,085	17,196
16,071				
Weighted Average Shares Outstanding, Diluted	19,877	20,041	19,137	17,240
16,081				

</TABLE>

<TABLE>
<CAPTION>

<S>	December 31,				
	1999	1998	1997	1996	1995
<C>	<C>	<C>	<C>	<C>	<C>
	----	----	----	----	----

Balance Sheet Data					
Cost of Investments	\$953,927	\$1,025,586	\$839,927	\$643,261	\$547,923
Other Real Estate	65,847	-	-	-	-
Assets Held for Sale	36,406	35,289	-	-	-
Total Assets	1,013,851	1,032,645	816,108	634,836	551,188
Acquisition Line of Credit	166,600	123,000	58,300	6,000	74,690
Long-Term Borrowings	326,947	333,354	208,966	135,659	120,453
Subordinated Convertible Debentures	48,405	48,405	62,485	94,810	-
Shareholders' Equity	457,081	505,762	468,221	383,007	347,129

</TABLE>

- -----

(1) 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

"Safe Harbor" Statement Under the United States Private Securities Litigation Reform Act of 1995

Statements contained in this document that are not based on historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding the Company's future development activities, the future condition and expansion of the Company's markets, the Company's ability to meet its liquidity requirements and the Company's growth strategies, as well as other statements which may be identified by the use of forward-looking terminology such as "may,"

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"will," "expect," "estimate," "anticipate," or similar terms, variations of those terms or the negative of those terms. 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 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, 1999 compared to Year Ended December 31, 1998

Revenues for the year ended December 31, 1999 totaled \$122,375,000, increasing \$13.6 million over 1998 revenues. The 1999 revenue growth stems primarily from additional investments during 1998 and 1999. A partial year of revenues from 1999 investments provided revenue increases of approximately \$7.4 million, while a full year of revenues from 1998 investments added \$13.5 million to revenues. Revenues for 1999 also include \$1.1 million from assets classified as Other Real Estate, \$852,000 from prepayment penalties on mortgage payoffs and approximately \$1.6 million of the revenue growth which stems from participating incremental revenues which became effective during 1999. A \$10.7 million decrease in revenues resulted from the early payoff of mortgages, disposition of real estate and the designation of assets as "held for sale."

Real estate investments of \$892.2 million as of December 31, 1999 will provide 2000 annualized revenues of \$104.2 million, which reflects no revenues from assets designated as "other real estate" or as "held for sale." Revenues from the investment portfolio will continue at this level until additional 2000 investments are made, if any, and additional escalation provisions commence in 2000. Annualized revenues for 2000 represent a \$8.1 million decrease from the 1999 annualized revenues of \$112.3 million based on real estate investments of \$983.8 million as of January 1, 1999.

Expenses for the year ended December 31, 1999 totaled \$72,697,000, increasing approximately \$13.9 million over expenses of \$58.8 million for 1998. The 1999 provision for depreciation and amortization of real estate totaled \$24,211,000, increasing \$2.7 million over 1998. This increase stems from a full year provision for 1998 investments, plus a partial year provision for 1999

investments.

Interest expense for the year ended December 31, 1999 was approximately \$42,366,000, compared with \$31.9 million for 1998. The increase in 1999 is primarily due to higher average outstanding borrowings during the 1999 period offset by lower average interest rates.

General and administrative expenses for 1999 totaled \$6,120,000 or approximately 5.0% of revenues as compared to 4.9% for 1998.

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, 1999 totaled \$67,482,000, an increase of \$2.4 million over the \$65.1 million for 1998. FFO is net earnings available to common shareholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments and charges to earnings for non-cash common stock based compensation. The 1999 increase in cash flow is primarily due to new additions to investments, offset by early payment of mortgages and disposition of real estate assets.

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Year Ended December 31, 1998 compared to Year Ended December 31, 1997

Revenues for the year ended December 31, 1998 totaled \$108,738,000, increasing \$17.9 million over 1997 revenues. The 1998 revenue growth stems primarily from additional investments during 1997 and 1998. A partial year of revenues from 1998 investments provided revenue increases of approximately \$9.5 million, while a full year of revenues from 1997 investments added \$11.3 million to revenues. Additionally, approximately \$2.3 million of the revenue growth stems from participating incremental revenues which became effective during 1998.

Real estate investments of \$983.8 million as of December 31, 1998 will provide 1999 annualized revenues of \$112.3 million, which reflects no additional revenues for assets held for sale. Revenues will continue at this level until additional 1999 investments are made and additional escalation provisions commence in 1999. Annualized revenues for 1999, excluding assets held for sale, represent a \$19.2 million increase over the 1998 annualized revenues of \$93.1 million based on real estate investments of \$779.4 million as of January 1, 1998.

Expenses for the year ended December 31, 1998 totaled \$58,767,000, increasing approximately \$12.8 million over expenses of \$45.9 million for 1997. The 1998 provision for depreciation and amortization of real estate totaled \$21,542,000, increasing \$4.6 million over 1997. This increase stems from a full year provision for 1997 investments, plus a partial year provision for 1998 investments.

Interest expense for the year ended December 31, 1998 was approximately \$31,860,000, compared with \$24.4 million for 1997. The increase in 1998 is primarily due to higher average outstanding borrowings during the 1998 periods, offset partially by interest rate savings from conversions of subordinated debentures and reduced spreads on line of credit borrowings.

General and administrative expenses for 1998 totaled \$5,365,000 or approximately 4.9% of revenues as compared to 5.1% for 1997. The 1998 percentage decrease stems primarily from economies of scale resulting from additional investments made in 1998.

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, 1998 totaled \$65,050,000, an increase of \$6.3 million over the \$58.8 million for 1997. FFO is net earnings available to common shareholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments and charges to earnings for non-cash common stock based compensation. The 1998 growth in cash flow is primarily due to net additions to investments in 1998 and 1997.

Liquidity and Capital Resources

The Company expects to continue to seek 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.

At December 31, 1999, the Company has total assets of \$1.01 billion, shareholders' equity of \$457.1 million, and long-term debt of \$375.4 million, representing approximately 37% of total capitalization. Long-term debt excludes funds borrowed under its acquisition credit agreements. The Company has \$250 million available under its revolving credit facilities, of which \$166.6 million was drawn at year-end. Proceeds from asset sales and mortgage payments are expected to reduce borrowings on the credit facility by approximately \$40 million during 2000.

The Company has approximately \$80 million of indebtedness that matures July 15, 2000 and the term of its revolving credit facility expires September 30, 2000. The Company intends to extend the maturity of its revolving credit

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facility and to refinance the term indebtedness, and may fix debt represented by the revolving credit facility and liquidate assets to pay such indebtedness or implement a plan which includes a combination of the foregoing. Management believes the Company's liquidity and various sources of available capital are adequate to finance operations, meet debt service requirements and fund future investments.

On January 14, 1999, the Company's Form S-3 registration statement permitting the issuance of up to \$300 million related to common stock, unspecified debt, preferred stock and convertible securities was declared effective by the Securities and Exchange Commission.

The Company distributes a large portion of the cash available from operations. The Company's historical policy has been to make distributions on common stock of approximately 80% of FFO. Cash dividends paid totaled \$2.80 per share for 1999, compared with \$2.68 per share for the year ended December 31, 1998. The dividend payout ratio, that is the ratio of per share amounts for dividends paid to the diluted per share amounts of funds from operations, was approximately 84.3% for 1999 and 1998. 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 common stock dividends.

New investments generally are funded from temporary borrowings under the Company's acquisition credit line agreements. Interest cost incurred by the Company on borrowings under the revolving credit line facilities will vary depending upon fluctuations in prime and/or LIBOR rates. With respect to the unsecured acquisition credit line, interest rates depend in part upon changes in the Company's ratings by national agencies. The term of the \$200 million unsecured facility expires on September 30, 2000. Borrowings under the facility bear interest at LIBOR plus 1.125% or, at the Company's option, at the prime rate. Borrowings under the \$50 million facility bear interest at LIBOR plus 2.00% or, at the Company's option, at the prime rate. The Company expects to periodically replace funds drawn on the revolving credit facilities through fixed-rate long-term borrowings, the placement of convertible debentures, or the issuance of additional shares of common and/or preferred 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.

Market Risk

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

The market value of the Company's long-term fixed rate borrowings and mortgages are subject to interest rate risk. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of the Company's total long-term borrowings at December 31, 1999 was \$330 million. A 1% increase in interest rates would result in a decrease in fair value of long-term borrowings by approximately \$9.0 million. The estimated fair value of the Company's total mortgages portfolio at December 31, 1999 was \$231 million. A 1% increase in interest rates would result in a decrease in fair value of the mortgage portfolio by approximately \$9.1 million.

The Company is subject to risks associated with debt or preferred equity

financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. If the Company were unable to refinance its indebtedness on acceptable terms, it might be forced to dispose of properties on disadvantageous terms, which might result in losses to the Company and might adversely affect the cash available for distribution to shareholders. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, the Company's interest expense would increase, which might affect the Company's ability to make common stock distributions to its shareholders.

The majority of the Company's borrowings were completed pursuant to indentures which limit the amount of indebtedness the Company may incur. Accordingly, in the event that the Company is unable to raise additional equity or borrow money because of these limitations, the Company's ability to acquire

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additional properties may be limited. If the Company is unable to acquire additional properties, its ability to increase the distributions with respect to common shares, as it has done in the past, will be limited to management's ability to increase funds from operations, and thereby cash available for distribution, from the existing properties in the Company's portfolio.

Year 2000 Compliance

The Company is not aware of any significant adverse effects of Year 2000 on its systems and operations.

Item 8 -- Financial Statements and Supplementary Data

The consolidated financial statements and report of independent auditors are filed as part of this report on pages F-1 through F-20.

The summary of quarterly results of operations for the years ended December 31, 1999 and 1998 is included in unaudited Note 15 to the financial statements which is incorporated herein by reference in response to Item 302 of Regulation S-K.

Item 9 -- Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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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 April 18, 2000 at 11:00 a.m. EST, which will be filed on or before February 29, 2000 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 April 18, 2000, which will be filed on or before February 29, 2000 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 April 18, 2000, which will be filed on or before February 29, 2000 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 April 18, 2000, which will be filed on or before February 29, 2000 with the Securities and Exchange Commission pursuant to Regulation 14A.

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PART IV

Item 14 -- Exhibits, Financial Statements, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Listing of Consolidated Financial Statements

Title of Document -----	Page Number -----
Report of Independent Auditors	F-1
Consolidated Balance Sheets as of December 31, 1999 and 1998	F-2
Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997	F-3
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1999, 1998 and 1997	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997	F-5
Notes to Consolidated Financial Statements	F-6

(a) (2) Listing of Financial Statement Schedules. The following consolidated financial statement schedules are included herein:

Schedule III -- Real Estate and Accumulated Depreciation

Schedule IV -- Mortgage Loans 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.

(a) (3) Listing of Exhibits -- See Index to Exhibits beginning on Page I-1 of this report.

(b) Reports on Form 8-K. There were no 8-K filings in the fourth quarter of 1999.

(c) Exhibits -- See Index to Exhibits beginning on Page I-1 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 Loans on Real Estate

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, 1999 and 1998 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated 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, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, 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 LLP

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	1999	1998

	(In Thousands)	
<S>	<C>	<C>
ASSETS		
Investments in real estate:		
Real estate properties - net	\$ 612,751	\$ 586,993
Mortgage notes receivable	213,617	340,455
	-----	-----
	826,368	927,448
Other real estate - net	65,847	-
Other investments	61,705	41,753
	-----	-----
	953,920	969,201
Assets held for sale	36,406	35,289
Cash and short-term investments	4,105	1,877
Non-compete agreements and goodwill - net	3,013	4,422
Other assets	16,407	21,856
	-----	-----
Total assets	\$1,013,851	\$1,032,645
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Acquisition lines of credit	\$ 166,600	\$ 123,000
Unsecured Notes due 2000	81,381	81,381
6.95% Unsecured Notes due 2002	125,000	125,000
6.95% Unsecured Notes due 2007	100,000	100,000
Other long-term borrowings	20,566	26,973
Subordinated convertible debentures due 2001	48,405	48,405
Accrued expenses and other liabilities	14,818	22,124
	-----	-----
Total liabilities	556,770	526,883
Shareholders' equity:		
Preferred Stock \$1.00 par value:		
Authorized - 10,000 shares		
Issued and outstanding - 2,300 shares Class A		
with an aggregate liquidation preference of \$57,500	57,500	57,500
Issued and outstanding - 2,000 shares Class B		
with an aggregate liquidation preference of \$50,000	50,000	50,000
Common stock \$.10 par value:		
Authorized - 100,000 shares in 1999 and 50,000 shares in 1998		
Issued and outstanding - 19,877 shares in 1999 and		
20,057 shares in 1998	1,988	2,006
Additional paid-in capital	447,304	452,439
Cumulative net earnings	232,105	212,434
Cumulative dividends paid	(331,341)	(266,054)
Stock option loans	(2,499)	(2,863)
Unamortized restricted stock awards	(526)	(461)
Accumulated other comprehensive income	2,550	761
	-----	-----
Total shareholders' equity	457,081	505,762
	-----	-----
Total liabilities and shareholders' equity	\$1,013,851	\$1,032,645
	=====	=====

</TABLE>

See accompanying notes.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	----	----	----
	(In thousands, except per share amounts)		
<S>	<C>	<C>	<C>
Revenue:			
Rental income	\$76,389	\$72,072	\$54,073
Mortgage interest income	36,369	30,399	28,727
Other investment income	6,770	5,652	6,888
Other real estate income	1,151	-	-
Miscellaneous	1,696	615	1,132
	-----	---	-----
	122,375	108,738	90,820
Expenses:			
Depreciation and amortization	24,211	21,542	16,910
Interest	42,366	31,860	24,423
General and administrative	6,120	5,365	4,636
	-----	-----	-----
	72,697	58,767	45,969
	-----	-----	-----
Earnings before gain (loss) on asset dispositions	49,678	49,971	44,851
Gain (loss) on asset dispositions:			
Gain on distribution of Omega Worldwide, Inc.	-	30,240	-
Loss on assets sold and held for sale - net	(30,007)	(4,002)	-
	-----	-----	-----
Net earnings	19,671	76,209	44,851
Preferred stock dividends	(9,631)	(8,194)	(3,546)
	-----	-----	-----
Net earnings available to common	\$ 10,040	\$ 68,015	\$ 41,305
	=====	=====	=====
Net Earnings Available to Common per share:			
Basic net earnings before gain (loss) on asset dispositions	\$2.01	\$2.09	\$2.16
	=====	=====	=====
Diluted net earnings before gain (loss) on asset dispositions ...	\$2.01	\$2.08	\$2.16
	=====	=====	=====
Basic net earnings	\$0.51	\$3.39	\$2.16
	=====	=====	=====
Diluted net earnings	\$0.51	\$3.39	\$2.16
	=====	=====	=====
Weighted Average Shares Outstanding:			
Basic	19,877	20,034	19,085
	=====	=====	=====
Diluted	19,877	20,041	19,137
	=====	=====	=====
Total comprehensive income	\$ 21,460	\$ 76,970	\$ 44,851
	=====	=====	=====

</TABLE>

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except per share amounts)

<TABLE> <CAPTION>		Common	Additional	
Cumulative		Stock	Paid-in	
Preferred	Net	Par Value	Capital	Stock
Earnings		-----	-----	----
-	-----	<C>	<C>	<C>
<S>		<C>	<C>	<C>
<C>		<C>	<C>	<C>
Balance at December 31, 1996 (18,175 Shares)		\$ 1,817	\$ 404,311	
\$ 91,374				
Issuance of common stock:				
Grant of restricted stock (39 shares at an average of				
\$34.488 per share) net of provision charged to operations		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			44,851
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
136,225			
Issuance of common stock:			
Grant of restricted stock (3 shares at an average of \$38.112 per share) net of provision charged to operations		42	
Dividend Reinvestment Plan (58 shares)	6	1,826	
Conversion of debentures, net of issue costs (522 shares)	52	13,810	
Stock options exercised (151 shares)	15	3,780	
Acquisition of real estate (8 shares)	1	282	
Stock option loans from directors, officers and employees			
Shares purchased and retired (156 shares)	(15)	(4,515)	
Issuance of preferred stock		(2,000)	50,000
Net earnings for 1998			76,209
Distribution of common shares of Omega Worldwide, Inc.			
Common dividends paid (\$2.68 per share)			
Preferred dividends paid (Series A of \$2.312 per share and Series B of \$1.078 per share)			
Unrealized Gain on Omega Worldwide, Inc.			

Balance at December 31, 1998 (20,057 shares)	2,006	452,439	107,500
212,434			
Issuance of common stock:			
Grant of restricted stock (1 shares at an average of \$29.709 per share) net of provision charged to operations		270	
Dividend Reinvestment Plan (113 shares)	11	2,370	
Acquisition of real estate (8 shares)	1	301	
Payments on stock option loans from directors, officers and employees			
Shares purchased and retired (320 shares)	(30)	(8,076)	
Net earnings for 1999			19,671
Common dividends paid (\$2.80 per share)			
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$2.156 per share)			
Unrealized Gain on Omega Worldwide, Inc.			

