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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OMEGA HEALTHCARE INVESTORS, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

1-11316
(Commission file number)

38-3041398
(IRS Employer Identification No.)

303 International Circle, Suite 200, Hunt Valley, MD 21030
(Address of principal executive offices)

(410) 427-1700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|-------------------------------|-------------------|---|
| Common Stock, \$.10 par value | OHI | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 29, 2021, there were 235,359,702 shares of common stock outstanding.

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
March 31, 2021

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PART I - FINANCIAL INFORMATION**Item 1 - Financial Statements****OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)**

| | <u>March 31,</u> <u>2021</u> | <u>December 31,</u> <u>2020</u> |
|--|---------------------------------|------------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Real estate properties | | |
| Real estate investments | \$ 9,261,190 | \$ 8,702,154 |
| Less accumulated depreciation | (2,069,822) | (1,996,914) |
| Real estate investments - net | 7,191,368 | 6,705,240 |
| Investments in direct financing leases - net | 10,757 | 10,764 |
| Mortgage notes receivable - net | 890,068 | 885,313 |
| | 8,092,193 | 7,601,317 |
| Other investments - net | 444,719 | 467,442 |
| Investments in unconsolidated joint ventures | 204,646 | 200,638 |
| Assets held for sale - net | 7,922 | 81,452 |
| Total investments | 8,749,480 | 8,350,849 |
| Cash and cash equivalents | 51,376 | 163,535 |
| Restricted cash | 4,522 | 4,023 |
| Contractual receivables - net | 11,428 | 10,408 |
| Other receivables and lease inducements | 236,669 | 234,666 |
| Goodwill | 651,679 | 651,737 |
| Other assets | 117,648 | 82,231 |
| Total assets | <u>\$ 9,822,802</u> | <u>\$ 9,497,449</u> |
| LIABILITIES AND EQUITY | | |
| Revolving line of credit | \$ 135,000 | \$ 101,158 |
| Term loans - net | 49,914 | 186,349 |
| Secured borrowings | 367,685 | 369,524 |
| Senior notes and other unsecured borrowings - net | 4,855,286 | 4,512,221 |
| Accrued expenses and other liabilities | 256,338 | 280,824 |
| Deferred income taxes | 10,249 | 10,766 |
| Total liabilities | <u>5,674,472</u> | <u>5,460,842</u> |
| Equity: | | |
| Preferred stock \$1.00 par value authorized - 20,000 shares, issued and outstanding - none | — | — |
| Common stock \$.10 par value authorized - 350,000 shares, issued and outstanding - 233,386 shares as of March 31, 2021 and 231,199 as of December 31, 2020 | 23,338 | 23,119 |
| Common stock - additional paid-in capital | 6,226,543 | 6,152,887 |
| Cumulative net earnings | 2,754,713 | 2,594,735 |
| Cumulative dividends paid | (5,074,432) | (4,916,097) |
| Accumulated other comprehensive income (loss) | 23,230 | (12,768) |
| Total stockholders' equity | 3,953,392 | 3,841,876 |
| Noncontrolling interest | 194,938 | 194,731 |
| Total equity | 4,148,330 | 4,036,607 |
| Total liabilities and equity | <u>\$ 9,822,802</u> | <u>\$ 9,497,449</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
(in thousands, except per share amounts)

| | Three Months Ended | |
|---|--------------------------|-------------------------|
| | March 31, | |
| | 2021 | 2020 |
| Revenues | | |
| Rental income | \$ 237,761 | \$ 221,500 |
| Income from direct financing leases | 258 | 258 |
| Mortgage interest income | 23,625 | 19,685 |
| Other investment income | 11,652 | 10,652 |
| Miscellaneous income | 472 | 929 |
| Total revenues | <u>273,768</u> | <u>253,024</u> |
| Expenses | | |
| Depreciation and amortization | 84,849 | 82,643 |
| General and administrative | 16,152 | 15,923 |
| Real estate taxes | 2,729 | 3,666 |
| Acquisition, merger and transition related costs | 1,814 | (225) |
| Impairment on real estate properties | 28,689 | 3,639 |
| Recovery on direct financing leases | (553) | — |
| (Recovery) provision for credit losses | (1,024) | 1,486 |
| Interest expense | 58,521 | 55,202 |
| Total expenses | <u>191,177</u> | <u>162,334</u> |
| Other income (expense) | | |
| Other income (expense) - net | 231 | (804) |
| Loss on debt extinguishment | (29,670) | — |
| Gain on assets sold - net | 100,342 | 1,838 |
| Total other income | <u>70,903</u> | <u>1,034</u> |
| Income before income tax expense and income from unconsolidated joint ventures | 153,494 | 91,724 |
| Income tax expense | (958) | (1,005) |
| Income from unconsolidated joint ventures | 11,830 | 1,560 |
| Net income | 164,366 | 92,279 |
| Net income attributable to noncontrolling interest | (4,388) | (2,364) |
| Net income available to common stockholders | <u>\$ 159,978</u> | <u>\$ 89,915</u> |
| Earnings per common share available to common stockholders: | | |
| Basic: | | |
| Net income available to common stockholders | <u>\$ 0.69</u> | <u>\$ 0.40</u> |
| Diluted: | | |
| Net income | <u>\$ 0.69</u> | <u>\$ 0.39</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited
(in thousands)

| | Three Months Ended | |
|---|---------------------------|-------------------------|
| | March 31, | |
| | 2021 | 2020 |
| Net income | \$ 164,366 | \$ 92,279 |
| Other comprehensive income (loss): | | |
| Foreign currency translation | 1,186 | (18,771) |
| Cash flow hedges | 35,801 | (7,844) |
| Total other comprehensive income (loss) | <u>36,987</u> | <u>(26,615)</u> |
| Comprehensive income | 201,353 | 65,664 |
| Comprehensive income attributable to noncontrolling interest | (5,377) | (1,679) |
| Comprehensive income attributable to common stockholders | <u>\$ 195,976</u> | <u>\$ 63,985</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Three Months Ended March 31, 2021 and 2020
Unaudited
(in thousands, except per share amounts)