Balance at December 31, 1999 (19,877 shares)	\$ 1,988	\$ 447,304	\$ 107,500
\$ 232,105			

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Accumulated		Unamortized	Stock
Other		Restricted	Option
Comprehensive	Cumulative	Stock Awards	Loans
Income	Dividends		
	-----	-----	----
Balance at December 31, 1996 (18,175 Shares)	\$ (114,393)	\$ (102)	
Issuance of common stock:			
Grant of restricted stock (39 shares at an average of \$34.488 per share) net of provision charged to operations		(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			
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)	(165,824)	(841)	
Issuance of common stock:			
Grant of restricted stock (3 shares at an average of \$38.112 per share) net of provision charged to operations		380	
Dividend Reinvestment Plan (58 shares)			
Conversion of debentures, net of issue costs (522 shares)			
Stock options exercised (151 shares)			
Acquisition of real estate (8 shares)			
Stock option loans from directors, officers and employees			\$ (2,863)

Shares purchased and retired (156 shares)			
Issuance of preferred stock			
Net earnings for 1998			
Distribution of common shares of Omega Worldwide, Inc.	(39,062)		
Common dividends paid (\$2.68 per share)	(53,693)		
Preferred dividends paid (Series A of \$2.312 per share and Series B of \$1.078 per share)	(7,475)		
Unrealized Gain on Omega Worldwide, Inc.			
\$ 761			

Balance at December 31, 1998 (20,057 shares)	(266,054)	(461)	(2,863)
761			
Issuance of common stock:			
Grant of restricted stock (1 shares at an average of \$29.709 per share) net of provision charged to operations		(65)	
Dividend Reinvestment Plan (113 shares)			
Acquisition of real estate (8 shares)			
Payments on stock option loans from directors, officers and employees			67
Shares purchased and retired (320 shares)			297
Net earnings for 1999			
Common dividends paid (\$2.80 per share)	(55,655)		
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$2.156 per share)	(9,632)		
Unrealized Gain on Omega Worldwide, Inc.			
1,789			

Balance at December 31, 1999 (19,877 shares)	\$ (331,341)	\$ (526)	\$ (2,499)
\$ 2,550			

</TABLE>

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	1998	1997
	----	----	----
	(In thousands)		
<S>	<C>	<C>	<C>
Operating activities			
Net earnings	\$ 19,671	\$76,209	\$44,851
Adjustment to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization	24,211	21,543	16,910
Cash collected on assets held for sale	2,774	1,281	-
Provision for impairment loss and loss on sales, less realized gains	30,007	4,002	-
Other non-cash charges	763	898	1,232
Gain on distribution of Omega Worldwide	-	(30,240)	-
Funds from operations available for distribution and investment	77,426	73,693	62,993
Net change in operating assets and liabilities	(3,114)	(3,980)	(2,562)
Net cash provided by operating activities	74,312	69,713	60,431
Cash flows from financing activities			
Proceeds of acquisition lines of credit	43,600	64,700	52,300
Proceeds from unsecured note offering	-	125,000	100,000
Proceeds from preferred stock offering	-	50,000	57,500
Payments of bank term loan	-	-	(25,000)
Payments of long-term borrowings	(1,078)	(612)	(6,578)
Receipts from Dividend Reinvestment Plan	2,381	1,832	1,681
Dividends paid	(65,287)	(61,168)	(51,431)
Purchase of Company common stock	(8,106)	(3,545)	-
Costs of raising capital	-	(3,290)	(4,702)
Other	(957)	356	(587)
Net cash (used in) provided by financing activities	(29,447)	173,273	123,183

Cash flows from investing activities			
Acquisition of real estate	(79,844)	(157,474)	(184,877)
Placement of mortgage loans	(22,987)	(125,850)	(11,155)
Proceeds from sale of real estate investments - net	18,198	37,771	-
Investment in Principal Healthcare Finance Limited	-	-	(760)
Net proceeds from sale of Omega Worldwide shares	-	16,938	-
Funding of other investments - net	(14,714)	(17,488)	(6,237)
Collection of mortgage principal	54,749	3,748	13,365
Other	1,961	746	306
	-----	-----	-----
Net cash used in investing activities	(42,637)	(241,609)	(189,358)
	-----	-----	-----
Increase (decrease) in cash and short-term investments	2,228	1,377	(5,744)
Cash and short-term investments at beginning of year	1,877	500	6,244
	-----	-----	-----
Cash and short-term investments at end of year	\$ 4,105	\$ 1,877	\$ 500
	=====	=====	=====

</TABLE>

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Omega Healthcare Investors, Inc., a Maryland corporation ("the Company"), is a self-administered real estate investment trust (REIT). From the date the Company commenced operations in 1992, it has invested primarily in long-term care facilities, which include nursing homes, assisted living facilities and rehabilitation hospitals. It currently has investments in 216 income-producing healthcare facilities, with a principal focus on diversified investments in long-term care facilities located in the United States.

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

Investments in leased 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.

Other Real Estate Investments and Assets Held for Sale

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

When the Company acquires real estate pursuant to a foreclosure proceeding, it is classified as other real estate and recorded at the lower of cost or fair value generally based on appraisal. Additionally, when a formal plan to sell real estate is adopted, the real estate is classified as "assets held for sale," with the net carrying amount adjusted to the lower of cost or estimated fair value, less cost of disposal. Residual income from the investment and depreciation of the facilities are excluded from operations after management has committed to a plan to sell the asset.

Impairment of Assets

Provisions for impairment losses related to long-lived assets are recognized when expected future cash flows are less than the carrying values of the assets. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relationship to the future undiscounted cash flows of the underlying facilities. The Company adjusts the net carrying value of leased properties, assets held for sale and other long-lived assets to fair value, if the sum of the expected future cash flow or sales proceeds is less than carrying value.

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.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Investments in Equity Securities

Marketable securities held as available-for-sale are stated at fair value with unrealized gains and losses for the securities reported in accumulated other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on securities held as available-for-sale are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities available-for-sale are included in investment income.

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 \$1,342,000, \$1,042,000 and \$829,000 in 1999, 1998, and 1997, 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.

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) are amortized on a straight-line basis over periods ranging from five to ten years. Non-compete agreements, which have cost of \$4,982,000 became fully amortized and were eliminated in 1999 by a charge to accumulated amortization. Accumulated amortization was \$3,363,000 and \$6,935,000 at December 31, 1999 and 1998, respectively.

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 \$600,000 for each of the three years in the period ended December 31, 1999.

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, 1999 exceeds the tax basis of assets by approximately \$63 million.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the respective periods. Average shares outstanding for basic earnings per share were 19,877,000, 20,034,000 and 19,085,000 for 1999, 1998 and 1997, respectively. The calculation of diluted earnings per share amounts reflects the dilutive effect of stock options (none for 1999, 5,999 shares for 1998 and 52,394 shares for 1997). The assumed conversion of debentures is anti-dilutive for all periods presented.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Company is subject to certain risks and uncertainties affecting the healthcare industry as a result of healthcare legislation and growing regulation by federal, state and local governments. Additionally, the Company is subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the desire of governmental agencies and insurers to limit the growth in cost of healthcare services. (See Note 4 - Concentration of Risk).

NOTE 2 -- PROPERTIES

Leased Property

The Company's real estate properties, represented by 147 long-term care facilities, 3 medical office buildings and 2 rehabilitation hospitals at December 31, 1999, 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:

	December 31,	
	1999	1998
	-----	-----
	(In thousands)	
Buildings.....	\$648,306	\$615,846
Land.....	30,299	27,532
	-----	-----
Less accumulated depreciation.....	678,605 (65,854)	643,378 (56,385)
	-----	-----
Total.....	\$612,751 =====	\$586,993 =====

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the changes in real estate properties and accumulated depreciation during 1999, 1998, and 1997:

<TABLE>
<CAPTION>

	Real Estate Properties	Accumulated Depreciation
	-----	-----
	(In thousands)	
<S>	<C>	<C>
Balance at December 31, 1996.....	\$376,177	\$32,884
Additions/provisions for 1997.....	184,877	15,263
	-----	-----
Balance at December 31, 1997.....	561,054	48,147
Additions/provisions for 1998.....	157,474	19,749
Disposals and transfer to assets held for sale.....	(75,150)	(11,511)
	-----	-----
Balance at December 31, 1998.....	643,378	56,385
Additions/provisions for 1999.....	79,844	21,119
Disposals and transfer to assets held for sale.....	(44,617)	(11,650)
	-----	-----
Balance at December 31, 1999.....	\$678,605 =====	\$ 65,854 =====

</TABLE>

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

	(In thousands)
2000.....	\$ 75,697
2001.....	75,263
2002.....	69,891
2003.....	63,887
2004.....	62,784
Thereafter.....	387,607

	\$735,129
	=====

Assets Sold or Held For Sale

In July 1998, management initiated a plan to dispose of certain properties judged to have limited incremental potential and to re-deploy the proceeds from sale. Following a review of the portfolio, assets identified for sale had a cost of \$95 million, a net carrying value of \$83 million, and annualized revenues of approximately \$11.4 million. The Company recorded a provision for impairment of \$6.8 million to adjust the carrying value of those assets judged to be impaired to their fair value, less cost of disposal. During 1998, the Company completed sales of two groups of assets, yielding sales proceeds of \$42,036,000. Gains realized in the dispositions approximated \$2.8 million.

During 1999, the Company completed sales yielding net proceeds of \$18.2 million. In addition, management initiated a plan in the 1999 fourth quarter for additional asset sales to be completed in 2000. The additional assets identified as for sale had a cost of \$33.8 million, a net carrying amount of \$28.6 million and annualized revenue of approximately \$3.4 million. As a result of this review, the Company recorded a provision for impairment of \$19.5 million to adjust the carrying value of assets targeted for sale to their fair value, less cost of disposal. The Company is committed to sell the remaining facilities as soon as practicable. In 1999 a loss of \$10.5 million was also recognized on real estate dispositions. The loss stems from one tenant exercising its purchase option to acquire three custodial care facilities and one skilled nursing facility from the Company, as well as the sale of two facilities in Kentucky that were rejected by Sun Healthcare Group, Inc. in its comprehensive property agreement with the Company.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Other Real Estate

The Company owns 10 facilities located in Massachusetts and Connecticut with 1,052 licensed beds, which are operated for the Company's own account. The facilities were acquired by the Company on July 14, 1999 in lieu of foreclosure and are currently being managed by Genesis Health Ventures, Inc. At December 31, 1999, the Company had invested approximately \$65.8 million in these facilities. Accumulated depreciation and depreciation expense for these facilities was \$898,000 for the year ended December 31, 1999. The Company presently is considering negotiating a lease or leases with new operator(s) or selling one or more of the facilities. Income from investments classified as other real estate approximated \$1,151,000, including \$1,050,000 from these facilities for the period from July 15 through December 31, 1999.

NOTE 3 -- MORTGAGE NOTES RECEIVABLE

The following table summarizes the changes in mortgage notes for the years ended December 31, 1999 and 1998:

	1999	1998
	----	----
	(In thousands)	
Balance at January 1.....	\$340,455	\$ 218,353
New mortgage notes.....	22,987	125,850
Collection of principal.....	(54,749)	(3,748)
Conversion/reclassification.....	(95,076)	-
	-----	-----
Balance at December 31.....	\$213,617	\$ 340,455
	=====	=====

Mortgage notes receivable relate to 64 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. Through December 31, 1999, required principal

payments have been made pursuant to the terms of the underlying mortgage agreements. The mortgage notes receivable relate to facilities located in 13 states, operated by 12 independent healthcare operating companies.

The Company carefully monitors compliance with mortgages and when necessary has initiated collection, foreclosure and other proceedings with respect to certain outstanding loans and expects that certain mortgagors may seek protection under the Bankruptcy Code. However, based on management's current review of its outstanding mortgage loans, no provision for loss on collection is considered necessary.

The following are the three primary mortgage structures currently used by the Company:

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 participation 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 buy out the Company's option at formula prices.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

Fixed-Rate Mortgages, 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 outstanding principal amount of mortgage notes receivable follow:

<TABLE>
<CAPTION>

	December 31,	
	1999	1998
	----	----
	(In thousands)	
	<C>	<C>
<S> Participating mortgage note due 2007; interest at 15.47% payable monthly (excluding 1.0% deferred interest)	\$ 58,800	\$ 58,800
Participating mortgage note due 2003; interest at 10.2% payable monthly	37,500	37,500
Participating mortgage note due 2008; interest at 9.79% payable monthly	12,000	12,000
Participating mortgage note due 2012; interest at 13.75% payable monthly, plus amortization of \$50,000 per quarter commencing in 2002	7,031	7,031
Participating mortgage note due 2004; interest at 10.25% payable monthly	-	67,000
Participating mortgage note due 2000; interest at 11.87% payable monthly plus amortization of \$37,500 quarterly	-	26,003
Convertible participating mortgage note due 2001; monthly interest payments at 15.69% with principal due at maturity ...	8,932	8,932
Convertible participating mortgage note due 2016, monthly interest payments at 13.50%	8,127	8,127
Convertible participating mortgage note due 2011; monthly interest payments at 10.92%	-	10,250
Convertible participating mortgage note due 2005; interest at 12.44% payable monthly, plus annual amortization of \$60,000 through 1999 and \$120,000 thereafter	-	10,074
Mortgage notes due 2015; monthly payments of \$189,004, including interest at 11.01%	16,656	18,738
Mortgage note due 2010; monthly payment of \$124,826, including interest at 11.50%	12,825	12,847
Mortgage note due 2006; monthly payment of \$107,382, including interest at 11.50%	11,035	11,053
Other mortgage notes	20,975	32,223
Other convertible participating mortgage notes	15,297	15,430

Other participating mortgage notes	4,439	4,447
	-----	-----
	\$213,617	\$340,455
	=====	=====

</TABLE>

On December 30, 1999, the Company provided notice as to an Event of Default and acceleration of the due date to the mortgagor of the \$58,800,000 participating mortgage note. The total obligation outstanding is \$63.3 million. At that date the mortgagor was current with respect to principal and interest payments due on the loan but had failed to fully comply with certain covenants and to pay certain property taxes. The Company is currently pursuing collection and foreclosure to realize upon its security for the loan and has initiated a foreclosure action. Additionally, on January 13, 2000, the Company offset security deposits of \$2.4 million against unpaid current and deferred interest. On January 18, the mortgagor filed with the Bankruptcy Court of Wilmington, Delaware for protection under Chapter 11 of the Bankruptcy Code. While the Company's collection actions have been stayed as a result of the bankruptcy filing by the mortgagor, the Company believes the security for its loan will be adequate for collection of amounts due.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 1999 is approximately \$230,781,000. Fair value is based on the estimates by management using rates currently prevailing for comparable loans.

NOTE 4 -- CONCENTRATION OF RISK

As of December 31, 1999, 92% of the Company's real estate investments are related to long-term care facilities. The Company's facilities are located in 28 states and are operated by 24 independent healthcare operating companies.

Investing in long-term healthcare facilities involves certain risks stemming from government legislation and regulation of operators of the facilities. The Company's tenants/mortgagors depend on reimbursement legislation which will provide them adequate payments for services because a significant portion of their revenue is derived from government programs funded under Medicare and Medicaid. The Medicare program recently implemented a Prospective Payment System for skilled nursing facilities, which replaced cost-based reimbursements and significantly reduced payments for services provided. Additionally, certain State Medicaid programs have implemented similar prospective payment systems. The reduction in payments to nursing home operators pursuant to the Medicare and Medicaid payment changes has negatively affected the revenues of the Company's nursing home facilities.

Most of the Company's nursing home investments were designed exclusively to provide long-term healthcare services. These facilities are also subject to detailed and complex specifications for the physical characteristics as mandated by various governmental authorities. If the facilities cannot be operated as long-term care facilities, finding alternative uses may be difficult. The Company's triple-net leases require its tenants to comply with regulations affecting its facilities and the Company regularly monitors compliance by tenants with healthcare facilities' regulations. Nevertheless, if tenants fail to perform their obligations, the Company may be required to do so in order to maintain the value of its investments.

Approximately 80% of the Company's real estate investments are operated by 7 public companies, including Sun Healthcare Group, Inc. (27.3%), Integrated Health Services, Inc. (18.1%), Advocat, Inc. (12.5%), RainTree Healthcare Corporation (8.3%), Mariner Post-Acute Network (6.6%), Alterra Healthcare Corporation (formerly Alternative Living Services) (3.8%), and Tenet Healthcare Corp. (3.4%). Of the remaining 17 operators, none operate investments in facilities representing more than 5% of the total real estate investments.

The Company's largest tenant, Sun Healthcare Group, Inc. (Sun), recently filed for reorganization under Chapter 11 of the Bankruptcy Code. Prior to the bankruptcy filing by Sun, the Company completed a comprehensive property agreement with Sun related to the facilities leased by Sun. This agreement, which has been approved by the Court, confirmed the existing economic terms of

lease agreements between the Company and Sun with respect to 50 healthcare properties, representing \$219 million in investments and \$23.2 million in annual rental revenues.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Many of the public nursing home companies operating the Company's facilities have recently reported significant operating and impairment losses. Integrated Healthcare Services, Inc., RainTree Healthcare Corp. and Mariner Post Acute Network, Inc. also have announced that they did not make interest payments on some of their subordinated debt obligations. Advocat, Inc. recently announced a restatement of its financial statements. The Company has initiated discussions with all operators who are experiencing financial difficulties, as well as state officials who regulate its properties. It also has proactively initiated various other actions to protect its interest under its leases and mortgages. Management believes there are presently no indicators of impairment on leased real estate or losses on mortgages.

NOTE 5 - ADDITIONAL SECURITY

The Company obtains liquidity deposits and letters of credit from substantially all operators pursuant to its leases and mortgages. 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. 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.