| | Common Stock Par Value | Additional Paid-in Capital | Cumulative Net Earnings | Cumulative Dividends Paid | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
|---|------------------------------|----------------------------------|-------------------------------|------------------------------|--|----------------------------------|----------------------------|--------------------|
| Balance at December 31, 2020 | \$23,119 | \$6,152,887 | \$2,594,735 | \$ (4,916,097) | \$ (12,768) | \$ 3,841,876 | \$ 194,731 | \$4,036,607 |
| Stock related compensation | 2 | 5,431 | — | — | — | 5,433 | — | 5,433 |
| Vesting/exercising of equity compensation plan, net of tax withholdings | 13 | (2,525) | — | — | — | (2,512) | — | (2,512) |
| Dividend reinvestment and stock purchase plan | 42 | 15,450 | — | — | — | 15,492 | — | 15,492 |
| Equity Shelf Program | 162 | 59,985 | — | — | — | 60,147 | — | 60,147 |
| Vesting/exercising of Omega OP Units | — | (4,767) | — | — | — | (4,767) | 4,767 | — |
| Common dividends declared (\$0.67 per share) | — | — | — | (158,335) | — | (158,335) | — | (158,335) |
| Conversion and redemption of Omega OP Units to common stock | — | 82 | — | — | — | 82 | (82) | — |
| Omega OP Units distributions | — | — | — | — | — | — | (9,855) | (9,855) |
| Comprehensive income: | | | | | | | | |
| Foreign currency translation | — | — | — | — | 1,153 | 1,153 | 33 | 1,186 |
| Cash flow hedges | — | — | — | — | 34,845 | 34,845 | 956 | 35,801 |
| Net income | — | — | 159,978 | — | — | 159,978 | 4,388 | 164,366 |
| Total comprehensive income | | | | | | | | 201,353 |
| Balance at March 31, 2021 | <u>\$23,338</u> | <u>\$6,226,543</u> | <u>\$2,754,713</u> | <u>\$ (5,074,432)</u> | <u>\$ 23,230</u> | <u>\$ 3,953,392</u> | <u>\$ 194,938</u> | <u>\$4,148,330</u> |
| Balance at December 31, 2019 | \$22,663 | \$5,992,733 | \$2,463,436 | \$ (4,303,546) | \$ (39,858) | \$ 4,135,428 | \$ 201,166 | \$4,336,594 |
| Cumulative effect of accounting change | — | — | (28,028) | — | — | (28,028) | (757) | (28,785) |
| | <u>22,663</u> | <u>5,992,733</u> | <u>2,435,408</u> | <u>(4,303,546)</u> | <u>(39,858)</u> | <u>4,107,400</u> | <u>200,409</u> | <u>4,307,809</u> |
| Stock related compensation | — | 4,694 | — | — | — | 4,694 | — | 4,694 |
| Vesting/exercising of equity compensation plan, net of tax withholdings | 9 | (3,158) | — | — | — | (3,149) | — | (3,149) |
| Dividend reinvestment and stock purchase plan | 9 | 3,738 | — | — | — | 3,747 | — | 3,747 |
| Equity Shelf Program | 5 | 1,826 | — | — | — | 1,831 | — | 1,831 |
| Vesting/exercising of Omega OP Units | — | (2,608) | — | — | — | (2,608) | 2,608 | — |
| Common dividends declared (\$0.67 per share) | — | — | — | (154,661) | — | (154,661) | — | (154,661) |
| Conversion and redemption of Omega OP Units to common stock | — | 336 | — | — | — | 336 | (336) | — |
| Omega OP Units distributions | — | — | — | — | — | — | (7,290) | (7,290) |
| Comprehensive income: | | | | | | | | |
| Foreign currency translation | — | — | — | — | (18,288) | (18,288) | (483) | (18,771) |
| Cash flow hedges | — | — | — | — | (7,642) | (7,642) | (202) | (7,844) |
| Net income | — | — | 89,915 | — | — | 89,915 | 2,364 | 92,279 |
| Total comprehensive income | | | | | | | | 65,664 |
| Balance at March 31, 2020 | <u>\$22,686</u> | <u>\$5,997,561</u> | <u>\$2,525,323</u> | <u>\$ (4,458,207)</u> | <u>\$ (65,788)</u> | <u>\$ 4,021,575</u> | <u>\$ 197,070</u> | <u>\$4,218,645</u> |

See notes to consolidated financial statements.

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

| | March 31, | |
|--|------------------|-------------------|
| | 2021 | 2020 |
| Cash flows from operating activities | | |
| Net income | \$ 164,366 | \$ 92,279 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 84,849 | 82,643 |
| Impairment on real estate properties | 28,689 | 3,639 |
| Recovery on direct financing leases | (553) | — |
| Provision for rental income | 2,750 | — |
| (Recovery) provision for credit losses | (1,024) | 1,486 |
| Amortization of deferred financing costs and loss on debt extinguishment | 32,423 | 2,461 |
| Accretion of direct financing leases | 12 | 6 |
| Stock-based compensation expense | 5,396 | 4,635 |
| Gain on assets sold - net | (100,342) | (1,838) |
| Amortization of acquired in-place leases - net | (6,221) | (1,291) |
| Effective yield payable (receivable) on mortgage notes | 311 | (87) |
| Interest paid-in-kind | (1,754) | (1,982) |
| Loss (income) from unconsolidated joint ventures | 72 | (951) |
| Change in operating assets and liabilities - net: | | |
| Contractual receivables | (1,020) | (307) |
| Straight-line rent receivables | (13,459) | (4,784) |
| Lease inducements | 1,168 | (13,786) |
| Other operating assets and liabilities | (19,688) | (23,055) |
| Net cash provided by operating activities | <u>175,975</u> | <u>139,068</u> |
| Cash flows from investing activities | | |
| Acquisition of real estate | (594,504) | (19,085) |
| Refund of acquisition deposit | 2,500 | — |
| Net proceeds from sale of real estate investments | 188,253 | 18,091 |
| Investments in construction in progress | (9,806) | (27,734) |
| Proceeds from sale of direct financing lease and related trust | 553 | — |
| Placement of mortgage loans | (4,717) | (4,269) |
| Collection of mortgage principal | 1,065 | 1,335 |
| Investments in unconsolidated joint ventures | (10,443) | (495) |
| Distributions from unconsolidated joint ventures in excess of earnings | 7,489 | 179 |
| Capital improvements to real estate investments | (4,012) | (12,758) |
| Receipts from insurance proceeds | 3,017 | 311 |
| Investments in other investments | (27,636) | (23,813) |
| Proceeds from other investments | 51,911 | 13,084 |
| Net cash used in investing activities | <u>(396,330)</u> | <u>(55,154)</u> |
| Cash flows from financing activities | | |
| Proceeds from credit facility borrowings | 1,210,000 | 662,466 |
| Payments on credit facility borrowings | (1,177,490) | (266,000) |
| Receipts of other long-term borrowings | 695,128 | — |
| Payments of other long-term borrowings | (490,217) | (1,845) |
| Payments of financing related costs | (33,836) | — |
| Receipts from dividend reinvestment plan | 15,492 | 3,747 |
| Payments for exercised options and restricted stock | (2,512) | (3,149) |
| Net proceeds from issuance of common stock | 60,147 | 1,831 |
| Dividends paid | (158,298) | (154,603) |
| Distributions to Omega OP Unit Holders | (9,855) | (7,290) |
| Net cash provided by financing activities | <u>108,559</u> | <u>235,157</u> |
| Effect of foreign currency translation on cash, cash equivalents and restricted cash | 136 | (429) |
| (Decrease) increase in cash, cash equivalents and restricted cash | (111,660) | 318,642 |
| Cash, cash equivalents and restricted cash at beginning of period | 167,558 | 33,380 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 55,898</u> | <u>\$ 352,022</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
March 31, 2021

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview and Organization

Omega Healthcare Investors, Inc. (“Omega”) was incorporated in the State of Maryland on March 31, 1992 and has elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. Omega is structured as an umbrella partnership REIT (“UPREIT”) under which all of Omega’s assets are owned directly or indirectly by, and all of Omega’s operations are conducted directly or indirectly through, its operating partnership subsidiary, OHI Healthcare Properties Limited Partnership (“Omega OP”). Unless stated otherwise or the context otherwise requires, the terms “Omega”, the “Company,” “we,” “our” and “us” refer to Omega Healthcare Investors, Inc. and its consolidated subsidiaries, including Omega OP, references to “Parent” refer to Omega Healthcare Investors, Inc. without regard to its consolidated subsidiaries, and references to “Omega OP” mean OHI Healthcare Properties Limited Partnership and its consolidated subsidiaries.

Omega has one reportable segment consisting of investments in healthcare-related real estate properties located in the United States (“U.S.”) and the United Kingdom (“U.K.”). Our core business is to provide financing and capital to the long-term healthcare industry with a particular focus on skilled nursing facilities (“SNFs”), assisted living facilities (“ALFs”), and to a lesser extent, independent living facilities (“ILFs”), rehabilitation and acute care facilities (“specialty facilities”) and medical office buildings. Our core portfolio consists of long-term leases and mortgage agreements. All of our leases are “triple-net” leases, which require the operators (we use the term “operator” to refer to our tenants and mortgagors and their affiliates who manage and/or operate our properties) to pay all property-related expenses. Our mortgage revenue derives from fixed rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Our other investment income derives from fixed and variable rate loans to our operators and/or their principals to fund working capital and capital expenditures. These loans, which may be either unsecured or secured by the collateral of the borrower, are classified as other investments.

Omega has exclusive control over Omega OP’s day-to-day management pursuant to the partnership agreement governing Omega OP. As of March 31, 2021, Parent owned approximately 97% of the issued and outstanding units of partnership interest in Omega OP (“Omega OP Units”), and other investors owned approximately 3% of the outstanding Omega OP Units.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the financial statements and the footnotes thereto included in our latest Annual Report on [Form 10-K](#) filed with the SEC on February 22, 2021.

Omega’s consolidated financial statements include the accounts of (i) Parent, (ii) Omega OP, (iii) all direct and indirect wholly owned subsidiaries of Omega and (iv) other entities in which Omega or Omega OP has a majority voting interest and control. All intercompany transactions and balances have been eliminated in consolidation, and Omega’s net earnings are reduced by the portion of net earnings attributable to noncontrolling interests.

Risks and Uncertainties

The Company is subject to certain risks and uncertainties affecting the healthcare industry, including those stemming from the novel coronavirus (“COVID-19”) global pandemic described below, which has disproportionately impacted the senior care sector, as well as, those stemming from healthcare legislation and changing regulation by federal, state and local governments, including those driven by the COVID-19 pandemic. Additionally, we are subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the actions of governmental agencies and insurers to limit the rising cost of healthcare services.

In addition to experiencing outbreaks of positive cases and deaths of residents and employees during the pandemic, our operators have been required to, and continue to, adapt their operations rapidly throughout the pandemic to manage the spread of the COVID-19 virus as well as the implementation of new treatments and vaccines, and to implement new requirements relating to infection control, personal protective equipment (“PPE”), quality of care, visitation protocols, staffing levels, and reporting, among other regulations, throughout the pandemic. It remains uncertain when and to what extent vaccination programs for COVID-19, which have been implemented in many of our facilities, will continue to mitigate the effects of COVID-19 in our facilities, or how effective existing vaccines will be against variants of the COVID-19 virus; the impact of these programs will depend in part on the continued speed, distribution, efficacy and delivery of the vaccine in our facilities, as well as participation levels in vaccination programs among the residents and employees of our operators. In addition to the risks associated with managing the spread of the virus, delivery of the vaccines and care of their patients and residents, many of our operators reported incurring, and may continue to incur, significant cost increases as a result of the COVID-19 pandemic, with dramatic increases for facilities with positive cases. We believe these increases primarily stem from elevated labor costs, including increased use of overtime and bonus pay, as well as a significant increase in both the cost and usage of PPE, testing equipment and processes and supplies, as well as implementation of new infection control protocols and vaccination programs. In addition, many of our operators have reported experiencing declines, in some cases that are material, in occupancy levels as a result of the pandemic, which declines on average appear to be stabilizing. We believe these declines may be in part due to COVID-19 related fatalities at our facilities, the delay of SNF placement and/or utilization of alternative care settings for those with lower level of care needs, the suspension and/or postponement of elective hospital procedures, fewer discharges from hospitals to SNFs and higher hospital readmittances from SNFs. We continue to monitor the impact of occupancy declines at many of our operators, and it remains uncertain whether and when demand and occupancy levels will return to pre-COVID-19 levels.