NOTE 6 -- BORROWING ARRANGEMENTS

The Company has a \$200,000,000 unsecured revolving line of credit facility, under which borrowings bear interest at LIBOR plus 1.125% or, at the Company's option, at the prime rate. Borrowings of approximately \$117 million are outstanding at December 31, 1999. The underlying revolving credit agreement contains various covenants and expires on September 30, 2000. The banks have waived non-compliance with a covenant requirement as to tangible net worth through the earlier of the date of an amendment to the existing agreement or May 31, 2000. The Company is currently in negotiations to extend the maturity of the line of credit. Permitted borrowings under the agreement are based upon levels of eligible real estate investments. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 7.30% at December 31, 1999 and 6.63% at December 31, 1998.

The Company also has a \$50,000,000 secured revolving line of credit, under which borrowings bear interest at LIBOR plus 2.00% or, at the Company's option, at the prime rate. This credit agreement contains various covenants and expires on March 31, 2002. The agreement permits the Company to extend the term of the commitment for up to three additional years following timely annual notice to the bank. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 8.44% at December 31, 1999. Investments with an original cost of approximately \$78 million are pledged as collateral for this revolving line of credit facility.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following is a summary of long-term borrowings:

<TABLE>
<CAPTION>

	December 31, -----	
	1999	1998
	----	----
	(In thousands)	
<S>	<C>	<C>
Unsecured borrowings:		
6.95% Notes due June 2002.....	\$125,000	\$125,000
6.95% Notes due August 2007.....	100,000	100,000
Unsecured Notes due July 2000.....	81,381	81,381
Subordinated Convertible Debentures due 2001.....	48,405	48,405
Other.....	4,615	5,189

	-----	-----
	359,401	359,975
Secured borrowings:		
Industrial Development Revenue Bonds.....	8,595	8,795
Mortgage notes payable to bank.....	7,356	7,635
HUD loans.....	-	5,354
	-----	-----
	15,951	21,784
	-----	-----
Total long-term borrowings.....	\$375,352	\$381,759
	=====	=====

</TABLE>

In 1998, the Company completed a \$125 million public offering of unsecured 6.95% notes. The notes were priced to yield 7.04% with interest paid semi-annually. In 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.

In 1996, the Company issued \$95 million of 8.5% Subordinated Convertible Debentures (the Debentures) due January 24, 2001. The Debentures are convertible at any time into shares of Common Stock at a conversion price of \$26.962 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, 1999, there were 1,794,107 shares reserved for issuance under the Debentures.

In 1995, the Company issued 10% and 7.4% Unsecured Notes due July 15, 2000 in exchange for certain secured borrowings. The effective interest rate for the unsecured notes is 8.8%, with interest-only payments due semi-annually through July 2000.

Real estate investments with an original cost of approximately \$25 million are pledged as collateral for outstanding secured borrowings. Long-term secured borrowings are payable in aggregate monthly installments of approximately \$153,000, including interest at rates ranging from 6.5% to 10.0%.

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, 1999 and the aggregate due thereafter are set forth below:

	(In thousands)
2000.....	\$89,107
2001.....	48,945
2002.....	125,585
2003.....	640
2004.....	690
Thereafter.....	110,385

	\$375,352
	=====

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The estimated fair values of the Company's long-term borrowings is approximately \$329,775,000 at December 31, 1999 and \$367,993,000 at December 31, 1998. Fair values are based on the estimates by management using rates currently prevailing for comparable loans.

NOTE 7 -- FINANCIAL INSTRUMENTS

At December 31, 1999 and 1998, the carrying amounts and fair values of the Company's financial instruments are as follows:

<TABLE>
<CAPTION>

	1999		1998	
	-----	-----	-----	-----
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	-----	-----	-----	-----
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and short-term investments.....	\$ 4,105	\$ 4,105	\$ 1,877	\$ 1,877

Mortgage notes receivable.....	213,617	230,781	340,455	369,416
Other investments.....	58,907	58,056	41,753	41,925
	-----	-----	-----	-----
Totals.....	\$ 276,629	\$292,942	\$ 384,085	\$413,218
	=====	=====	=====	=====
Liabilities:				
Acquisition lines of credit.....	\$ 166,600	\$166,600	\$ 123,000	\$123,000
6.95% Notes.....	225,000	181,832	225,000	215,073
Senior Unsecured Notes.....	81,381	81,054	81,381	79,220
Subordinated Convertible Debentures.....	48,405	47,402	48,405	46,727
Other long-term borrowings.....	20,566	19,487	26,973	26,973
	-----	-----	-----	-----
Totals.....	\$ 541,952	\$496,375	\$ 504,759	\$490,993
	=====	=====	=====	=====

</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 (See Note 1 - Risks and Uncertainties). 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.

NOTE 8 -- 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, which covered all members of the Board of Directors, and the 1993 Deferred Compensation Plan, which covered all eligible employees and members of the Board of Directors. The Retirement Plan for Directors and participation by the directors in the Deferred Compensation Plan was terminated effective December 31, 1997. Accumulated benefits to the Directors under both plans were settled and paid in 1998.

The Deferred Compensation Plan is an unfunded plan under which the Company may award units that result in participation in the dividends and future growth in the value of the Company's common stock. The total number of units permitted by the plan is 200,000, of which 90,850 units have been awarded and 42,600 are outstanding at December 31, 1999. Units awarded to eligible participants 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 \$123,000, \$346,000, and \$667,000 in 1999, 1998, and 1997, respectively.

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OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 9 -- SHAREHOLDERS' EQUITY AND STOCK OPTIONS

On May 12, 1999, the Company's Board of Directors authorized the adoption of a shareholder rights plan. The plan is designed to require a person or group seeking to gain control of the Company to offer a fair price to all the Company's shareholders. The rights plan will not interfere with any merger, acquisition or business combination that the Company's Board of Directors finds is in the best interest of the Company and its shareholders.

In connection with the adoption of the rights plan, the board declared a dividend distribution of one right for each common share outstanding on May 24, 1999. The rights will not become exercisable unless a person acquires 10% or more of the Company's common stock, or begins a tender offer that would result in the person owning 10% or more of the Company's common stock. At that time, each right would entitle each shareholder other than the person who triggered the rights plan to purchase either the Company's common stock or stock of an acquiring entity at a discount to the then market price. The plan was not adopted in response to any specific attempt to acquire control of the Company.

In January 1998, the Company adopted a stock purchase assistance plan, whereby the Company extends credit to directors and employees to purchase the Company's stock through the exercise of stock options. These loans are secured by the shares acquired and are repayable under full recourse promissory notes. The plan provides for repayment of a portion of the notes from annual incentive compensation. The notes are otherwise repayable in their entirety at the earliest to occur of five years from the date of the note or 90 days after termination of employment. At December 31, 1999 a total of \$2,499,337 is outstanding, payable by participants who have loans bearing interest at 6.95% at

amounts ranging from \$5,025 to \$299,955.

On April 28, 1998, the Company received gross proceeds of \$50 million from the issuance of 2 million shares of 8.625% Series B Cumulative Preferred Stock ("Preferred Stock") at \$25 per share. Dividends on the Preferred Stock are cumulative from the date of original issue and are payable quarterly commencing on August 15, 1998. On April 7, 1997, the Company received gross proceeds of \$57.5 million from the issuance of 2.3 million shares of 9.25% Series A Cumulative Preferred Stock ("Preferred Stock") at \$25 per share. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and are payable quarterly. At December 31, 1999, the aggregate liquidation preference of preferred stock issued is \$107,500,000.

Under the terms of the 1993 Amended and Restated Stock Option and Restricted Stock Plan, the Company reserved 1,100,000 shares of common stock for grants to be issued during a period of up to 10 years. Options are exercisable at the market price at the date of grant, expire in 10 to 11 years from the date of grant, and vest over 3 years. Directors, officers and employees are eligible to participate in the Plan. Options for 545,152 shares have been granted to 40 eligible participants. Additionally, 86,453 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 was recorded as unearned compensation-restricted stock, with the unamortized balance shown as a separate component of shareholders' equity. Unearned compensation is amortized to expense generally over the vesting period, with charges to operations of \$635,000, \$612,000, and \$402,000 in 1999, 1998, and 1997, respectively.

At December 31, 1999, options currently exercisable (231,590) have a weighted average exercise price of \$27.570. There are 468,395 shares available for future grants as of December 31, 1999.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following is a summary of activity under the plan. Exercise prices and all other option data for grants prior to April 2, 1998 have been adjusted based on a formula reflecting the per share value of the distribution of Omega Worldwide, Inc.

<TABLE>
<CAPTION>

	Number of Shares	Stock Options ----- Exercise Price		Weighted Average Price
	-----	-----	-----	-----
<S>	<C>	<C>		<C>
Outstanding at December 31, 1996	278,000	\$19.866-	28.212	\$23.169
Granted during 1997	444,250	29.740-	34.795	32.895
Exercised	(11,524)	19.866-	24.215	22.180
	-----	-----	-----	-----
Outstanding at December 31, 1997	710,726	19.866-	34.795	29.265
Granted during 1998	84,000	28.938-	37.205	35.342
Exercised	(151,200)	19.866-	30.210	23.605
Canceled	(67,599)	24.215-	35.500	33.462
	-----	-----	-----	-----
Outstanding at December 31, 1998	575,927	19.866-	37.205	31.144
Granted during 1999	101,500	15.250-	30.188	27.483
Canceled	(312,164)	28.938-	36.676	33.099
	-----	-----	-----	-----
Outstanding at December 31, 1999	365,263	\$15.250-	\$37.205	\$ 28.542
	=====	=====	=====	=====

</TABLE>

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 1999, 1998 and 1997 was \$168,000, \$220,000 and \$1.3 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% in 1999, 6% in 1998 and 6.5% in 1997; a dividend yield of 10% in 1999 and 6.75% in 1998 and 1997; volatility factors of the expected market price of the Company's common stock based on actual volatility in 1999 and 15% in 1998 and 1997; and a weighted-average expected life of the options of 8 years for each of the three years.

During 1999, the Company offered holders of options the opportunity to accelerate the expiration date of options in consideration of a cash payment. Twenty-two employees who were holders of options for 431,830 shares accepted the offer and were paid a total of \$38,000. Options for 157,000 shares granted in 1999 and canceled in 1999 under this arrangement are excluded from the above table for 1999 and from the calculation for the weighted average fair value of options granted in 1999.

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because 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.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 10 -- PRINCIPAL HEALTHCARE FINANCE LIMITED AND OMEGA
WORLDWIDE, INC.

In 1995 the Company sponsored the organization of Principal Healthcare Finance Limited ("Principal"), an Isle of Jersey company, whose purpose is to invest in nursing homes and long-term care facilities in the United Kingdom. Prior to the April 2, 1998 contribution to Omega Worldwide, Inc. ("Worldwide") as explained below, the Company had invested \$30.7 million in Principal, of which \$23.8 million was represented by a (pound)15 million subordinated note due December 31, 2000, and \$6.9 million was represented by an equity investment. The Company had also provided investment advisory and management services to Principal and had advanced temporary loans to Principal from time to time.

In November 1997, the Company formed Worldwide, and on April 2, 1998 it contributed substantially all of its Principal assets to Worldwide in exchange for approximately 8.5 million shares of Worldwide common stock and 260,000 shares of Series B preferred stock. Of the 8,500,000 shares of Worldwide received by the Company, approximately 5,200,000 were distributed on April 2, 1998 to the Company's shareholders on the basis of one Worldwide share for every 3.77 common shares of the Company held by shareholders of the Company on the record date of February 1, 1998. Of the remaining 3,300,000 shares of Worldwide received by the Company, 2,300,000 shares were sold by the Company on April 3, 1998 for net proceeds of approximately \$16,250,000 in a Secondary offering pursuant to a registration statement of Worldwide. The market value of the distribution to shareholders approximated \$39 million or \$1.99 per share. The Company recorded a non-recurring gain of \$30.2 million on the distribution and secondary offerings of Worldwide common shares during 1998. As of December 31, 1999, the Company holds 1,163,000 shares of Worldwide common stock and 260,000 shares of its preferred stock. The market value of the Company's investment in Worldwide is \$8,015,000. The Company also holds a \$1,615,000 investment in Principal, represented by 990,000 ordinary shares of Principal.

The Company has guaranteed repayment of Worldwide borrowings pursuant to its \$25 million revolving credit facility. The Company receives a 1% annual fee and an unused fee of 25 basis points in consideration for providing its guarantee. At December 31, 1999 borrowings of \$11.8 million were outstanding under Worldwide's revolving credit facility. Additionally, the Company has a Services Agreement with Worldwide, which provides for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs is based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Indirect costs allocated to Worldwide for 1999 and 1998 were \$754,000 and \$490,000, respectively.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 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 distributions by the Company were characterized in the following manner for income tax purposes:

Common	1999	1998	1997
-----	----	----	----
Ordinary income.....	\$ 2.100	\$ 2.275	\$ 2.425
Return of capital.....	0.700	0.191	0.155
Long-term capital gain.....	-	0.214	-
	-----	-----	-----
Total dividends paid.....	\$ 2.800	\$ 2.680	\$ 2.580
	=====	=====	=====
Common Non-Cash			
Return of capital.....	\$ -	\$ 0.461	\$ -
Long-term capital gain.....	-	1.529	-
	-----	-----	-----
Total non-cash distribution ...	\$ -	\$ 1.990	\$ -
	=====	=====	=====
Series A Preferred			
Ordinary income.....	\$ 2.313	\$ 2.313	\$ 1.156
	=====	=====	=====
Series B Preferred			
Ordinary income.....	\$ 2.156	\$ 1.078	\$ -
	=====	=====	=====

NOTE 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>
<CAPTION>

	For the year ended December		
	1999	1998	

31,			
1997			

			(In thousands)
<S>	<C>	<C>	
<C>			
Increase (decrease) in cash from changes in operating assets and liabilities:			
Operating assets, including \$517 and \$2,896 transferred to held for sale in 1999 and 1998, respectively	\$ (568)	\$ (8,183)	\$
(4,361)			
Accrued interest	589	(70)	
1,431			
Other liabilities	(3,135)	4,273	
368			
---	-----	-----	
(2,562)	\$ (3,114)	\$ (3,980)	\$
=====	=====	=====	
Other noncash investing and financing transactions:			
Acquisition of real estate:			
Value of real estate acquired	\$ 302	\$ 283	\$
2,430			
Common stock issued	(302)	(283)	
(2,430)			
Common stock issued for conversion of debentures	-	13,862	
31,648			
Interest paid during the period	40,434	30,888	
22,122			

</TABLE>

NOTE 13 -- LITIGATION

The Company is subject to various legal proceedings, claims and other actions arising out of the normal course of business. While any legal proceeding or claim has an element of uncertainty, management believes that the outcome of each lawsuit, claim or legal proceeding that is pending or threatened, or all of

them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

NOTE 14 -- SUBSEQUENT EVENTS

A quarterly dividend of \$.50 per common share was declared by the Board of Directors on January 19, 2000, payable on February 15, 2000 to shareholders of record on January 28, 2000. In addition, the Board declared regular quarterly dividends of \$.578 per share and \$.539 per share to be paid on February 15, 2000 to Series A and Series B Cumulative Preferred shareholders of record on January 28, 2000, respectively.

NOTE 15 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summarizes quarterly results of operations for the years ended December 31, 1999 and 1998.

<TABLE>
<CAPTION>

December 31	March 31	June 30	September 30	
-----	-----	-----	-----	-----
	<C>	<C>	<C>	
	(In thousands, except per share)			
1999				
Revenues	\$ 30,023	\$ 30,767	\$ 31,303	\$
30,282				
Net earnings available to common before				
loss on asset dispositions	10,417	10,602	9,947	
9,081				
Net earnings (loss) available to common	10,417	10,602	9,947	
(20,926)				
Net Earnings Available to Common per share:				
Basic net earnings before loss on asset dispositions	\$ 0.52	\$ 0.53	\$ 0.50	\$
0.46				
Diluted net earnings before loss on asset dispositions ..	0.52	0.53	0.50	
0.46				
Basic net earnings (loss)	0.52	0.53	0.50	
(1.05)				
Diluted net earnings (loss)	0.52	0.53	0.50	
(1.05)				
Cash dividends paid on common stock	0.70	0.70	0.70	
0.70				
1998				
Revenues	\$26,268	\$27,926	\$28,434	
\$26,110				
Net earnings available to common before				
loss on asset dispositions	10,817	10,676	10,750	
9,534				
Net earnings available to common	10,817	40,916	10,750	
5,532				
Net Earnings Available to Common per share:				
Basic net earnings before loss on asset dispositions	\$ 0.55	\$ 0.53	\$ 0.53	\$
0.47				
Diluted net earnings before loss on asset dispositions ..	0.55	0.53	0.53	
0.47				
Basic net earnings	0.55	2.03	0.53	
0.27				
Diluted net earnings	0.55	2.03	0.53	
0.27				
Cash dividends paid on common stock	0.67	0.67	0.67	
0.67				

</TABLE>

Note: During the three-month period ended December 31, 1999, the Company recognized a loss of \$30,000 related to assets sold during the period and a provision for impairment of assets held for sale (See Note 2 -Properties). During the three-month period ended June 30, 1998, the Company realized a \$30,240 gain on the distribution of Omega Worldwide, Inc. Additionally, during the three-month period ended December 31, 1998, the Company recognized a net \$4,002 loss on asset dispositions and provision for impairment.