While substantial government support has been allocated to SNFs and to a lesser extent to ALFs, further government support will likely be needed to continue to offset these impacts and it is unclear whether and to what extent such government support has been and will continue to be sufficient and timely to offset these impacts. Further, to the extent the impacts of the pandemic continue or accelerate and are not offset by continued government relief that is sufficient and timely, we anticipate that the operating results of certain of our operators would be materially and adversely affected, some may be unwilling or unable to pay their contractual obligations to us in full or on a timely basis and we may be unable to restructure such obligations on terms as favorable to us as those currently in place. Even if operators are able to avail themselves of government relief to offset some of these costs, they may face challenges in complying with the terms and conditions of government support and may face longer-term adverse impacts to their personnel and business operations from the COVID-19 pandemic, including potential patient litigation and decreased demand for their services, loss of business due to an interruption in their operations, workforce challenges, new regulatory restrictions, or other liabilities related to gathering restrictions, quarantines, reopening plans, vaccine distribution or delivery, spread of infection or other related factors.

The extent of the COVID-19 pandemic’s effect on our and our operators’ operational and financial performance will depend on future developments, including the ability to control the spread of the outbreak generally and in our facilities and the delivery and efficacy of and participation in vaccination programs and other treatments for COVID-19, government funds and other support for the senior care sector and the efficacy of other policies and measures that may mitigate the impact of the pandemic, as well as the future demand for needs-based skilled nursing care and senior living facilities, all of which are uncertain and difficult to predict. Due to these uncertainties, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material.

Variable Interest Entities

GAAP requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities (“VIEs”). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity’s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity’s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. We may change our original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affects the characteristics or adequacy of the entity’s equity investments at risk and the disposition of all or a portion of an interest held by the primary beneficiary.

Our variable interests in VIEs may be in the form of equity ownership, leases, guarantees and/or loans with our operators. We analyze our agreements and investments to determine whether our operators or unconsolidated joint ventures are VIEs and, if so, whether we are the primary beneficiary.

We consolidate a VIE when we determine that we are its primary beneficiary. We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. Factors considered in determining whether we are the primary beneficiary of an entity include: (i) our voting rights, if any; (ii) our involvement in day-to-day capital and operating decisions; (iii) our risk and reward sharing; (iv) the financial condition of the operator or joint venture and (v) our representation on the VIE’s board of directors. We perform this analysis on an ongoing basis.

As of March 31, 2021, we have not consolidated any VIEs, as we do not have the power to direct the activities of any VIEs that most significantly impact their economic performance and we do not have the obligation to absorb losses or receive benefits of the VIEs that could be significant to the entities.

Real Estate Investments and Depreciation

The costs of significant improvements, renovations and replacements, including interest are capitalized. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Expenditures for maintenance and repairs are charged to operations as they are incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives ranging from 20 to 40 years for buildings, eight to 15 years for site improvements, and three to 10 years for furniture and equipment. Leasehold interests are amortized over the shorter of the estimated useful life or term of the lease.

Business Combinations

We record the purchase of properties to net tangible and identified intangible assets acquired and liabilities assumed at fair value. Transaction costs are expensed as incurred as part of a business combination. In making estimates of fair value for purposes of recording the purchase, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities as well as other critical valuation metrics such as current capitalization rates and discount rates used to estimate the fair value of the tangible and intangible assets acquired (Level 3). When liabilities are assumed as part of a transaction, we consider information obtained about the liabilities and use similar valuation metrics (Level 3). In some instances when debt is assumed and an identifiable active market for similar debt is present, we use market interest rates for similar debt to estimate the fair value of the debt assumed (Level 2). The Company determines fair value as follows:

- Land is determined based on third party appraisals which typically include market comparables.
- Buildings and site improvements acquired are valued using a combination of discounted cash flow projections that assume certain future revenues and costs and consider capitalization and discount rates using current market conditions as well as the residual approach.
- Furniture and fixtures are determined based on third party appraisals which typically utilize a replacement cost approach.
- Mortgages and other investments are valued using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.
- Investments in joint ventures are valued based on the fair value of the joint ventures' assets and liabilities. Differences, if any, between the Company's basis and the joint venture's basis are generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of earnings of the joint venture.
- Intangible assets and liabilities acquired are valued using a combination of discounted cash flow projections as well as other valuation techniques based on current market conditions for the intangible asset or liability being acquired. When evaluating below market leases we consider extension options controlled by the lessee in our evaluation.
- Other assets acquired and liabilities assumed are typically valued at stated amounts, which approximate fair value on the date of the acquisition.
- Assumed debt balances are valued by discounting the remaining contractual cash flows using a current market rate of interest.
- Goodwill represents the purchase price in excess of the fair value of assets acquired and liabilities assumed. Goodwill is not amortized.

Asset Acquisitions

For asset acquisitions, assets acquired and liabilities assumed are recognized by allocating the cost of the acquisition, including transaction costs, to the individual assets acquired and liabilities assumed on a relative fair value basis. The fair value of the assets acquired and liabilities assumed in an asset acquisition are determined in a consistent manner with the immediately preceding "Business Combinations" section.

Real Estate Investment Impairment

Management evaluates our real estate investments for impairment indicators at each reporting period, including the evaluation of our assets' useful lives. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance including the current payment status of contractual obligations and expectations of the ability to meet future contractual obligations, legal structure, as well as our intent with respect to holding or disposing of the asset. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to management's estimate of future undiscounted cash flows of the underlying facilities. The estimated future undiscounted cash flows are generally based on the related lease which relates to one or more properties and may include cash flows from the eventual disposition of the asset. In some instances, there may be various potential outcomes for a real estate investment and its potential future cash flows. In these instances, the undiscounted future cash flows used to assess the recoverability are probability-weighted based on management's best estimates as of the date of evaluation. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows based on our intended use of the property are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the real estate investments for the excess of carrying value over fair value. The fair value of the real estate investment is determined based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. Additionally, our evaluation of fair value may consider valuing the property as a nursing home or other healthcare facility as well as alternative uses. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset. Management's impairment evaluation process, and when applicable, impairment calculations involve estimation of the future cash flows from management's intended use of the property as well as the fair value of the property. Changes in the facts and circumstances that drive management's assumptions may result in an impairment to our assets in a future period that could be material to our results of operations.

Lease Accounting

Lessors Accounting

As a lessor, our leased real estate properties are leased under provisions of single or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. As of March 31, 2021, we have determined that all but one of our leases should be accounted for as operating leases. One lease is accounted for as a direct financing lease. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

For leases accounted for as operating leases, we retain ownership of the asset and record depreciation expense (see "Business Combinations", "Asset Acquisitions" and "Real Estate Investments and Depreciation" above for additional information regarding our investment in real estate leased under operating lease agreements). Substantially all of our operating leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on the specific provisions of each lease as follows: (i) a specific annual increase over the prior year's rent, generally between 2.0% and 3.0%; (ii) an increase based on the change in pre-determined formulas from year to year (e.g., increases in the Consumer Price Index); or (iii) specific dollar increases over prior years. Rental income from operating leases is generally recognized on a straight-line basis over the lease term when we have determined that the collectibility of substantially all of the lease payments is probable.

We assess the probability of collecting substantially all payments due under our leases on several factors, including, among other things, payment history, the financial strength of the lessee and/or borrower and any guarantors, historical operations and operating trends, current and future economic conditions, and expectations of performance (which includes known substantial doubt about an operator's ability to continue as a going concern). If our evaluation of these factors indicates it is probable that we will be unable to collect substantially all rents, we recognize a charge to rental income and limit our rental income to the lesser of lease income on a straight-line basis plus variable rents when they become accruable or cash collected. If we change our conclusion regarding the probability of collecting rent payments required by a lessee, we may recognize an adjustment to rental income in the period we make a change to our prior conclusion, potentially resulting in increased volatility of rental income.

For leases accounted for as direct financing leases, we record the present value of the future minimum lease payments (utilizing a constant interest rate over the term of the lease agreement) as a receivable and record interest income based on the contractual terms of the lease agreement. Certain direct financing leases include annual rent escalators, see “Lessor Accounting for Direct Financing Lease Income” below for further discussion regarding the recording of interest income on our direct financing leases.

Lessee Accounting

As a lessee, the Company is party to ground and/or facility leases which are classified as operating leases. Substantially all of our operating leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on the specific provisions of each lease as follows: (i) a specific annual increase over the prior year’s rent, generally between 1.0% and 3.0%; (ii) an increase based on the change in pre-determined formulas from year to year (e.g., increases in the Consumer Price Index); or (iii) specific dollar increases over prior years. The initial terms of our ground leases range between 10 years and 100 years. Our office leases have initial terms of approximately 10 years. Certain leases have options to extend, terminate or purchase the asset and have been considered in our analysis of the lease term and the measurement of the right-of-use assets and lease liabilities. The discount rate utilized in forming the basis of our right of use assets and lease liabilities approximates our cost of debt. We have not recognized a right of use asset and/or lease liability for leases with terms of 12 months or less and without an option to purchase the underlying asset. Our right of use assets and lease liabilities are included in other assets and accrued expenses and other liabilities, respectively, on our Consolidated Balance Sheets.

On a monthly basis, we remeasure our lease liabilities at the present value of the future lease payments using the discount rate determined at lease commencement. Rental expense from operating leases is generally recognized on a straight-line basis over the lease term.

Mortgages, Other Investments and Direct Financing Leases (collectively, our “loans”) and Allowance for Credit Losses

Mortgage Interest Income and Other Investment Income

Mortgage interest income and other investment income is recognized as earned over the terms of the related mortgage notes or other investment. Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected using the effective interest method. In applying the effective interest method, the effective yield on a loan is determined based on its contractual payment terms, adjusted for prepayment terms.

Lessor Accounting for Direct Financing Lease Income

We record direct financing lease income on a constant interest rate basis over the term of the lease. Costs related to originating direct financing leases are deferred and amortized on a straight-line basis as a reduction to income from direct financing leases over the term of the direct financing leases.

Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses (“Topic 326”) (“ASU 2016-13”), which changed the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for credit losses. The new approach requires the calculation of expected lifetime credit losses and is applied to financial assets measured at amortized cost, including loans, as well as certain off-balance sheet credit exposures such as unfunded loan commitments. The allowance for credit loss on the loans is a valuation amount that is deducted from the amortized cost basis of the loans not held at fair value to present the net amount expected to be collected over the contractual term of the loans.

The allowance for credit losses on loans is measured using relevant information about past events, including historical credit loss experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the remaining cash flows over the contractual term of the loans. Changes to the allowance for credit losses on loans resulting from quarterly evaluations are recorded through provision for credit losses on the Consolidated Statements of Operations. The Company's unfunded lending commitments are calculated using the same as the methodology for the loans over the contractual term of the commitment.

The loss estimate is recorded in accrued expenses and other liabilities on the Consolidated Balance Sheets with quarterly changes to the liability recorded through provision for credit losses on the Consolidated Statements of Operations.

ASU 2016-13 specifically excludes from its scope receivables arising from operating leases accounted for under Topic 842. We adopted ASU 2016-13 on January 1, 2020 using the modified retrospective approach and we recorded an initial \$28.8 million allowance for expected credit losses with a corresponding adjustment to equity.

We elected to disaggregate our financial assets within the scope of Topic 326 based on the type of financial instrument. These segments were further disaggregated based on our internal credit ratings. We assess our internal credit ratings on a quarterly basis. Our internal credit ratings consider several factors including the collateral and/or security, the performance of borrowers underlying facilities, if applicable, available credit support (e.g., guarantees), borrowings with third parties, and other ancillary business ventures and real estate operations of the borrower. Our internal ratings range between 1 and 7. An internal rating of 1 reflects the lowest likelihood of loss and a 7 reflects the highest likelihood of loss.