<TABLE>
<CAPTION>

Life on Which Depreciation in Latest Income Statements Description (1) is Computed	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	(4) Gross Amount at Which Carried at Close of Period	Date of Renovation	Date Acquired
		Buildings	and Land				

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							

Sun Healthcare Group, Inc.:						1964-1995	
Alabama (LTC)	\$23,584,957				\$23,584,957	\$1,867,882	March 31,
1997 33 years							
California (LTC, RH)	65,912,924				65,912,924	4,006,079	October 8,
1997 33 years							
Florida (LTC)	10,796,688				10,796,688	855,017	March 31,
1997 33 years							
Florida (LTC)	10,700,000				10,700,000	872,992	February
28, 1997 33 years							
Idaho (LTC)	600,000				600,000	48,953	February
28, 1997 33 years							
Illinois (LTC)	4,900,000				4,900,000	517,379	August 30,
1996 30 years							
Illinois (LTC)	3,942,726				3,942,726	312,235	March 31,
1997 33 years							
Indiana (LTC)	3,000,000				3,000,000	316,762	August 30,
1996 30 years							
Louisiana (LTC)	4,602,574				4,602,574	364,490	March 31,
1997 33 years							
Massachusetts (LTC)	8,300,000				8,300,000	677,180	February
28, 1997 33 years							
North Carolina (LTC)	19,970,418				19,970,418	3,313,938	June 4,
1994 39 years							
North Carolina (LTC)	2,739,021				2,739,021	171,374	October 8,
1997 33 years							
Ohio (LTC)	11,884,567				11,884,567	726,917	October 8,
1997 33 years							
Tennessee (LTC)	7,942,374				7,942,374	1,320,020	September
30, 1994 30 years							
Texas (LTC)	9,415,056				9,415,056	745,602	March 31,
1997 33 years							
Washington (LTC)	5,900,000				5,900,000	480,936	March 31,
1997 33 years							
West Virginia (LTC)	24,793,444				24,793,444	1,480,172	October 8,
1997 33 years							
	-----				-----	-----	
	218,984,749				218,984,749	18,077,928	

Integrated Health Services, Inc:						1979-1993	
Florida (LTC)	10,000,000				10,000,000	565,998	January 13,
1998 33 years							
Florida (LTC)	29,000,000				29,000,000	1,461,712	March 31,
1998 33 years							
Illinois (LTC)	14,700,000				14,700,000	809,377	January 13,
1998 33 years							
New Hampshire (LTC)	5,800,000				5,800,000	328,279	January 13,
1998 33 years							
Ohio (LTC)	16,000,000				16,000,000	806,462	March 31,
1998 33 years							
Pennsylvania (LTC)	14,400,000				14,400,000	815,037	January 13,
1998 33 years							
Pennsylvania (LTC)	5,500,000				5,500,000	277,221	March 31,
1998 33 years							
Washington (LTC)	10,000,000				10,000,000	1,831,898	September
1, 1996 20 years							
	-----				-----	-----	
	105,400,000				105,400,000	6,895,984	

Advocat, Inc.:						1972-1994	
Alabama (LTC)	11,638,797	707,998			12,346,795	2,638,383	August 14,
1992 31.5 years							
Arkansas (LTC)	37,887,832	1,473,599			39,361,431	8,615,565	August 14,
1992 31.5 years							
Kentucky (LTC)	(3) 14,897,402	1,816,000			16,713,402	2,292,281	July 1,
1994 33 years							

Ohio (LTC)	5,854,186		5,854,186	788,285	July 1,
1994 33 years					
Tennessee (LTC) (2)	9,542,121		9,542,121	2,155,012	August 14,
1992 31.5 years					
West Virginia (LTC)	5,283,525	502,338	5,785,863	802,162	July 1,
1994 33 years					
	-----	-----	-----	-----	
	85,103,863	4,499,935	89,603,798	17,291,688	
RainTree Healthcare Corporation:					1980-1994
Arizona (LTC)	24,029,032		24,029,032	692,262	December 31,
1998 33 years					
Colorado (LTC)	14,170,968		14,170,968	408,257	December 31,
1998 33 years					
Indiana (LTC)	8,383,671		8,383,671	1,771,217	December 23,
1992 31.5 years					
Texas (LTC)	27,141,483		27,141,483	2,424,773	December 1,
1993 39 years					
	-----		-----	-----	
	73,725,154		73,725,154	5,296,509	
TLC Healthcare, Inc.:					1972-1996
Illinois (LTC)	1,281,412		1,281,412	35,451	January 7,
1999 33 years					
Illinois (LTC)	5,118,775		5,118,775	80,684	June 1, 1999
33 years					
Missouri (LTC)	12,301,560		12,301,560	340,326	January 7,
1999 33 years					
Ohio (LTC)	2,648,252		2,648,252	73,265	January 7,
1999 33 years					
Texas (LTC)	4,942,000		4,942,000	77,888	June 30,
1999 33 years					
Texas (LTC)	6,557,143		6,557,143	439,130	September 5,
1997 33 years					
Texas (LTC)	2,442,858		2,442,858	128,446	March 4,
1998 33 years					
	-----		-----	-----	
	35,292,000		35,292,000	1,175,190	
Alterra Healthcare Corporation:					
Colorado (AL)	2,583,440		2,583,440	40,721	June 14,
1999 33 years					
		F-21			
Indiana (AL)	11,641,805		11,641,805	183,503	June 14,
1999 33 years					
Kansas (AL)	3,418,670		3,418,670	53,886	June 14,
1999 33 years					
Ohio (AL)	3,520,747		3,520,747	55,495	June 14,
1999 33 years					
Oklahoma (AL)	3,177,993		3,177,993	50,093	June 14,
1999 33 years					
Tennessee (AL)	4,068,652		4,068,652	64,132	June 14,
1999 33 years					
Washington (AL)	5,673,693		5,673,693	89,431	June 14,
1999 33 years					
	-----		-----	-----	
	34,085,000		34,085,000	537,261	
Alden Management Services, Inc.:					1978
Illinois	31,000,000	23,937	31,023,937	5,353,577	September
30, 1994 30 years					
Tenet Healthcare Corp.:					
Pennsylvania (MOB)	30,031,250		30,031,250	6,742,705	October 28,
1993 27.5 years					
USA Healthcare, Inc.:					1974-1997
Iowa (LTC)	14,344,797	168,000	14,512,797	851,168	October 7,
1997 33 years					
Iowa (LTC)	2,700,000		2,700,000	285,086	August 30,
1996 30 years					
	-----	-----	-----	-----	
	17,044,797	168,000	17,212,797	1,136,254	
Peak Medical of Idaho, Inc.:					
Idaho (LTC)	10,500,000		10,500,000	241,638	March 26,
1999 33 years					
HQM of Floyd County, Inc.:					
Kentucky (LTC)	10,250,000		10,250,000	63,010	June 30,

1997 33 years

Hunter Management Group, Inc.: Florida (LTC) 13, 1993 39 years	8,150,000	866	8,150,866	1,182,565	1984 September
Liberty Assisted Living Center: Florida (AL) 30, 1994 27 years	5,994,730	760	5,995,490	1,249,286	September
Eldorado Care Center, Inc. & Magnolia Manor, Inc.: Illinois (LTC) 1999 33 years	5,100,000		5,100,000	129,034	1995-1998 February 1,
Kansas & Missouri, Inc.: Kansas (LTC) 30, 1994 30 years	2,500,000		2,500,000	431,447	September
Tutera Evergreen, LLC.: Colorado (LTC) 30 years	750,000		750,000	49,353	1976 June 3, 1994
	----- \$673,911,543 =====	----- \$4,693,498 =====	----- \$0 ==	----- \$678,605,041 =====	----- \$65,853,429 =====

</TABLE>

- (1) All of the real estate included in this schedule are being used in either the operation of long term care facilities (LTC), assisted living facilities (AL), rehabilitation hospital (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 \$8,595,000 at December 31, 1999.
- (3) Certain of the real estate indicated are security for notes payable totaling \$7,355,843 at December 31, 1999.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1997	1998	1999
	----	----	----
<S>	<C>	<C>	<C>
Balance at beginning of period	\$376,177,045	\$561,054,194	\$643,378,340
Additions during period:			
Acquisitions	183,229,915	157,474,363	79,676,000
Improvements and other	1,647,234	-	168,000
Disposals and transfers	-	(75,150,217)	(44,617,299)
Balance at close of period	\$561,054,194	\$643,378,340	\$678,605,041
	=====	=====	=====
	1997	1998	1999
	----	----	----
Balance at beginning of period	\$32,884,104	\$48,147,275	\$56,385,853
Additions during period:			
Provisions for depreciation	15,263,171	19,749,781	21,119,252
Dispositions and transfers	-	(11,511,203)	(11,651,676)
Balance at close of period	\$48,147,275	\$56,385,853	\$65,853,429
	=====	=====	=====

</TABLE>

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SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE
OMEGA HEALTHCARE INVESTORS, INC.
December 31, 1999

<TABLE>
<CAPTION>

Principal									
Amount of									
Loans									Carrying
Subject to									Amount
of	Delinquent							Periodic	
		Interest	Final Maturity					Payment	Prior Face Amount
Mortgages (2)	Principal								
Description (1)		Rate	Date					Terms	Liens of Mortgages (3)

Or Interest

<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>
Michigan (13 LTC facilities) None (4)	16.07%	August 13, 2007	Interest payable at 15.07% payable monthly	None	\$58,800,000	\$58,800,000
North Carolina (3 LTC facilities)			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			
Florida (3 LTC facilities) None	13.75%	August 4, 2012	Interest payable monthly Quarterly amortization of \$50,000 commencing in the year 2002	None	7,031,250	7,031,250
Florida (4 LTC facilities) None	11.50%	February 28, 2010	Interest plus \$1,700 of principal payable monthly	None	12,891,500	12,824,800
Florida (2 LTC facilities) None	11.50%	June 4, 2006	Interest plus \$1,700 of principal payable monthly	None	11,090,000	11,034,886
Texas (6 LTC facilities) None	9.00% to 10.00%	various	Interest plus \$55,000 of principal payable monthly	None	8,608,894	7,033,335
Tennessee (2 LTC facilities) None	15.69%	April 29, 2001	Interest payable monthly	None	8,932,000	8,932,000
Tennessee (2 LTC facilities) None	12.71%	August 1, 2016	Interest payable monthly	None	12,650,000	12,627,634
Ohio (6 LTC facilities) None	11.01%	January 1, 2015	Interest plus \$38,100 of principal payable monthly	None	18,238,752	16,655,788
Georgia (2 LTC facilities) None	9.79%	March 13, 2008	Interest payable monthly	None	12,000,000	12,000,000
Florida (5 LTC facilities)						
Texas (2 LTC facilities) None	10.20%	December 3, 2003	Interest payable monthly	None	37,500,000	37,500,000
Other Mortgage Notes:						
Various \$5,882,009 (5)	9.00% to 13.00%	2001 to 2010	Interest payable monthly	None	30,471,931	29,176,952
-					----- \$218,214,327	-----
\$213,616,645					=====	

</TABLE>

(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.

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<TABLE>
<CAPTION>

<S>	Year Ended December 31,		
	1997	1998	1999
<C>	-----	-----	-----
<C>	<C>	<C>	<C>

Balance at beginning of period	\$ 217,474,072	\$ 218,353,007	\$ 340,455,332
Additions during period - Placements	11,155,491	125,850,000	22,986,500
Deductions during period - Collection of principal	(13,365,432)	(3,747,675)	(54,748,620)
Conversion to purchase leaseback/other changes	3,088,876	-	(95,076,567)
	-----	-----	-----
Balance at close of period	\$ 218,353,007	\$ 340,455,332	\$ 213,616,645
	=====	=====	=====

</TABLE>

- (4) At December 31, 1999 no amounts were delinquent. However, the Company accelerated the due date and initiated a foreclosure action against the mortgagor due to failure to fully comply with certain covenants. See Note 3 (Mortgage Notes Receivable) to the consolidated financial statements.
- (5) A mortgagor with a mortgage on two facilities in Florida declared bankruptcy on July 8, 1999. The bankruptcy court has ordered that all amounts owed to the Company (including default rate interest, late charges, attorney's fees and court costs), bear interest at an annual rate of 10% and that the mortgagor make monthly payments of \$40,000 on a timely basis. As of December 31, 1999, the mortgagor had complied with the court order.

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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: January 24, 2000

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.

Signatures -----	Title -----	Date ----
PRINCIPAL EXECUTIVE OFFICER		
/s/ ESSEL W. BAILEY, JR. ----- Essel W. Bailey, Jr.	Chairman, President, Chief Executive Officer and Director	January 24, 2000
PRINCIPAL FINANCIAL OFFICER and PRINCIPAL ACCOUNTING OFFICER		
/s/ DAVID A. STOVER ----- David A. Stover	Vice President, Chief Financial Officer and Chief Accounting Officer	January 24, 2000
DIRECTORS		
/s/ MARTHA A. DARLING ----- Martha A. Darling	Director	January 24, 2000
/s/ JAMES A. EDEN ----- James A. Eden	Director	January 24, 2000
/s/ THOMAS F. FRANKE ----- Thomas F. Franke	Director	January 24, 2000
/s/ HENRY H. GREER ----- Henry H. Greer	Director	January 24, 2000
/s/ -----	Director	January 24, 2000

	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)
10.5	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)
	I-1
10.6	First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty between Delta Investors I, LLC and Sun Healthcare Group, Inc. and Delta Investors II, LLC and Sun Healthcare Group, Inc. (Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Form 8-K dated April 30, 1998)
10.7	Form of Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries and the Provident Bank dated March 31, 1999 (Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 1999)
10.8	Forbearance Agreement by and between Delta Investors I, LLC, Delta Investors II, LLC, Omega Healthcare Investors, Inc., OHI (Illinois), Inc. and Sun Healthcare Group, Inc. dated October 13, 1999*
11	Statement re: computation of per share earnings*
12	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends*
21	Subsidiaries of the Registrant*
23	Consent of Ernst & Young LLP*
27	Financial Data Schedule*

- - - - -

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

FORBEARANCE AGREEMENT

This Forbearance Agreement ("Agreement") is made and entered into on October 13, 1999 by and between the entities identified on the signature page hereof (each a "Lessee" and collectively "Lessees"); DELTA INVESTORS I, LLC, a Michigan limited liability company, DELTA INVESTORS II, LLC, a Michigan limited liability company, OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation and OHI (ILLINOIS), INC., an Illinois corporation (each a "Lessor" and collectively "Lessors"); and SUN HEALTHCARE GROUP, INC., a Delaware corporation ("Guarantor").

R E C I T A L S:

A. Lessees, each of which is a subsidiary or second tier subsidiary of Guarantor, and Lessors are parties to the Leases and Subleases identified on attached Exhibit A (each a "Lease" and collectively, the "Leases"). The Leases relate to certain health care facilities also identified on Exhibit A (each a "Facility" and collectively, the "Facilities"). The obligations of the Lessees under the Leases are secured by the Security Agreements and other Agreements identified on attached Exhibit B (each a "Security Agreement" and collectively, the "Security Agreements"). Guarantor has executed the Guaranty with respect to all of the Leases except the Complete Care Lease.

B. On or about May 28, 1999, the Lessors forwarded to the respective Lessees and other persons required to receive notices under the applicable Leases ("Other Persons"), and the Lessees and Other Persons received Notices of Default pursuant to which the Lessors advised the Lessees and Other Persons that the Lessees had failed to pay certain Minimum Rent and Additional Charges (as defined in the Leases), and that the failure to cure these defaults within the time set forth in the Notices of Default would constitute Events of Default under all of the Leases, except the Complete Care Leases. The Lessees acknowledge that on or about September 3, 1999, the Lessors forwarded to the Lessees and to Other Persons, and the Lessees and Other Persons received, Notices of Termination pursuant to which the Lessors advised the Lessees and Other Persons that (I) the Lessees had not cured all of the defaults described in the Notices of Default, and (II) pursuant to the terms of the Leases (a) Events of Default had occurred under the Leases, other than the Complete Care Leases, and (b) as a result of the Events of Default, the Leases, other than the Complete Care Leases, would terminate on September 13, 1999.

C. Lessors contend that all of the Leases, except for the Complete Care Lease, were terminated effective September 13, 1999 pursuant to the Notices of Default and Notices of Termination identified in Recital B. Lessors further contend that Lessors are entitled to immediate possession of the Leased Properties. Lessees and Guarantor contend that the Notices of Default and Notices of Termination were ineffective, and that all of the Leases continue in full force and effect.

D. Guarantor and Lessees are currently experiencing financial difficulties, and anticipate that they will file a Case or Cases under Chapter 11 of the United States Bankruptcy Code on or before October 15, 1999 ("Filing"). The date on which Guarantor and the Lessees actually file such Case or Cases is hereinafter referred to as the "Filing Date" and such Case or Cases are hereinafter referred to as the "Case or Cases."

E. The parties hereto wish to set forth in writing certain agreements which they have reached concerning (i) the continued occupancy of the Facilities between the date hereof and the Filing Date, (ii) certain actions to be taken by the parties after the Filing Date, (iii) certain agreements with respect to the transition of operations of the Rejected Lease Facilities, and (iv) the amendment and clarification of certain provisions of the Leases.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. DEFINITIONS

Terms, if not defined elsewhere herein, shall have the meanings assigned to them in the Recitals or in this Section and include the plural as well as the singular, all references to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Agreement and the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision:

Affiliate: Any Person which, directly or indirectly,
Controls or is Controlled by or is under common Control

with another Person.

Amended Delta I Facility Leases: The Original Delta I Facility Leases and the February/March 1997 Leases.

Assumed Manor Care Leases: The Manor Care Leases so designated on Exhibit A.

Assumption and Rejection Order: The Order of the Bankruptcy Court to be entered granting the Motion to Assume and Reject as contemplated by Sections III and V hereof. The Assumption and Rejection Order shall be in all material respects in the form attached hereto as Exhibit C.

Bankruptcy Court: The United States Bankruptcy Court having jurisdiction over the Case or Cases.

Base Rent Allocable to the Assumed Manor Care Leases: The Initial Base Rent Allocable to the Assumed Manor Care Leases,

1. If the Effective Date is prior to January 1, 2000, prorated for the period from the Effective Date through December 31, 1999 by multiplying the Initial Base Rent Allocable to the Assumed Manor Care Leases by a fraction in which the numerator is the number of days in such period and the denominator is 365;
2. increased for the period commencing on the later of (i) January 1, 2000 and (ii) the Effective Date and ending on December 31, 2000 by the lesser of (y) one and one-half times the increase in the Cost of Living Index (as defined in the Qualicorp Lease) during the preceding Lease Year and (z) two and one-half percent (2.5%) of the Initial Base Rent Allocable to the Assumed Manor Care Leases (prorated for such period on a per diem basis if such period commences after January 1, 2000);
3. increased thereafter on each January 1 during the Fixed Term (as defined in the Qualicorp Lease) and, if Lessee exercises its right to renew the Term (as defined in the Qualicorp Lease), the First Extension Term (as defined in the Qualicorp Lease), for the following twelve (12) month period (or, as to the First Extension Term, pro rata for the period between January 1 of the last Lease Year of the First Extension Term and the expiration of the First Extension Term) by the lesser of (i) one and one-half times the increase in the Cost of Living Index during the preceding twelve (12) month period and (ii) two and one-half percent (2.5%) of the Base Rent Allocable to the Assumed Manor Care Leases for the immediately preceding twelve (12) month period; and
4. if Lessee exercises its right to renew the Term for the Second Extension Term (as defined in the Qualicorp Lease), increased on January 1 during the first Lease Year of the Second Extension Term, for the following twelve (12) month period (or, as to the last Lease Year in the Second Extension Term, pro rata for the period between January 1 of such Lease Year (as defined in the Qualicorp Lease) and the Expiration Date (as defined in the Qualicorp Lease)) to the greater of (i) the Fair Market Value Rent (as defined in the Qualicorp Lease) for the Elkhart, Indiana and Danville, Illinois Leased Properties and (ii) the then current Base Rent Allocable to the Assumed Manor Care Leases, increased by the lesser of (x) one and one-half times the increase in the

Cost of Living Index during the preceding twelve (12) month period and (y) two and one-half percent (2.5%) of the Base Rent Allocable to the Assumed Manor Care Leases for the immediately preceding twelve (12) month period.

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

Complete Care Lease: The Lease so described on Exhibit A.

Control (and its corollaries "Controlled by" and "under common Control with"): Possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, through the ownership of voting securities, partnership interests or other equity interests.

Delta I: Delta Investors I, LLC, a Michigan limited liability company, the sole member of which is Omega Healthcare Investors, Inc.

Delta I Letter of Credit Agreement: The Amended and Restated Letter of Credit Agreement dated as of February 28, 1997 between Omega Healthcare Investors, Inc. and Guarantor with respect to the February/March 1997 Leases.

Delta I Master Lease: The Delta I Master Lease Agreement and the Original Delta I Facility Leases.

Delta I Master Lease Agreement: The Master Lease Agreement between Delta I and the Original Delta I Lessees, dated as of October 7, 1997, as amended by the First Delta I Amendment and the Second Delta Amendment.

Delta II: Delta Investors II, LLC, a Michigan limited liability company, the sole member of which is Omega Healthcare Investors, Inc.

Delta II Facility Leases: The Leases so described on Exhibit A

Delta II Master Lease: The Delta II Master Lease Agreement and the Delta II Facility Leases.

Delta II Master Lease Agreement: The Master Lease Agreement between Delta II and the Original Delta II Lessees, dated as of October 7, 1997, as amended by the First Delta II Amendment and the Second Delta Amendment.

Effective Date: The date after entry of the Assumption and Rejection Order on which all of Lessees' Effective Date Obligations have been satisfied.

Facility: As defined in each of the Leases.

February/March 1997 Leases: The Leases so described on Exhibit A.

First Delta I Amendment: The First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty dated April 24, 1998, among Delta I, Guarantor and the Original Delta I Lessees.

First Delta II Amendment: The First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty dated April 24, 1998, among Delta II, Guarantor and the Delta II Lessees.

Forbearance Period: The period commencing on the date hereof and ending when and if this Agreement is terminated in accordance with its terms.

Guaranty: The Amended and Restated Guaranty executed by Guarantor in favor of Lessors as of October 7, 1997, as amended by the First Delta I Amendment, the First Delta II Amendment and the Second Delta Amendment.

Initial Base Rent Allocable to the Assumed Manor Care Leases: Nine Hundred Thirty Three Thousand Eighty Four Dollars (\$933,084.00).

Leased Property: Any and all of the property, real and personal, tangible and intangible, leased pursuant to a Lease; and, if defined in a Lease, with respect to such Lease as so defined.

Lessees' Effective Date Obligations: (1) Satisfaction of Lessees' Monetary Obligations; (2) Lessees' transfer and relinquishment of the Rejected Lease Assets as required by this Agreement; (3) Lessees' execution of the agreements that it is required by this Agreement to execute; and (4) Guarantor's and Lessees' release of Lessors as set forth in Section XI.A. hereof.

Lessees' Monetary Obligations: (i) The obligation of the Liberty Lessees to make an additional security deposit of Sixty Nine Thousand Six Hundred Twenty Six and 85/100 Dollars (\$69,626.85) as set forth in Section VIII.D. hereof; (ii) the obligation of the Lessees to pay Lessors Two Hundred Fourteen Thousand Two Hundred Fifty Eight and 42/100 Dollars (\$214,258.42) to cure the monetary defaults set forth in attached Exhibit D; (iii) the obligation of the Lessees under the Sun Delta I Master Lease, the Sun Delta II Master Lease and the Sun Liberty Master Lease to pay to the Lessors thereunder the Sun Delta I Master Lease Minimum Rent Increase, the Sun Delta II Master Lease Minimum Rent Increase and the Sun Liberty Master Lease Minimum Rent Increase, respectively, for the period from November 1, 1999 through the Effective Date; and (iv) the obligation of the Lessee under the Rejected Leases to pay Base Rent pursuant to Section IX.B.3 if any amount thereof shall be unpaid as of the Effective Date.

Liberty Leases: The Leases so described on Exhibit A.

Manor Care Leases: The Leases so described on Exhibit A.

Motion Filing Date: The date of filing with the Bankruptcy Court of the Motion to Assume or Reject.

Motion to Assume and Reject: A motion to be filed by the Lessees and Guarantor within five (5) Business Days of the Filing Date which shall seek entry of the Assumption and Rejection Order. The Motion to Assume and Reject shall be prepared by counsel for the Lessees and shall be reasonably acceptable to counsel for Lessors.

Notice: Any written notice given by any party hereto in accordance with the notice provisions set forth in Section XII hereof.

Operations Transfer Agreement: An agreement in all material respects in the form attached hereto as Exhibit E which shall, except as otherwise set forth herein, govern the transfer of operations of a Rejected Lease Facility from Lessee to Transferee.

Original Delta I Facility Leases: The Leases so described on Exhibit A.

Person: Any natural person, trust, partnership, corporation, joint venture, limited liability company or other legal entity.

Qualicorp Lease: The Lease so described on Exhibit A.

Qualicorp Letter of Credit Agreement: The Letter of Credit Agreement dated June 1, 1997 by and among Omega Healthcare Investors, Inc., OHI (Illinois), Inc. and Guarantor entered into with respect to the Qualicorp Lease.

Rejected Lease: Each Lease specified to be rejected in Section III hereof.

Rejected Lease Assets: With respect to each Rejected Lease, all of the real and personal property covered thereby or by any Security Agreement executed by the Lessee

thereunder in favor of the Lessor thereunder, including without limitation the Leased Property (with respect to the Rejected Manor Care Leases and as defined therein) and the Demised Premises (with respect to the Complete Care Lease and as defined therein), all tangible personal property, furniture, fixtures and equipment owned by a Lessee and used or held for use in connection with or otherwise relating to the operation of the Rejected Lease Facility or Facilities, and all plans and specifications relating to the buildings and improvements included in the Leased Property or Demised Premises covered thereby, to the extent in the possession of the Lessees; all of the books and records of a Facility covered thereby, including patient medical and financial records and employee records; to the extent assignable, all intangible personal property of every type, nature and description relating to a Facility covered thereby, including utility deposits, warranties, consents, authorizations, licenses and permits issued by third parties (provided that Lessees shall retain any such licenses and permits which they are required to maintain during the period for which the Lessees retain operational control and responsibility for the applicable Rejected Facility hereunder); and all inventories of every type, nature and description whatever (specifically including all pharmacy supplies, kitchen supplies, linens and housekeeping supplies, medical and nursing supplies, office supplies, and other supplies and foodstuffs) owned by the Lessee on the Effective Date which inventories are located at or held for use in any of the Facilities covered by a Rejected Lease. Notwithstanding anything to the contrary herein, all of the following items are excluded from the term "Rejected Lease Assets:" cash, accounts receivable, all leased equipment and leased motor vehicles (other than equipment and motor vehicles leased from Affiliates of Lessees and Guarantor), the KRONOS time clock, the Omnicell medical supply dispensing units, all computers and computer-related equipment located at a Facility and all computer software used on such equipment.

Rejected Lease Facility: Any Facility subject to a Rejected Lease.

Second Delta Amendment: The First Amendment of Security Agreements and Second Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty among Omega Healthcare Investors, Inc., Delta I, Delta II and Guarantor, dated June 15, 1998.

Sun Delta I Master Lease: The Delta I Master Lease, as amended as provided in Section V hereof and assumed pursuant the Assumption and Rejection Order.

Sun Delta I Master Lease Minimum Rent Increase: The accrued and unpaid amount of the increase in the Minimum Rent payable under the Delta I Master Lease, effective as of November 7, 1998, for the Term thereof and any extensions thereof, subject to annual increases and adjustments as set forth in the Sun Delta I Master Lease, pursuant to the Agreement Regarding Post-Closing Matters dated October 7, 1997 among the Original Delta I Lessees, Regency Health Services, Inc., Guarantor, Delta I and Delta II, which increase annualized for the Lease Year 1998 is Four Hundred Thirty Nine and 04/100 Dollars (\$439.04), annualized for the Lease Year 1999 is Four Hundred Fifty and 36/100 Dollars (\$450.36) and for the Lease Year 2000 shall be adjusted in the same fashion as Base Rent is adjusted.

Sun Delta II Master Lease: The Delta II Master Lease, as amended as provided in Section V hereof and assumed pursuant to the Assumption and Rejection Order.

Sun Delta II Master Lease Minimum Rent Increase: The accrued and unpaid amount of the increase in the Minimum Rent payable under the Delta II Master Lease, effective as of November 7, 1998, for the Term thereof and any extensions thereof, subject to annual increases and adjustments as set forth in the Sun Delta II Master Lease, pursuant to the Agreement Regarding Post-Closing Matters dated October 7, 1997 among the Original Delta I Lessees, Regency Health Services, Inc., Guarantor, Delta I and Delta II, which increase annualized for the Lease Year 1998 is Seventeen Thousand Sixty Seven

and 99/100 Dollars (\$17,067.99), annualized for the Lease Year 1999 is Seventeen Thousand Five Hundred Six and 68/100 Dollars (\$17,506.68) and for the Lease Year 2000 shall be adjusted in the same fashion as Base Rent is adjusted.

Sun Leases: Collectively, the Sun Delta I Master Lease, the Sun Delta II Master Lease, the Sun Liberty Master Lease and the Sun Qualicorp Lease.

Sun Liberty Master Lease: The Liberty Leases, as amended as provided in Section V hereof and assumed as provided in the Assumption and Rejection Order.

Sun Liberty Master Lease Minimum Rent Increase: The accrued and unpaid amount of the increase in the Minimum Rent payable under the Liberty Leases, effective as of November 7, 1998, for the Term thereof and any extensions thereof, subject to annual increases and adjustments as set forth in the Liberty Leases, pursuant to the Agreement Regarding Post-Closing Matters dated October 7, 1997 among the Original Delta I Lessees, Regency Health Services, Inc., Guarantor, Delta I and Delta II, which increase annualized for the Lease Year 1998 is Eight Thousand Seven Hundred Thirty Four and 02/100 Dollars (\$8,734.02), annualized for the Lease Year 1999 is Eight Thousand Nine Hundred Fifty Eight and 43/100 Dollars (\$8,958.43) and for the Lease Year 2000 shall be adjusted in the same fashion as Minimum Rent is adjusted.

Sun Qualicorp Lease: The Qualicorp Lease, amended as provided in Section V hereof and assumed as provided in the Assumption and Rejection Order.

Sun Transaction Documents: The documents listed on attached Exhibit F.

Trade Name: The name or names under which a Facility is conducting business on the date hereof.

Transferee: A person or entity designated by the Lessor (which may be such Lessor) under a Rejected Lease to which such Lessor wishes a Lessee under a Rejected Lease to transfer possession of, or certain management rights with respect to, the Rejected Lease Facility or Facilities.

2. AGREEMENT TO FORBEAR

1. During the Forbearance Period, the Lessors shall forbear from commencing any judicial or other action for the purpose of pursuing remedies, including, without limitation, the recovery of possession of any Leased Property, on the basis of any default prior to the date of this Agreement by any Lessee under any Lease or any default in existence by Guarantor under the Guaranty. This Agreement shall, at the option of the Lessors, terminate upon:
 1. The failure of any one or more of the Lessees to commence a Case on or before October 15, 1999;
 2. The failure of the Lessees to obtain the Assumption and Rejection Order on or before the earlier of
 1. 45 days after the Motion Filing Date, or
 2. the entry of a final DIP Financing Order which provides that the lender's security interest primes any of the collateral of any of the Lessors under the Security Agreements; or
 3. The election of Lessors to terminate this Agreement pursuant to Section IX hereof; or
 4. Lessees' failure to satisfy Lessees' Effective Date Obligations as and when required herein.
2. Upon execution of this Agreement by all parties, Lessors shall immediately take all steps reasonably appropriate under applicable law to withdraw any and all notices to quit (or the equivalent) that have been served upon Lessees on or prior to the date hereof, and shall immediately dismiss any

and all lawsuits commenced against any Lessee or Guarantor with respect to the Leases, and during the Forbearance Period in addition to its agreement to forbear as set forth in Section II.A., above, shall also forbear from causing or permitting any notice to quit (or the equivalent) to be served upon any Lessee, provided, however, that Guarantor and each Lessee waives and agrees (which waiver and agreement shall survive the termination of this Agreement notwithstanding Section II.G, hereof) that it shall not assert such withdrawal or any failure to serve such notice to quit (or the equivalent) during the Forbearance Period in any action brought by a Lessor as a defense to any action by Lessor.

3. During the Forbearance Period, Guarantor and each Lessee shall forbear from commencing any judicial or other actions adverse to any Lessor with respect to any of the Leases, other than the Filing, or, if applicable, seeking any relief adverse to Lessor in any now pending action with respect thereto, provided, however, that such agreement to forbear shall not apply to (i) any default by any Lessor under any Lease occurring after the date hereof if such default is not cured within the applicable cure or grace period set forth in the Lease, or (ii) any default by any Lessor under this Agreement which is not cured within ten (10) days after written notice thereof, each of which defaults may be the subject of a separate legal action but shall not affect the rights or obligations of the Lessees and Guarantor hereunder.
4. Each party to this Agreement hereby waives and agrees (which waiver and agreement shall survive the termination of this Agreement notwithstanding Section II.G, hereof) that it shall not assert at any time that the failure during the Forbearance Period of any other party to this Agreement to commence any action or proceed with any steps taken prior to the Forbearance Period that are or may be required under applicable law prior to the commencement of any action is a defense to any claim by another party arising out of or in connection with any or all of the Leases. The intent of the parties is that compliance during the Forbearance Period with the forbearance agreements set forth in Section II.A, Section II.B and Section II.C shall not prejudice or be a waiver of the rights or claims of any of the parties hereto should the Forbearance Period terminate as set forth in Section II.A.
5. On the Effective Date, Lessors' agreement to forbear as provided herein shall be absolute and unconditional and cannot be terminated, provided, however, that except as provided in Section XI hereof, nothing contained herein shall be construed as limiting the rights and remedies of any of the Lessors with respect to any default or Event of Default which occurs under the Sun Leases or the Security Agreements, as amended, after entry of the Assumption and Rejection Order.
6. Guarantor and Lessees agree (which agreement shall survive the termination of this Agreement notwithstanding Section II.G, hereof) that neither the acceptance during the Forbearance Period by any Lessor of any rent or other payment by any Lessee with respect to any Lease, the continued possession during the Forbearance Period of Leased Property covered by a Lease by the Lessee thereof, nor the performance by a Lessee during the Forbearance Period of any of the obligations set forth in any Lease without objection from the Lessor thereunder, shall constitute a waiver or otherwise prejudice either the contention of the Lessors that such Lease has been terminated or the contention of Guarantor and the Lessees that such Lease has not been terminated and is in full force and effect, but the foregoing reservation shall be null and void after the Effective Date.
7. In the event this Agreement terminates pursuant to the terms hereof, from and after such termination no party hereto shall have any rights or obligations arising out of or in connection with this Agreement, and no party shall be deemed to have waived any of its rights or been released from any of its obligations with respect to the Leases or the Guaranty or in

any way be prejudiced by its execution of, or its performance of any of its obligations under, this Agreement.