We have a limited history of incurred losses and consequently have elected to employ external data to perform our expected credit loss calculation. We have elected a probability of default ("PD") and loss given default ("LGD") methodology. Our model's historic inputs consider PD and LGD data for residential care facilities published by the Federal Housing Administration along with Standards & Poor's one-year global corporate default rates. Our historical loss rates revert to historical averages after 36 periods. Our model's current conditions and supportable forecasts consider internal credit ratings, current and projected U.S. unemployment rates published by the United States Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis and the weighted average life to maturity of the underlying financial asset. As of March 31, 2021, \$10.4 million of contractual interest receivable is recorded in contractual receivables - net on our Consolidated Balance Sheets. We have elected the practical expedient to exclude interest receivable from our allowance for credit losses. We write-off interest receivable to provision for credit losses in the period we determine the interest is no longer considered collectible. Our assessment of collectibility considers several factors, including, among other things, payment history, the financial strength of the borrower and any guarantors, historical operations and operating trends, current and future economic conditions, expectations of performance (which includes known substantial doubt about an operator's ability to continue as a going concern) and the value of the underlying collateral of the agreement, if any.

Periodically, the Company may identify an individual loan for impairment. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreements. Consistent with this definition, all loans on non-accrual status may be deemed impaired. To the extent circumstances improve and the risk of collectibility is diminished, we will return these loans to full accrual status. When we identify a loan impairment, the loan is written down to the present value of the expected future cash flows. In cases where expected future cash flows are not readily determinable, the loan is written down to the fair value of the underlying collateral. We may base our valuation on a loan's observable market price, if any, or the fair value of collateral, net of sales costs, if the repayment of the loan is expected to be provided solely by the sale of the collateral.

Contractual Receivables and Other Receivables and Lease Inducements

Contractual receivables relate to the amounts currently owed to us under the terms of our lease and loan agreements. Effective yield interest receivables relate to the difference between the interest income recognized on an effective yield basis over the term of the loan agreement and the interest currently due to us according to the contractual agreement. Straight-line rent receivables relate to the difference between the rental revenue recognized on a straight-line basis and the amounts currently due to us according to the contractual agreement. Lease inducements result from value provided by us to the lessee, at the inception, modification, or renewal of the lease, and are amortized as a reduction of rental revenue over the non-cancellable lease term.

A summary of our net receivables by type is as follows:

| | <u>March 31,</u> <u>2021</u> | <u>December 31,</u> <u>2020</u> |
|---|---------------------------------|------------------------------------|
| | <u>(in thousands)</u> | |
| Contractual receivables - net | \$ 11,428 | \$ 10,408 |
| Effective yield interest receivables | \$ 11,884 | \$ 12,195 |
| Straight-line rent receivables | 143,599 | 139,046 |
| Lease inducements | 81,186 | 83,425 |
| Other receivables and lease inducements | \$ 236,669 | \$ 234,666 |

During the first quarter of 2021, we wrote-off approximately \$2.7 million of straight-line rent receivables to rental income as a result of transitioning one facility and placing one operator on a cash basis due to changes in our evaluation of the collectibility of future rent payments due under the lease agreement.

Earnings Per Share

The computation of basic earnings per share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the relevant period. Diluted EPS is computed using the treasury stock method, which is net income divided by the total weighted-average number of common outstanding shares plus the effect of dilutive common equivalent shares during the respective period. Dilutive common shares reflect the assumed issuance of additional common shares pursuant to certain of our share-based compensation plans, including restricted stock and profit interest units, performance restricted stock and profit interest units, the assumed issuance of additional shares related to Omega OP Units held by outside investors.

Noncontrolling Interests

Noncontrolling interests is the portion of equity not attributable to the respective reporting entity. We present the portion of any equity that we do not own in consolidated entities as noncontrolling interests and classify those interests as a component of total equity, separate from total stockholders' equity or owners' equity on our Consolidated Balance Sheets. We include net income attributable to the noncontrolling interests in net income in our Consolidated Statements of Operations.

As our ownership of a controlled subsidiary increases or decreases, any difference between the aggregate consideration paid to acquire the noncontrolling interests and our noncontrolling interest balance is recorded as a component of equity in additional paid-in capital, so long as we maintain a controlling ownership interest.

The noncontrolling interest for Omega represents the outstanding Omega OP Units held by outside investors and interests in a consolidated real estate joint venture not fully owned by Omega.

Foreign Operations

The U.S. dollar (“USD”) is the functional currency for our consolidated subsidiaries operating in the U.S. The functional currency for our consolidated subsidiaries operating in the U.K. is the British Pound (“GBP”). For our consolidated subsidiaries whose functional currency is not the USD, we translate their financial statements into the USD. We translate assets and liabilities at the exchange rate in effect as of the financial statement date. Revenue and expense accounts are translated using an average exchange rate for the period. Gains and losses resulting from translation are included in accumulated other comprehensive income (“AOCI”), as a separate component of equity and a proportionate amount of gain or loss is allocated to noncontrolling interests, if applicable.

We and certain of our consolidated subsidiaries may have intercompany and third-party debt that is not denominated in the entity’s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. The resulting adjustment is reflected in results of operations, unless it is intercompany debt that is deemed to be long-term in nature in which case the adjustments are included in AOCI and a proportionate amount of gain or loss is allocated to noncontrolling interests, if applicable.

Derivative Instruments

Cash flow hedges

During our normal course of business, we may use certain types of derivative instruments for the purpose of managing interest rate and currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at the inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with our related assertions. The Company recognizes all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities in the Consolidated Balance Sheets at their fair value which is determined using a market approach and Level 2 inputs. Changes in the fair value of derivative instruments that are not designated in hedging relationships or that do not meet the criteria of hedge accounting are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the gain or loss on the derivative is recognized in AOCI as a separate component of equity and a proportionate amount of gain or loss is allocated to noncontrolling interest, if applicable. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific forecasted transactions as well as recognized liabilities or assets on the Consolidated Balance Sheets. We also assess and document, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivatives are highly effective in offsetting the designated risks associated with the respective hedged items. If it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, we discontinue hedge accounting prospectively and record the appropriate adjustment to earnings based on the current fair value of the derivative. As a matter of policy, we do not use derivatives for trading or speculative purposes. At March 31, 2021 and December 31, 2020, \$0.7 million and \$1.0 million, respectively, of qualifying cash flow hedges were recorded at fair value in accrued expenses and other liabilities on our Consolidated Balance Sheets. At March 31, 2021 and December 31, 2020, \$52.6 and \$17.0 million, respectively, of qualifying cash flow hedges were recorded at fair value in other assets on our Consolidated Balance Sheets.

Net investment hedge

We are exposed to fluctuations in the GBP against its functional currency, the USD, relating to our investments in healthcare-related real estate located in the U.K. For derivatives that are designated and qualify as net investment hedges, the gain or loss on the derivative is reported in AOCI as a part of the cumulative translation adjustment in our Consolidated Balance Sheets. For nonderivative financial instruments that are designated and qualify as net investment hedges, the foreign currency transaction gain or loss on the nonderivative financial instrument is reported in AOCI as a part of the cumulative translation adjustment in our Consolidated Balance Sheets. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated. From the issuance date of our GBP borrowings through the prepayment date in March 2021, we used a nonderivative, GBP-denominated term loan and line of credit totaling £174 million to hedge a portion of our net investments in foreign operations. During March 2021 and concurrent with the prepayment of our GBP-denominated term loan and line of credit, we entered into four foreign currency forwards that mature on March 8, 2024 to hedge a portion of our net investments in foreign operations, effectively replacing the terminated net investment hedge. At March 31, 2021, \$0.9 million of qualifying net investment hedges were recorded at fair value in other assets on our Consolidated Balance Sheets.

Reclassification

Certain line items on our Consolidated Statements of Operations and Consolidated Statements of Changes in Equity have been reclassified to conform to the current period presentation.

NOTE 2 - PROPERTIES AND INVESTMENTS**Leased Property**

A summary of our investments in real estate properties subject to operating leases is as follows:

| | <u>March 31,</u> <u>2021</u> | <u>December 31,</u> <u>2020</u> |
|-------------------------------|---------------------------------|------------------------------------|
| | (in thousands) | |
| Buildings | \$ 7,425,801 | \$ 6,961,509 |
| Land | 935,739 | 883,765 |
| Furniture and equipment | 534,011 | 518,664 |
| Site improvements | 330,833 | 308,087 |
| Construction in progress | 34,806 | 30,129 |
| Total real estate investments | 9,261,190 | 8,702,154 |
| Less accumulated depreciation | (2,069,822) | (1,996,914) |
| Real estate investments - net | <u>\$ 7,191,368</u> | <u>\$ 6,705,240</u> |

At March 31, 2021, our leased real estate properties included 734 SNFs, 133 ALFs, 35 specialty facilities and two medical office buildings.

| | <u>Three Months Ended March 31,</u> | |
|--|-------------------------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| | (in thousands) | |
| Rental income - operating leases | \$ 235,062 | \$ 218,340 |
| Variable lease income - operating leases | 2,699 | 3,160 |
| Total lease income | <u>\$ 237,761</u> | <u>\$ 221,500</u> |

The following table summarizes the significant asset acquisitions that occurred during the first three months of 2021:

| Period | Number of Facilities | | | Country/ State | Total Investment (in millions) | Initial Annual Cash Yield ⁽¹⁾ |
|--------|----------------------|-----|-----------|--|-----------------------------------|--|
| | SNF | ALF | Specialty | | | |
| Q1 | — | 17 | 7 | AZ, CA, FL, IL, NJ, OR, PA, TN, TX, VA, WA | \$ 511.3 ⁽²⁾ | 8.43 % |
| Q1 | 6 | — | — | FL | 83.1 | 9.25 % |
| Total | 6 | 17 | 7 | | \$ 594.4 | |

- (1) The initial annual cash yield reflects the initial annual cash rent divided by the purchase price.
(2) On January 20, 2021, we acquired 24 facilities from Healthpeak Properties, Inc. The acquisition involved the assumption of an in-place master lease with Brookdale Senior Living Inc.

Asset Sales and Impairments

During the first quarter of 2021, we sold 24 facilities subject to operating leases for approximately \$188.3 million in net cash proceeds, recognizing a net gain of approximately \$100.3 million. In addition, we recorded impairments on four facilities of approximately \$28.7 million (three were subsequently reclassified to assets held for sale).

Our recorded impairments were primarily the result of decisions to exit certain non-strategic facilities and/or operators. We reduced the net book value of the impaired facilities to their estimated fair values or, with respect to the facilities reclassified to held for sale, to their estimated fair values less costs to sell. To estimate the fair value of the facilities, we utilized a market approach which considered binding sale agreements (a Level 1 input) and/or non-binding offers from unrelated third parties and/or broker quotes (a Level 3 input).

NOTE 3 - MORTGAGE NOTES RECEIVABLE

As of March 31, 2021, mortgage notes receivable relate to nine fixed rate mortgage notes on 63 facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in eight states that are operated by seven independent healthcare operating companies. We monitor compliance with the terms of our mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding mortgage notes.

The principal amounts outstanding of mortgage notes receivable, net of allowances, were as follows:

| | March 31, 2021 | December 31, 2020 |
|--|-------------------|----------------------|
| | (in thousands) | |
| Mortgage note due 2027; interest at 10.81% | \$ 112,500 | \$ 112,500 |
| Mortgage notes due 2029; interest at 10.55% ⁽¹⁾ | 674,205 | 670,015 |
| Other mortgage notes outstanding ⁽²⁾ | 135,505 | 136,043 |
| Mortgage notes receivable, gross | 922,210 | 918,558 |
| Allowance for credit losses on mortgage notes receivable | (32,142) | (33,245) |
| Total mortgages — net | <u>\$ 890,068</u> | <u>\$ 885,313</u> |

- (1) Approximates the weighted average interest rate on 47 facilities as of March 31, 2021. Two notes totaling approximately \$30.7 million are construction mortgages with maturities in 2021. Two mortgage notes totaling \$43.2 million mature in 2021 and the remaining loan balance matures in 2029.
(2) Other mortgages outstanding have a weighted average interest rate of 9.41% per annum as of March 31, 2021 and maturity dates through 2028.