3. REJECTION OF LEASES

Guarantor and the Lessees shall (i) file the Motion to Assume and Reject within five (5) Business Days of the Filing Date, and (ii) use good faith efforts to obtain entry of the Assumption and Rejection Order on or before the earlier of (y) forty-five (45) days after the Motion Filing Date or (z) the entry of a final DIP Financing Order which provides that the security interest of the lender primes the collateral of one or more of the Lessors under a Security Agreement, unless extended in writing by the Lessors. During the Forbearance Period and from and after the Effective Date, Lessors shall support entry of the Assumption and Rejection Order and shall not oppose entry of the orders filed by Lessees and their Affiliates on the date the Case or Cases are filed with respect to DIP financing, cash collateral arrangements and debtors' cash management, or any orders filed by Lessees and their Affiliates thereafter relating to the same subject matter provided in each case such subsequent orders are not at variance in any material respect that adversely affects Lessors, the Leases, the Facilities covered by the Leases or the rights of the Lessors under the Leases or this Agreement, with the orders sought on the day the Case or Cases are filed copies of which have been provided to Lessors prior to the date of this Agreement. The Motion to Assume and Reject shall seek, among other things, authorization to reject the following Leases:

LESSOR	LESSEE	LEASE DATE
1. Omega Healthcare Investors, Inc. (successor by merger to Health Equity Properties, Inc.)	SunBridge Healthcare Corporation (successor by assignment to Complete Care, Inc.)	June 1, 1990
2. Omega Healthcare Investors, Inc. (with respect to the Facility in Austin, Texas and the Facility in Mason City, Iowa)	SunBridge Healthcare Corporation	February 28, 1997

4. CERTAIN AGREEMENTS REGARDING REJECTED LEASE FACILITIES

1. BASE RENT WITH RESPECT TO REJECTED LEASE FACILITIES AFTER FILING OF MOTION TO ASSUME AND REJECT.

1. Provided that the Motion to Assume and Reject is filed within the period specified in Paragraph II.A. hereof, for the period from and after the date on which the Motion to Assume and Reject is filed through the earlier of (i) the forty-fifth day following the Motion Filing Date and (ii) the Effective Date ("Accrual Period") the Base Rent (as defined in each Rejected Lease) shall with respect to the Rejected Lease Facilities accrue but except as provided in Section IV.A.2. hereof and Section IX hereof shall not be payable ("Accrued Rent"). In the event any Accrued Rent shall have been paid by any Lessee on or before the date hereof, upon the Effective Date the amount so paid shall be credited first against any unpaid Base Rent payable with respect to the Rejected Lease Facilities for any period after the expiration of the Accrual Period, if any, and then to the Lessees' Monetary Obligations.
2. Upon the Effective Date Lessors shall have waived all claims to the Accrued Rent, but if Lessors exercise their right to terminate this Agreement as provided in Section II.A., Lessors shall retain their claims for payment of the Accrued Rent.

2. TRANSFER OF THE REJECTED LEASE ASSETS

1. On the date upon which Lessees are required to satisfy Lessees' Effective Date Obligations as set forth in Section IX hereof, the Lessee under each Rejected Lease shall relinquish possession of the Rejected Lease Assets to the Transferee under such Rejected Lease, as is and where is, in the condition of the Rejected Lease Assets on the date hereof, without any representations or warranties whatsoever,

including without limitation without any representations with respect to title or the condition of title to the Rejected Lease Assets, the condition of the Rejected Lease Assets or the compliance of the Rejected Lease Facilities with applicable laws, regulations or administrative orders, provided that if any Rejected Lease Assets shall be damaged or destroyed between the date hereof and the Effective Date, the Lessee under the applicable Rejected Lease shall undertake such repair and restoration thereof as may be required by the applicable Lease and be reasonably feasible during the time period between the date of such damage or destruction and the Effective Date and shall deliver to the Lessor thereunder such proceeds of insurance as such Lessee shall have received, and assign to Lessor such additional insurance proceeds as Lessee is entitled to receive, with respect to such damage or destruction, minus such portion of such proceeds as may have been paid by such Lessee for repairs and restoration of such damage or destruction.

2. On the date upon which Lessees are required to satisfy Lessees' Effective Date Obligations as set forth in Section IX hereof, (i) the Lessee and Lessor under each Rejected Lease shall properly execute and deliver to each other an appropriate instrument in recordable form acknowledging termination of the Rejected Lease and release of the obligations of the Lessee and Lessor thereunder, (ii) the Lessee under each Rejected Lease shall properly execute and deliver to the Lessor thereunder a quitclaim of its interests in and to the Rejected Lease Assets and (iii) the Affiliates of the Lessee under each Rejected Lease shall release any security interest they may have in the Rejected Lease Assets.

3. ECONOMIC RISK AND REWARD FROM AND AFTER THE EFFECTIVE DATE.

The Lessor of each of the Rejected Lease Facilities shall be entitled to all revenues, and shall be liable for all expenses and liabilities, which in each case with respect to such Rejected Lease Facility relate to the period from and after the Effective Date or such earlier date on which the applicable Lessee transfers operational responsibility for such Rejected Lease Facility to the applicable Lessor or Transferee pursuant to the request of such Lessor and the terms of the Operations Transfer Agreement as provided in this Agreement.

4. INTERIM MANAGEMENT OF REJECTED LEASE FACILITIES.

1. At the request of the Lessor of a Rejected Lease Facility, from and after the Effective Date, the Lessee of the Rejected Lease Facility shall manage the Rejected Lease Facility pursuant to an interim management agreement ("Interim Management Agreement") reasonably acceptable to the parties, the term of which shall not exceed six (6) months, provided, however, that if an appeal is taken from the Assumption and Rejection Order, the term of such Interim Management Agreement shall be extended until the earlier of (i) the date on which this Agreement is terminated or (ii) the date on which the Assumption and Rejection Order becomes final and non-appealable. Except as provided in Section IV.D.2. below, the Lessee will be paid a management fee equal to a percentage of the gross revenues of the Rejected Lease Facility (net of any recoupments or charge-backs), which percentage has been agreed upon by the parties to this Agreement. The Lessor shall have the right to terminate the Interim Management Agreement at any time upon five (5) days Notice to Lessee. The Interim Management Agreement shall require that Lessor provide Lessee with all working capital required for the operation of the Rejected Lease Facility, and shall require that the Lessor indemnify, defend, and hold Lessee harmless from any and all claims and expenses accruing with respect to

the Rejected Lease Facility after the Effective Date, except for claims arising from willful misconduct or negligence of the Lessee.

2. From and after the Effective Date, if an Interim Management Agreement has been entered into, the Lessee under a Rejected Lease Facility at the request of the Lessor thereunder shall transfer operational responsibility for such Facility to the Transferee pursuant to a submanagement agreement ("Submanagement Agreement") with Transferee reasonably acceptable to the parties. The Submanagement Agreement will provide that Transferee will manage and perform all functions relating to the operation of the Rejected Lease Facility, except for those functions which Lessee is required to perform as the licensee of the Rejected Lease Facility. If a Submanagement Agreement is entered into, the management fee payable to Lessee under the Interim Management Agreement shall automatically be changed to One Hundred Dollars (\$100.00) per month above the submanagement fee (which submanagement fee will be paid to the Lessee and passed through to the Transferee). Lessor shall remain responsible for providing all working capital required with respect to the Rejected Lease Facility, and the indemnification given to Lessee under the Interim Management Agreement shall be expanded to include any and all acts and omissions of the Transferee including operation of the Rejected Lease Facility under the Lessee's licenses and provider agreements.
3. Any Interim Management Agreement and Submanagement Agreement entered into as set forth above shall automatically terminate upon Transferee obtaining the necessary licenses for the operation of the Rejected Lease Facility, provided that notwithstanding such termination, in accordance with the Operations Transfer Agreement the Lessee of the Rejected Lease Facility shall allow the Lessor or Transferee thereof to operate under the relevant Lessees' Medicare and Medicaid Provider numbers (the "Prior Provider Numbers") until such time as the Lessor or Transferee, in accordance with applicable law, either (i) obtains a Medicare and Medicaid provider number in its own name or (ii) is authorized by the applicable state or federal governmental authority to bill under the Prior Provider Numbers for services rendered by it after the Effective Date, provided that in no event shall such obligation of the Lessee of such Rejected Lease Facility require that such Lessee assume pursuant to Section 365 of the Bankruptcy Code any provider agreement to which such Lessee or any of its Affiliates may be a party.
4. Prior to the Effective Date, the Lessee under a Rejected Lease Facility at the request of the Lessor thereunder shall transfer operational responsibility for such Facility to the applicable Lessor or Transferee pursuant to an Operations Transfer Agreement and a management agreement between Lessee and Transferee (the "Transferee Management Agreement") reasonably acceptable to the parties. The Transferee Management Agreement will provide that Transferee will manage and perform all functions relating to the operation of the Rejected Lease Facility, except for those functions which Lessee is required to perform as the licensee of the Rejected Lease Facility. If a Transferee Management Agreement is entered into prior to the Effective Date hereafter, the Lessor shall bear all economic risks of and be entitled to all economic reward from the Rejected Lease Facility, as more particularly set forth in Subsection 4.C. hereof. Without limiting the foregoing, if a Transferee Management Agreement is

entered into prior to the Effective Date, thereafter Lessor shall provide Lessee with all working capital required for the operation of the Rejected Lease Facility, and Lessor shall indemnify, defend and hold Lessee harmless from any and all claims and expenses accruing with respect to the Rejected Lease Facility, except for claims arising from willful misconduct or negligence of the Lessee. If a Transferee Management Agreement is entered into, the Lessee shall permit the Lessor to make all decisions required of the Lessee under the Transferee Management Agreement, except for those decisions which Lessee is required to make as the licensee of the Rejected Lease Facility. If from or after the Effective Date Lessor and Lessee enter into an Interim Management Agreement pursuant to Subsection 4.D.1., any Transferee Management Agreement shall automatically become a Submanagement Agreement governed by Subsections 4.D.2. and 4.D.3.

5. COOPERATION WITH RESPECT TO OPERATIONS BETWEEN LESSOR AND LESSEE PRIOR TO EFFECTIVE DATE

Commencing with the execution of this Agreement, the Lessee, Lessor and Transferee (when identified) of a Rejected Lease Facility shall work cooperatively with each other to design and implement a program

1. to insure patients and employees that the rejection of the Rejected Lease and the resulting change in management will not adversely affect them,
2. to encourage all patients to remain patients of the Facility, and
3. to encourage all employees of such Facility (whether employed by the Lessee or employed under a contract with an Affiliate of the Lessee) to remain employees of the Facility.

Notwithstanding the foregoing, Lessee shall have no liability to Lessor or Transferee if patients or employees leave or operation of the Facility is otherwise adversely affected by the Case or Cases.

6. OPERATIONS TRANSFER AGREEMENT

On the Effective Date or such earlier date upon which the Lessor of a Rejected Lease Facility requests that the Lessee thereunder turn over operational responsibility for such Facility to a Transferee, such Lessee and Transferee shall enter into an Operations Transfer Agreement. With the support of Lessors, Guarantor and Lessees shall use good faith efforts to obtain timely approval of the Bankruptcy Court with respect to any provisions of the Operations Transfer Agreement as to which such approval is required.

7. TRADE NAMES

The Lessee under a Rejected Lease shall be deemed to have assigned to the Lessor under such Rejected Lease the exclusive right to use without objection from any Affiliate of such Lessee the Rejected Lease Facility or Facilities' Trade Name or Trade Names, excluding the names "Sun" or "Mediplex" or any derivatives or variations thereof, in perpetuity in the markets in which such Rejected Lease Facility or Facilities are located, but without any representation that any Lessor shall have the right to use any such Trade Name or Trade Names, and no Lessee shall use such Rejected Lease Facility or Facility Trade Names in any business that competes with such Facility or Facilities.

8. HIGHLAND HILLS (FOUR SEASONS NURSING CENTER)

Guarantor and Lessees agree that any and all fines, penalties as of the date hereof and any interest that may be due thereon with respect to the Manor Care Lease applicable to the Four Seasons Nursing Center at Austin, Texas (a/k/a "Highland Hills"), shall be paid as and when due.

5. SUN LEASES

1. INDUCEMENT FOR OMEGA CONSENTING TO ASSUMPTION OF LEASES

Lessees and Guarantor agree and acknowledge that the willingness of the Lessors to consent to the assumption of the Sun Leases and to waive their position that all of the Leases have been terminated is specifically conditioned upon their agreement, and the finding of the Bankruptcy Court in the Assumption and Rejection Order, that, except as provided in Section XI and Section XII hereof, a default by one or more of the Lessees under any of the Sun Leases which is not cured after any required notice and within any applicable cure period shall, at Lessors' option, be an Event of Default under each of the Sun Leases, and that the Sun Leases (i) constitute true and bona fide leases, (ii) are each part of and subject to one of the four (4) Master Leases, i.e., the Sun Liberty Master Lease, Sun Qualicorp Lease, Sun Delta I Master Lease, and Sun Delta II Master Lease, (iii) are collectively integrated and cross-defaulted pursuant to provisions therein specifically found to be enforceable and (iv) on and after the Effective Date the Sun Leases will collectively be integrated and the cross-default provisions contained therein will be enforceable.

2. ASSUMPTION OF LEASES

The Motion to Assume and Reject shall seek, among other things, authorization to assume the Sun Leases. On the date upon which Lessees are required to satisfy Lessees' Effective Date Obligations as set forth in Section IX hereof, Lessors and Lessees shall execute appropriate instruments in form reasonably acceptable to the parties pursuant to which Lessees assume the Sun Leases and Lessors acknowledge such assumption.

3. LEASE AMENDMENTS

1. INTEGRATION OF ASSUMED MANOR CARE LEASES AND QUALICORP LEASE

The Assumption and Rejection Order shall provide that as of the Effective Date the Leased Property under the Assumed Manor Care Leases shall be integrated into and become subject to the Sun Qualicorp Lease, provided, however, that the options to purchase contained in the Assumed Manor Care Leases shall continue in full force and effect, and any and all obligations and liabilities of the Lessee under the Assumed Manor Care Leases shall become obligations and liabilities of such Lessee under the Sun Qualicorp Lease.

2. ADDITION OF FEBRUARY/MARCH 1997 LEASES TO DELTA I MASTER LEASE AGREEMENT

The Assumption and Rejection Order shall provide that as of the Effective Date the February/March 1997 Leases, amended as set forth below, shall become subject to the Sun Delta I Master Lease.

3. AMENDMENTS TO SPECIFIC LEASES

Upon the assumption thereof, pursuant to the Assumption and Rejection Order the following Leases shall be amended as hereinafter set forth as of the Effective Date:

1. FEBRUARY/MARCH 1997 LEASES

(1) Each of the February/March 1997 Leases shall be amended as follows:

- (1) The definition of "Related Leases" shall be changed to include all of the Amended Delta I Facility Leases;
- (2) The renewal options shall be changed to be the same as the renewal options under the Original Delta I Facility Leases;
- (3) The Standard Terms and Conditions shall be the Standard Terms and Conditions of the Original Delta I Facility Leases, subject to Section V.B.3.d. hereof.

2. DELTA I MASTER LEASE AGREEMENT AND DELTA II MASTER LEASE AGREEMENT

The Delta I Master Lease Agreement shall be amended to include the February/March Leases, as amended, as Facility Leases thereunder, and the Delta I Master Lease Agreement and the Delta II Master Lease Agreement shall be amended to incorporate the Sun Delta I Master Lease Minimum Rent Increase and the Sun Delta II Master Lease Minimum Rent Increase, respectively, thereunder.

3. LIBERTY LEASES

The Liberty Leases shall be amended to incorporate the Sun Liberty Leases Minimum Rent Increase.

4. QUALICORP LEASE

The Qualicorp Lease shall be amended as follows:

- (1) The Leased Property under the Assumed Manor Care Leases shall become subject to the Sun Qualicorp Lease;
- (2) From and after the Effective Date, the Base Rent shall be the sum of the Base Rent payable under the Qualicorp Lease prior to amendment and the Base Rent Allocable to the Assumed Manor Care Leases.

5. ADDITIONAL AMENDMENTS

The Sun Leases shall be further amended as may reasonably be required in order to correct and confirm inter-document, intra-document and exhibit references and conform definitions of terms used in such Sun Leases in order to carry out the intent of this Agreement.

6. GUARANTY; ACCOUNTS RECEIVABLE

1. Guarantor and Lessees shall use good faith efforts to seek the restructuring of Lessees as part of the plan of reorganization of the Lessees and Guarantor in the Case or Cases, such that:
 1. The Facilities covered by the Sun Leases are leased to one or more entities ("Sun Leases Subsidiaries") whose only business is leasing and operating such Facilities, the terms and conditions of such lease or leases with respect to each Facility to be the same as the terms and conditions of the Sun Lease applicable to such Facility;
 2. The Sun Leases Subsidiaries are owned by one or more single-purpose entities which own only the Sun Leases Subsidiaries (each such entity a "Parent");
 3. The Parent will execute a guaranty of payment and performance with respect to such lease or all such leases (and if more than one Parent, the Parents will execute a joint and several guaranty of payment and performance with respect to all such Leases) the terms and conditions of which in all material respects shall be the same as the terms and conditions of the Guaranty, except that it shall (i) exclude the Rejected Leases, and (ii) require compliance with the financial covenants imposed by the principal working capital lenders upon the ultimate parent of Lessees upon the effective date of the plan of reorganization with respect to the Case or Cases, as the same may be amended, modified or restated from time to time during the term of such guaranty, provided, however, that in the event that during the term of the guaranty there are no such covenants, Guarantor and Lessees shall in good faith negotiate reasonable financial covenants applicable to the Guarantor that shall provide reasonable assurance to the Lessors that the financial condition of Guarantor shall be adequate to enable it to perform its obligations under the guaranty; and
 4. Upon completion of the restructuring described in

this Section VI.A., the Guaranty shall be released.

2. If approval of the restructuring described in Section VI.A is denied by any regulatory agency or agencies with respect to a Sun Lease Facility or Sun Lease Facilities over which it has jurisdiction ("Denied Facilities"), then such restructuring shall be completed as required herein with respect to all Lessees under the Sun Leases, and all Sun Lease Facilities as to which such denial of approval is inapplicable, and the Guaranty shall be reinstated with respect to the Sun Leases covering the Denied Facilities pursuant to the plan of reorganization applicable to Guarantor.
3. If Guarantor and Lessees determine in good faith that the restructuring described in Section VI.A shall not be part of the plan of reorganization of Guarantor and Lessees, then Guarantor and Lessees agree that the Guaranty shall be reinstated with respect to all of the Sun Leases and amended to require compliance with the financial covenants imposed by the principal working capital lenders upon the ultimate parent of Lessees upon the effective date of the plan of reorganization with respect to the Case or Cases as such covenants may be amended, modified or restated from time to time during the term of such guaranty, and in the event there are no such covenants, to provide that Guarantor and Lessees shall in good faith negotiate reasonable financial covenants applicable to the Guarantor that shall provide reasonable assurance to the Lessors that the financial condition of Guarantor shall be adequate to enable it to perform its obligations under the Guaranty.
4. In any event, Guarantor and Lessees agree that unless the Guarantor under the reinstated Guaranty is the ultimate parent of all of the Lessees under the Sun Leases, if at any time after the effective date of the plan of reorganization applicable to a Lessee under a Sun Lease, but only during the Term of such Sun Lease, such Lessee shall grant a security interest in the accounts receivable of the Facility or Facilities covered by such Sun Lease to any party other than the Lessor under such Sun Lease ("Third Party A/R Lien"), such Lessee shall at such time also use good faith efforts to grant the Lessor under such Sun Lease a security interest in the accounts receivable of such Facility or Facilities, provided, however, that the security interest granted to such Lessor shall be subordinate to such Third Party A/R Lien and be subject to such subordination and intercreditor agreements as the holder of such Third Party A/R Lien may in its sole discretion require.
5. For purposes of this Section VI, the obligations imposed on Lessees to act in "good faith" or to use "good faith efforts" shall not require the Lessees to take any action or position that they determine in their reasonable judgment would adversely affect (i) a restructuring by the Guarantor, the Lessees or any of their Affiliates, or (ii) the ability of Guarantor, the Lessees or any of their Affiliates to effectuate such a restructuring, in the Case or Cases.

7. SECURITY AGREEMENTS

On the date on which Lessees are required to satisfy Lessees' Effective Date Obligations as set forth in Section IX hereof, (i) Lessors and Lessees shall execute and deliver such amendments to the Security Agreements and financing statements related thereto as may be appropriate as a consequence of the lease amendments to be executed pursuant to Section V hereof and the change of name of SunRise Healthcare Corporation to SunBridge Healthcare Corporation, and (ii) the Lessor under the Sun Manor Care Leases shall execute and deliver a UCC termination statement releasing the Lessor's security interest in accounts receivable under the Sun Manor Care Leases.

8. SECURITY DEPOSITS

1. Complete Care Lease. The Lessor under the Complete Care Lease currently holds a Letter of Credit in the amount of One Hundred Sixty Two Thousand Dollars (\$162,000.00) (the "Complete Care Letter of Credit") as security for the performance of the obligations of the Lessees under the Complete Care Lease (the "Complete Care Lessees"). Upon the earlier to occur of (i) any event which entitles the Complete Care Lessor to draw upon the Complete Care Letter of

Credit under the Complete Care Lease (other than the Bankruptcy Related Events (as defined in Section XI hereof) or an Event of Default arising out of a default under the Complete Care Lease that occurred prior to the date of this Agreement), (ii) the Effective Date, or (iii) the entry of any other order by the Bankruptcy Court authorizing rejection of the Complete Care Lease, the Complete Care Lessor shall be entitled to draw upon the Complete Care Letter of Credit, and shall be entitled to retain the entire proceeds thereof.

2. Delta I Master Lease

1. Delta I currently holds no security deposit with respect to the Delta I Master Lease; following the entry of the Assumption and Rejection Order, no security deposit shall be required with respect to the Original Delta I Facility Leases, except if and to the extent required under the terms of those Leases.
2. Delta I currently holds Letters of Credit totaling Six Hundred Sixty Nine Thousand Three Hundred Seventy Five Dollars (\$669,375.00) (the "February /March 1997 Letters of Credit") pursuant to the Delta I Letter of Credit Agreement. These Letters of Credit relate to the February/March 1997 Leases which are being incorporated into the Sun Delta I Master Lease. Following the Effective Date, Delta I shall continue to hold the February/March 1997 Letters of Credit in accordance with the terms of the Delta I Letter of Credit Agreement.

3. Delta II Master Lease.

Delta II currently holds no security deposit with respect to the Delta II Master Lease; following the entry of the Assumption and Rejection Order, no security deposit shall be required with respect to the Sun Delta II Facility Leases, except if and to the extent required under the terms of those Leases.

4. Liberty Leases.

The Lessors under the Liberty Leases (the "Liberty Lessors") currently hold cash security deposits (the "Liberty Cash Deposits") pursuant to the terms of the Cash Deposit Agreements identified on Exhibit B (the "Liberty Cash Deposit Agreements") in the amount of Six Hundred Four Thousand Five Hundred Forty Six and 15/100 Dollars (\$604,546.15). The Liberty Cash Deposit Agreements require a total deposit of Six Hundred Seventy Four Thousand One Hundred Seventy Three Dollars (\$674,173.00), and on the Effective Date, the Liberty Cash Deposit shall be restored to the required amount by the Lessees under the Liberty Leases. Thereafter, the Liberty Lessors shall continue to hold the Liberty Cash Deposit in accordance with the Liberty Cash Deposit Agreements.

5. Manor Care Leases.

The Lessors under the Manor Care Leases (the "Manor Care Lessors") currently hold a Letter of Credit in the amount of Four Hundred Sixty Four Thousand Six Hundred Seventy Five Dollars (\$464,675.00) (the "Manor Care Letter of Credit") as security for the performance of the obligations of the Lessees under the Manor Care Leases (the "Manor Care Lessees"). Upon the earlier to occur of (i) any event which entitles the Manor Care Lessors to draw upon the Manor Care Letter of Credit under the existing Security Agreements (other than the Bankruptcy Related Events (as defined in Section XI hereof) or an Event of Default arising out of a default under the Manor Care Leases that occurred prior to the date of this Agreement), (ii) the Effective Date, or (iii) the entry of any other Order by the Bankruptcy Court authorizing the rejection of one or more of the Manor Care Leases, the Manor Care Lessors shall be entitled to draw upon the Manor Care Letter of Credit, and shall be entitled to retain the entire proceeds thereof. The Manor Care Lessees shall not be obligated to make any new security deposit in connection with the Assumed Manor Care Leases.

6. Qualicorp Lease.

The Lessors under the Qualicorp Lease currently hold a Letter of Credit in the amount of One Million Four Hundred Forty Three Thousand Seven Hundred Fifty Dollars (\$1,443,750.00) (the "Qualicorp Letter of Credit") pursuant to the Qualicorp Letter of Credit Agreement. The Qualicorp Lessors shall continue to hold the Qualicorp Letter of Credit in accordance with the terms of the Qualicorp Letter of Credit Agreement.

Lessors acknowledge and agree that the amounts received pursuant to Paragraphs VIII(A) and (E) above and the relinquishment of the Rejected Lease Assets as provided herein are the only damages Lessors will be entitled to receive as a result of the rejection of the Rejected Leases if the Effective Date shall have occurred.

9. SATISFACTION OF LESSEES' EFFECTIVE DATE OBLIGATIONS; STAY

1. ENTRY OF ASSUMPTION AND REJECTION ORDER WITHOUT STAY

If (i) the Assumption and Rejection Order is entered prior to Lessor's termination of the Forbearance Agreement pursuant to Sections II.A. 1 or Section II.A.2 hereof, and (ii) implementation of the Assumption and Rejection Order is not stayed by an appeal from the Assumption and Rejection Order or a motion to reconsider entry of the Assumption and Rejection Order, then Lessees shall satisfy Lessees' Effective Date Obligations on the second Business Day following the tenth (10th) day after the date on which the Assumption and Rejection Order is entered or such earlier date on which the parties may agree in writing, notwithstanding that an appeal of the Assumption and Rejection Order or a motion to reconsider the same may have been filed.

2. EFFECT OF STAY

1. If (i) the Assumption and Rejection Order is entered prior to Lessor's termination of the Forbearance Agreement pursuant to Sections II.A. 1 or Section II.A.2 hereof and (ii) implementation of the Assumption and Rejection Order is stayed upon appeal of the Assumption and Rejection Order or the filing of a motion to reconsider entry of the Assumption and Rejection Order ("Stay"):

1. Any party to this Agreement may by Notice to the other parties to this Agreement given on or before the tenth (10th) day after the effective date of the Stay ("10 Day Period") terminate this Agreement, effective upon the giving of such Notice;

2. If this Agreement is not terminated within the 10 Day Period pursuant to Section IX.B.1.a. above, and if the Stay is not lifted on or before the one hundred and twentieth (120th) day after the effective date of the Stay ("120 Day Period"), then any party to this Agreement may by Notice to the other parties to this Agreement given within ten (10) days after the expiration of the 120 Day Period (the "Second 10 Day Period") terminate this Agreement, effective upon the giving of such Notice;

3. If this Agreement is not terminated within the 10 Day Period or the Second 10 Day Period pursuant to Section IX.B.1.a or Section IX.B.1.b. above, respectively, then any party to this Agreement may by Notice to all other parties to this Agreement terminate this Agreement (effective upon the giving of such Notice) if

(1) the District Court which considered the appeal remands the proceeding back to the Bankruptcy Court for

further non-ministerial proceedings or vacates the Assumption and Rejection Order, or

- (2) the District Court denies the appeal, the District Court's ruling is appealed to the Appellate Court for the Third Circuit and a stay is entered with respect to that appeal;

4. If this Agreement is not terminated within the 10 Day Period or the Second 10 Day Period pursuant to Section IX.B.1.a or Section IX.B.1.b. above, respectively, or pursuant to Section IX.B.1.C. above:

- (1) This Agreement shall terminate at the option of Lessors, effective upon the giving of Notice to all other parties, if

- (1) The Stay is lifted, and Lessees fail to satisfy Lessees' Effective Date Obligations within the time and as required by Section IX.B.2., hereof;

- (2) Guarantor and Lessees propose or support any plan of reorganization which if confirmed would (a) require rejection of any of the Sun Leases or (b) materially and adversely affect (i) any of the Facilities leased under the Sun Leases or (ii) the ability of a Lessee under a Sun Lease to perform its obligations under such Lease;

- (3) Any Facility covered by a Sun Lease suffers (i) loss of licensure or (ii) decertification from participation in the Medicare and/or Medicaid programs.

- (2) Without the termination of the Agreement, the obligation of a Lessor to forbear, as set forth in Section II hereof, shall terminate at the option of Lessors, effective upon the giving of Notice to all other parties:

- (1) With respect to any Facility covered by a Sun Lease to which such Lessor is a party as to which any Regulatory Agency (as defined in Section XII hereof) sets forth in writing a failure of such Facility or the Lessee thereof to comply with an applicable law, regulation or administrative order with respect to which the scope and severity of the potential penalty for such non-compliance is one or more of (i) loss of licensure, (ii) decertification of the Facility from participation in the Medicare and/or Medicaid programs, (iii) appointment of a temporary manager or (iv) denial of payment for new admissions (such Facility a "Threatened Facility" and such failure a "Regulatory Failure"), and the Lessee of the Threatened Facility fails to cure the Regulatory Failure within the

period of time required by such Regulatory Agency or, if longer, the period of time set forth in a Plan of Correction accepted by such Regulatory Agency, and

- (2) With respect to the Sun Lease under which the Threatened Facility is leased, but only as to the Threatened Facility, provided, however, that notwithstanding the termination of such forbearance, no Event of Default under such Sun Lease that exists because of, or arises or may arise out of, the Regulatory Failure shall constitute an Event of Default with respect to any other Facility under such Sun Lease or under any other Sun Lease.

2. If a Stay is issued and this Agreement is not terminated pursuant to Section IX.B.I, the date on or before which Lessees shall satisfy Lessees' Effective Date Obligations shall be the second Business Day following the date on which the Stay is lifted. For purposes of this Section IX, if a Stay is issued and lifted, and a new Stay is issued on or prior to the earlier of the (i) Effective Date, or (ii) the second Business Day after the day on which the original Stay is lifted, a Stay shall be deemed to have been continuously in effect.

3. Notwithstanding the provisions of Section IV.A, if a Stay is issued and this Agreement is not terminated pursuant to Section IX.B.1, Base Rent with respect to the Rejected Lease Facilities for the period from and after the end of the Accrual Period through the earlier of (i) the termination of this Agreement or (ii) the Effective Date shall be payable, as and when due according to the terms of such Rejected Leases, at the rate of fifty percent (50%) of the Base Rent with respect to the Rejected Lease Facilities, and the remaining fifty percent (50%) of such Base Rent shall be waived by the Lessors of such Rejected Leases for such period.

3. Guarantor and Lessees shall (i) oppose any motion to reconsider the Assumption and Rejection Order and (ii) seek affirmation of the Assumption and Rejection Order upon any appeal thereof.

10. RIGHT OF FIRST OFFER

Provided that (1) the Sun Leases are assumed pursuant to a final and non-appealable Assumption and Rejection Order, (2) a plan of reorganization is confirmed with respect to each of the Lessees and Guarantor and (3) no uncured material Event of Default exists under the applicable Sun Lease (s), the Lessees of the Sun Leases shall have a right of first offer on the following terms and conditions:

1. In the event any Lessor or Lessors (such Lessor, or collectively, such Lessors "Seller") shall wish to sell a Facility or Facilities then subject to an Sun Lease or Sun Leases ("Designated Assets") at any time during the Fixed Term of such Sun Lease, it shall first in writing offer to enter into negotiations for such sale with the Lessee or Lessees thereof or any Affiliate of such Lessee or Lessees ("Seller's Notice"). If such Lessee or Lessees or an Affiliate thereof ("Buyer") shall within ten (10) days from receipt of Seller's Notice give Seller Notice (as defined in the applicable Lease) ("Buyer's Notice") that it wishes to enter into good faith negotiations for the purchase of the Designated Assets ("Notice of Interest") within the specified time period, Seller and Buyer shall enter into good faith negotiations for a period of thirty (30) days from Lessor's receipt of the Notice of Interest ("Negotiation Period") for the sale and purchase of the Designated Assets. If during the Negotiation Period a written agreement with respect to the purchase and sale of the Designated Assets ("Purchase Agreement") is executed by Seller and Buyer, Seller shall sell and Buyer shall purchase the Designated Assets on

the terms and conditions set forth in the Purchase Agreement. If (i) a Notice of Interest is not given as set forth above, for a period of one (1) year after the expiration of the time within which a Notice of Interest was required to be given, or (ii) a Notice of Interest is given but Seller and Buyer do not execute a Purchase Agreement during the Negotiation Period, for a period of one (1) year from the expiration of the Negotiation Period, if Seller in its sole discretion continues to desire to sell the Designated Assets, Seller shall be free to sell the Designated Assets to any third party for a Cash Price that is not less than ninety eight percent (98%) of a Cash Price offered unconditionally by written notice to Seller by Buyer during the Negotiation Period, free from any claim of any right to purchase the Designated Assets by Buyer, Guarantor or any Affiliate of Buyer or Guarantor. For purposes of the preceding sentence, a "Cash Price" shall be the amount to be received by Seller in cash or equivalent upon the closing of the sale net of prorations and expenses to be borne by Seller. If the Designated Assets are not sold within such one (1) year period, before entering into negotiations with any third party for the sale of the Designated Assets Seller shall first offer to enter into negotiations for the sale thereof to Buyer pursuant to the process described above. Any sale to a third party shall be subject to the leasehold rights of the applicable Lessee(s).

2. The foregoing right of first offer is not assignable by the Lessee to which it is given hereunder except to an Affiliate of such Lessee.

3. The foregoing right of first offer shall simultaneously and automatically terminate as to any Sun Lease with respect to which the right of first offer would otherwise be applicable, upon termination of such Sun Lease, and the foregoing right of first offer shall not under any circumstances be extended, modified or in any way altered except by a writing executed by the Lessor of the Sun Lease to which such right applies.

11. RELEASES AND WAIVERS

1. Upon the Effective Date, Guarantor and each Lessee does for itself and its successors and assigns forever release and discharge each Lessor and its current and former officers, directors, partners, shareholders, attorneys, agents, parents, Affiliates, employees, successors and assigns from any and all actions, causes of action, claims, debts, demands, duties, expenses, judgments, liabilities and obligations whatever, whether known or unknown, which the releasing party has, has had or may have against any or all Lessors and the above described persons and entities, whether presently known or unknown, whether from contract or tort, from the beginning of time to the Effective Date, arising out of or connected with, directly or indirectly, any of the Leases.

2. Except for the Lessees' Monetary Obligations, Lessors acknowledge and agree that the Lessees have paid Lessors all Base Rent, Minimum Rent and other monetary amounts owing to Lessors under the Leases through the date hereof. Upon the Effective Date, other than with respect to amounts owing under the Rejected Leases which shall be handled as set forth in Section IV hereof and amounts owing for the period between the date of this Agreement and the Effective Date under the Leases that pursuant to Section V hereof are to be assumed, each Lessor for itself and its successors and assigns shall forever release and discharge each Lessee and Guarantor and their current and former officers, directors, partners, shareholders, attorneys, agents, parents, Affiliates, employees, successors and assigns, from any and all actions, claims, debts, demands, duties, expenses, judgments, liabilities and obligations whatever, whether known or unknown, whether from contract or tort, from the beginning of time to the Effective Date, arising out of or connected with, directly or indirectly, any of the Leases or the Guaranty, including without limitation amounts owing under the Leases by Lessees to Lessors through the Effective Date, provided, however, that except as provided in Section XII

hereof, the foregoing release of each Lessee and Guarantor with respect to non-monetary obligations shall apply only to non-monetary obligations of the Lessees under the Leases on or before the date of this Agreement, and as to non-monetary defaults that are subject to the provisions of Section XII hereof there is no release. In addition, upon the Effective Date, Lessors shall have waived (i) their claims that all of the Leases, other than the Complete Care Leases (as to which no claim of termination has been made by the applicable Lessor), have been terminated (and shall have withdrawn all issued notices of termination with respect to the Leases), (ii) any and all damage claims relative to the Rejected Leases, (iii) any and all liens against the accounts receivable related to the Facilities governed by the Sun Leases or Rejected Leases and (iv), notwithstanding any provision of any Lease to the contrary, the right to claim that any of the following conditions concerning, actions taken by or against, or transactions entered into by, any Lessee, Guarantor or Affiliate thereof that exist or occur during the Cases or pursuant to a plan of reorganization in the Cases requires the consent of any Lessor, or constitutes, or gives rise to, a default or an Event of Default under any of the Leases: (a) the insolvency or financial condition of any of the foregoing, the commencement of a case under Title 11, United States Code, the appointment of or taking possession by a trustee, custodian or receiver, or any other act of insolvency, (b) the liquidation, dissolution, merger, consolidation or sale of substantially all assets, or the beginning of any process related thereto, (c) the assignment, pledge or encumbrance of any property, (d) the sale, pledge, hypothecation or transfer of any stock, (e) the acceleration of any obligation for borrowed money as a result of the commencement of any case under Title 11, United States Code, (f) the entry into any financing transaction, including without limitation exit financing under any plan of reorganization or debtor in possession financing or (g) any restructuring, whether pursuant to a plan of reorganization or otherwise, of the corporate or capital structure, or ownership, of such entities, including without limitation transfers of ownership of the stock or assets of any of the foregoing (as to such matters in clause (iv), "Bankruptcy Related Events").

12. PHYSICAL PLANT REQUIREMENTS

1. As used in this Section, the following terms shall mean as follows:

Actual Knowledge: The actual knowledge of the administrator of the Facility in question or, if at the applicable time there is no administrator of such Facility, the person then acting in such capacity.

Citation: Any physical plant deficiency set forth in writing with respect to any Facility by any Regulatory Agency with respect to which the scope and severity of the potential penalty for such deficiency is one or more of the following: loss of licensure, decertification of the Facility from participation in the Medicare and/or Medicaid programs, appointment of a temporary manager or denial of payment for new admissions, provided the Lessee of such Facility has Actual Knowledge thereof.

Pendency of the Case: With respect to each Case, the period beginning on the date hereof and continuing through the earliest of (i) any party obtaining a post-confirmation judgment against the Lessee or Lessees to which such Case pertains; (ii) the "Effective Date" as defined in the confirmed plan of reorganization with respect to such Case; (iii) dismissal of such Case; and (iv) conversion of such Case to a Chapter 7.

Physical Plant Abeyance Period: The Forbearance Period, or if the Assumption and Rejection Order is entered, with respect to each Case, the Pendency of the Case.

Physical Plant Requirements: All obligations of Lessees under the Sun Leases relating to the maintenance, repair and improvement of the Facilities covered thereby.

Regulatory Agency: Any governmental body or agency, or Medicare intermediary, having regulatory oversight over a Facility or a Lessee.

Tier A Improvements: The physical plant improvements set forth on attached Exhibit G.

2. The obligations imposed on the Lessee in each Sun Lease relating to Physical Plant Requirements shall continue in full force and effect throughout the Pendency of the Case with respect to the Lessee thereunder.
3. Notwithstanding any provisions to the contrary in the Sun Leases, the Lessees under the Sun Leases shall make the Tier A improvements within six (6) months from the Effective Date, subject to delays beyond the reasonable control of such Lessees.
4. During the Physical Plant Abeyance Period, notwithstanding any provisions of any Sun Lease to the contrary, the rights of the Lessors of the Sun Leases with respect to the following matters shall be as follows:
 1. In the event any Facility covered by a Sun Lease has prior to the date hereof received, or shall during the period from the date hereof to the Effective Date receive, a Citation, the obligations imposed on the Lessee in each Sun Lease relating thereto shall continue in full force and effect throughout the Pendency of the Case with respect to the Lessee thereunder, but the Lessor's rights during the Pendency of the Case in the event of a breach thereof shall be subject to the limitations set forth in Section XI.D.3
 2. In the event that any Facility covered by a Sun Lease shall receive a Citation with respect to such Facility during the Pendency of the Case but after the Effective Date, the failure of the Lessee under such Sun Lease to cure the condition that is the subject of the Citation within the period of time required by the issuer of the Citation or, if longer, the period of time set forth in a Plan of Correction accepted by the issuer of the Citation, shall constitute an Event of Default under such Sun Lease, and in the event such Event of Default is not cured within thirty (30) days following Notice of such Event of Default from the Lessor under such Sun Lease to the Lessee thereunder, the Lessor thereunder shall have the right to terminate such Sun Lease with respect to the cited Facility, which right shall be exercisable upon ten (10) days' prior Notice to such Lessee, provided, however, that an Event of Default described in this Section XI.D.2. shall not constitute an Event of Default with respect to any other Facility under such Sun Lease or under any other Sun Lease.
 3. In the event that any Facility covered by a Sun Lease shall receive a Citation during the Pendency of the Case and prior to the Effective Date, the Lessor under such Sun Lease shall not have the right to (Y) declare an Event of Default with respect to such default, or (Z) take any other action with respect to terminating the Lease as a consequence of such default until the expiration of the Physical Plant Abeyance Period, provided, however, that nothing herein contained shall prevent or restrict a Lessor from seeking an order of the Bankruptcy Court compelling Lessee to cure the condition that is the subject of the Citation with respect to any such default within the period of time required by the issuer of the Citation or, if longer, the period of time set forth in a Plan of Correction accepted by the issuer of the Citation
5. Upon expiration of the Physical Plant Abeyance Period, if (i) a default with respect to a Physical Plant Requirement shall exist or thereafter occur, (ii) Notice of such default is given to the applicable Lessee after expiration of the Physical Plant Abeyance Period and (iii) such default is not cured within the applicable cure period provided in such Sun Lease (which cure period shall run from the date of the Notice given after the expiration of the Physical Plan Abeyance Period whether or not a Notice of default has been given to such Lessee prior to the expiration of the Physical Plant Abeyance Period), the Lessor under the Lease

as to which such default exists shall have the right to declare the same to be an Event of Default thereunder, and upon such declaration such Lessor and the Lessors of all other Sun Leases shall have the rights and remedies provided in the Sun Leases and by law with respect to such Event of Default.

13. NOTICES

All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given upon confirmed receipt or refusal of receipt if sent by certified mail, return receipt requested, postage prepaid, overnight delivery or facsimile transmission, with proper address as indicated below. Any of the parties hereto may, by written notice given to each of the other parties, designate any address or addresses to which notices, certificates or other communications shall be sent when required as contemplated by this Agreement. Until otherwise provided by the respective parties, all notices, certificates and communications to each of them shall be addressed as follows:

(a) if to Guarantor and Lessees:
Sun Healthcare Group, Inc.
101 Sun Avenue NE
Albuquerque, NM 87109
Attn: President
Telephone No.: (505) 798-5607
Facsimile No.: (505) 798-6635

With copy to: Sun Healthcare Group, Inc.
101 Sun Avenue NE
Albuquerque, NM 87109
Attn: General Counsel and Matthew Patrick
Telephone No.: (505) 798-5607
Facsimile No.: (505) 798-6635

And a copy to: The Nathanson Group PLLC
(which shall not 1411 Fourth Avenue, Suite 905
constitute notice): Seattle, WA 98101
Attn: Randi S. Nathanson
Telephone No.: (206) 623-6239
Facsimile No.: (206) 623-1738

(b) If to Lessors:
Omega Healthcare Investors, Inc.
900 Victors Way, Suite 350
Ann Arbor, Michigan 48108
Attn: F. Scott Kellman and Susan Allene Kovach
Telephone No.: (734) 887-0200
Facsimile No.: (734) 887-0201

With copy to Dykema Gossett PLLC
(which shall not 1577 North Woodward Avenue, Suite 300
constitute notice): Bloomfield Hills, Michigan 48304
Attn: Fred J. Fechheimer
Telephone No.: (248) 203-0743
Facsimile No.: (248) 203-0763

And copy to Greenberg Traurig
(which shall not 227 W. Monroe
constitute notice): Suite 3500
Chicago, IL 60606
Attn: Keith J. Shapiro
Telephone No.: (312) 456-8405
Facsimile No.: (312) 456-8435

14. INTENTIONALLY DELETED

15. MISCELLANEOUS

1. Entire Agreement. There are no oral or written agreements or representations between the parties hereto affecting this Agreement. Except as elsewhere expressly provided to the contrary herein, this Agreement supersedes any and all previous negotiations, arrangements, representations, agreements and understandings, if any, between Lessors, Guarantor and Lessees with respect to the subject matter of

this Agreement.

2. Amendments in Writing. No provision of this Agreement may be amended except by an agreement in writing signed by Lessors, Guarantor and Lessees.

3. Counterparts. This Agreement may be executed in separate counterparts, each of which shall be considered an original when each party has executed and delivered to the other one or more copies of this Agreement.

4. Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

5. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Michigan, except as to matters which, under applicable procedural conflicts of laws rules require the application of laws of another state.

SIGNATURE PAGES FOLLOW

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the ___ day of October, 1999.

DELTA INVESTORS I, LLC

By: OMEGA HEALTHCARE INVESTORS, INC.
Its Sole Member

By: /s/ F. SCOTT KELLMAN

F. Scott Kellman
Its: Chief Operating Officer

DELTA INVESTORS II, LLC

By: OMEGA HEALTHCARE INVESTORS, INC.
Its Sole Member

By: /s/ F. SCOTT KELLMAN

F. Scott Kellman
Its: Chief Operating Officer

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ F. SCOTT KELLMAN

F. Scott Kellman
Its: Chief Operating Officer

OHI (ILLINOIS), INC.

By: /s/ F. SCOTT KELLMAN

F. Scott Kellman
Its: Chief Operating Officer

SUN HEALTHCARE GROUP, INC.,
a Delaware corporation

By: /s/ MATTHEW PATRICK

Matthew Patrick
Its: Vice President and Treasurer

SIGNATURES OF LESSEES ON FOLLOWING PAGE

LESSEES:

Care Enterprises, Inc., a Delaware corporation
Care Enterprises West, a Utah corporation
Circleville Health Care Corp., an Ohio corporation
Beckley Health Care Corp., a West Virginia corporation
Braswell Enterprises, Inc., a California corporation
Coalinga Rehabilitation Center, a Delaware corporation
Dunbar Health Care Corp., a Delaware corporation
Fullerton Rehabilitation Center, a California corporation
Marion Health Care Corp., a Delaware corporation
Meadowbrook Rehabilitation Center, a California corporation
Mediplex Management of Palm Beach County, Inc., a Florida corporation
Newport Beach Rehabilitation Center, a California corporation
Putnam Health Care Corp., a West Virginia corporation
Regency Rehab Hospitals, Inc., a California corporation
Regency-North Carolina, Inc., a North Carolina corporation
Regency-Tennessee, Inc., a Tennessee corporation
San Bernardino Rehabilitation Hospital, Inc., a California corporation
Salem Health Care Corp., a West Virginia corporation
Shandin Hills Rehabilitation Center, a California corporation
SunBridge Healthcare Corporation, a New Mexico corporation
Vista Knoll Rehabilitation Center, Inc., a California corporation

By: /s/ Matthew Patrick

LIST OF EXHIBITS

- EXHIBIT A - Leases and Subleases and Names of Health Care Facilities
- EXHIBIT B - Security Agreements
- EXHIBIT C - Assumption and Rejection Order
- EXHIBIT D - Schedule of Amounts Owed
- EXHIBIT E - Operations Transfer Agreement
- EXHIBIT F - Sun Transaction Documents
- EXHIBIT G - Tier A Improvements

<TABLE>
<CAPTION>

EXHIBIT 11

STATEMENT RE: COMPUTATION OF PER-SHARE EARNINGS

<S>	Year Ended December 31,		
	1999	1998	1997
	----	----	----
	<C>	<C>	<C>
Net earnings available to common before gains or losses on asset dispositions	\$ 40,047	\$ 41,777	\$ 41,305
	=====	=====	=====
Net earnings	\$ 10,040	\$ 68,015	\$ 41,305
	=====	=====	=====
Average shares outstanding	19,877	20,034	19,085
Basic per-share amounts:			
Net earnings	\$ 0.51	\$ 3.39	\$ 2.16
	=====	=====	=====
Net earnings before gains or losses on asset dispositions	\$ 2.01	\$ 2.09	\$ 2.16
	=====	=====	=====
Average shares outstanding	19,877	20,034	19,085
Stock option incremental shares	0	7	52
	-----	-----	-----
Average shares outstanding, diluted	19,877	20,041	19,137
	=====	=====	=====
Diluted per-share amounts:			
Net earnings	\$ 0.51	\$ 3.39	\$ 2.16
	=====	=====	=====
Net earnings before asset dispositions	\$ 2.01	\$ 2.08	\$ 2.16
	=====	=====	=====
Diluted assuming conversion of debt:			
Net earnings before gains or losses on asset dispositions	\$ 40,047	\$ 41,777	\$ 41,305
Add interest expense associated with Convertible debentures	4,381	4,714	6,279
	-----	-----	-----
Total	\$ 44,428	\$ 46,491	\$ 47,584
	=====	=====	=====
Average shares outstanding	19,877	20,034	19,085
Assumed conversion of debentures	1,794	1,899	2,583
Stock option incremental shares	0	7	52
	-----	-----	-----
Total	21,671	21,940	21,720
	=====	=====	=====
Per-share amount (antidilutive)	\$ 2.05	\$ 2.12	\$ 2.19
	=====	=====	=====

</TABLE>

EXHIBIT 12

RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS (1)

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

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (1)	1.77X	2.04X	2.48X	2.66X	2.92X

</TABLE>

- -----

(1) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, net earnings (before non-recurring items) has been added to fixed charges, and that sum has been divided by such fixed charges. Fixed charges consist of interest expense and amortization of deferred financing costs, and for each of the three years ended December 31, 1997, 1998 and 1999, cumulative preferred stock dividends are included starting as of the dates of issuance of the Series A Cumulative Preferred Stock and Series B Cumulative Preferred Stock.

LIST OF SUBSIDIARIES

OMEGA HEALTHCARE INVESTORS, INC.

Names	Jurisdiction of Incorporation
-----	-----
Bayside Street, Inc.	Maryland
Delta Investors I, LLC	Maryland
Delta Investors II, LLC	Maryland
Jefferson Clark, Inc	Maryland
OHI (Clemmons), Inc.	North Carolina
OHI (Connecticut), Inc.	Connecticut
OHI (Florida), Inc.	Florida
OHI (Greensboro), Inc.	North Carolina
OHI (Illinois), Inc.	Illinois
OHI (Iowa), Inc.	Iowa
OHI (Kansas), Inc.	Kansas
OHI of Kentucky, Inc.	Maryland
OHI of Texas, Inc.	Maryland
OHIMA, Inc.	Massachusetts
Omega Healthcare of Apalachicola, Inc.	Florida
Omega (Kansas), Inc.	Kansas
OS Leasing	Kentucky
Sterling Acquisition Corp.	Kentucky
Sterling Acquisition Corp.II ...	Kentucky

Consent of Independent Auditors

We consent to the incorporation by reference in (1) Registration Statement No. 33-308415 on Form S-3 dated July 19, 1996 related to the Dividend Reinvestment and Common Stock Purchase Plan, (2) Shelf Registration Statement No. 33-32119 on Form S-4 dated February 4, 1997, (3) Registration Statement No. 333-69807 dated December 29, 1998 related to the 1993 Amended and Restated Stock Option and Restricted Stock Plan, and (4) Shelf Registration Statement No. 333-69675 on Form S-3 dated January 14, 1999, of our report dated January 21, 2000 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, 1999.

/s/ Ernst & Young LLP

Detroit, Michigan
January 24, 2000

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FILED AS PART OF THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH INFORMATION IN FORM 10-K.

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