NOTE 4 - OTHER INVESTMENTS

A summary of our other investments is as follows:

| | March 31, | December 31, |
|--|-----------------------|---------------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Other investment notes due 2024; interest at 13.13% ⁽¹⁾ | \$ 85,361 | \$ 83,636 |
| Other investment notes due 2024-2025; interest at 8.12% ⁽¹⁾ | 56,987 | 56,987 |
| Other investment note due 2023; interest at 12.00% | 42,538 | 49,973 |
| Other investment notes due 2030; interest at 7.00% | 162,368 | 147,148 |
| Other investment notes outstanding ⁽²⁾ | 129,407 | 161,155 |
| Total other investments, gross | 476,661 | 498,899 |
| Allowance for credit losses on other investments | (31,942) | (31,457) |
| Total other investments - net | <u>\$ 444,719</u> | <u>\$ 467,442</u> |

(1) Approximate weighted average interest rate as of March 31, 2021.

(2) Other investment notes have a weighted average interest rate of 8.26% as of March 31, 2021 and maturity dates through 2028.

Other investment notes due 2024

On March 6, 2018, we amended certain terms of our \$48.0 million secured term loan with Genesis. The \$48.0 million term loan bears interest at a fixed rate of 14% per annum, of which 9% per annum is paid-in-kind and was initially scheduled to mature on July 29, 2020. The maturity date of this loan was extended during the first quarter of 2021 to January 1, 2024. This term loan (and the \$16.0 million term loan discussed below) is secured by a first priority lien on and security interest in certain collateral of Genesis. As of March 31, 2021, approximately \$66.7 million is outstanding on this term loan.

Also on March 6, 2018, we provided Genesis an additional \$16.0 million secured term loan bearing interest at a fixed rate of 10% per annum, of which 5% per annum is paid-in-kind, and was initially scheduled to mature on July 29, 2020. The maturity date of this loan was extended during the first quarter of 2021 to January 1, 2024. As of March 31, 2021, approximately \$18.6 million is outstanding on this term loan.

NOTE 5 - ALLOWANCE FOR CREDIT LOSSES

A rollforward of our allowance for credit losses is as follows:

| Segment | Financial Statement Line Item | Allowance for | (Recovery) | Write-offs | Allowance for |
|----------------|--|-------------------------------------|---|---|----------------------------------|
| | | Credit Loss as of December 31, 2020 | Provision for Credit Loss for the period ended March 31, 2021 | charged against allowance for the period ended March 31, 2021 | Credit Loss as of March 31, 2021 |
| (in thousands) | | | | | |
| Segment A-4 | Mortgage Notes Receivable | \$ 26,865 | \$ (913) | \$ - | \$ 25,952 |
| Segment B-3 | Mortgage Notes Receivable | 954 | (38) | - | 916 |
| Segment C-5 | Mortgage Notes Receivable | 433 | (107) | - | 326 |
| Segment E-6 | Mortgage Notes Receivable | 4,905 | - | - | 4,905 |
| Segment F-2 | Mortgage Notes Receivable | 88 | (45) | - | 43 |
| | Sub-total | 33,245 | (1,103) | - | 32,142 |
| Segment A-3 | Investment in Direct Financing Leases | 694 | (6) | - | 688 |
| | Sub-total | 694 | (6) | - | 688 |
| Segment A-4 | Other Investments | 24,397 | 413 | - | 24,810 |
| Segment B-3 | Other Investments | 5,113 | 217 | - | 5,330 |
| Segment C-2 | Other Investments | 94 | (40) | - | 54 |
| Segment D-5 | Other Investments | 1,853 | (10) | (95) | 1,748 |
| | Sub-total | 31,457 | 580 | (95) | 31,942 |
| Segment A-4 | Off-Balance Sheet Mortgage Commitments | 24 | 38 | - | 62 |
| Segment B-3 | Off-Balance Sheet Note Commitments | 2,305 | (538) | - | 1,767 |
| Segment C-2 | Off-Balance Sheet Note Commitments | 116 | 5 | - | 121 |
| | Sub-total | 2,445 | (495) | - | 1,950 |
| | Total | \$ 67,841 | \$ (1,024) | \$ (95) | \$ 66,722 |

A summary of our amortized cost basis by year of origination and credit quality indicator is as follows:

| Rating | Financial Statement Line Item | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | Balance as of March 31, 2021 | |
|----------------|---------------------------------------|----------------|------------------|-----------------|------------------|-----------------|------------------|------------------------------|--------------------|
| | | | | | | | | 2015 & older | Revolving Loans |
| (in thousands) | | | | | | | | | |
| 1 | Mortgage Notes Receivable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 66,621 | \$ 66,621 |
| 2 | Mortgage Notes Receivable | - | 43,150 | - | - | - | - | - | 43,150 |
| 3 | Mortgage Notes Receivable | - | - | - | - | - | - | 35,964 | 35,964 |
| 4 | Mortgage Notes Receivable | 2,685 | 89,325 | 18,585 | 44,395 | 46,455 | 37,550 | 504,559 | 743,554 |
| 5 | Mortgage Notes Receivable | - | - | - | 19,000 | - | - | 7,544 | 26,544 |
| 6 | Mortgage Notes Receivable | - | - | - | - | - | - | 6,377 | 6,377 |
| | Sub-total | 2,685 | 132,475 | 18,585 | 63,395 | 46,455 | 37,550 | 621,065 | 922,210 |
| 3 | Investment in Direct Financing Leases | - | - | - | - | - | - | 11,445 | 11,445 |
| | Sub-total | - | - | - | - | - | - | 11,445 | 11,445 |
| 2 | Other Investments | - | - | - | - | - | - | 2,082 | 12,347 |
| 3 | Other Investments | - | - | 21,782 | 30,698 | - | - | 3,809 | 227,799 |
| 4 | Other Investments | - | - | 11,845 | 114,974 | - | 75,525 | - | 207,344 |
| 5 | Other Investments | - | 467 | 23,004 | 5,700 | - | - | - | 29,171 |
| | Sub-total | - | 467 | 56,631 | 151,372 | - | 75,525 | 5,891 | 476,661 |
| Total | | \$2,685 | \$132,942 | \$75,216 | \$214,767 | \$46,455 | \$113,075 | \$638,401 | \$1,410,316 |

NOTE 6 - VARIABLE INTEREST ENTITIES

As of March 31, 2021 and December 31, 2020, Agemo Holdings, LLC (“Agemo”) and Maplewood Real Estate Holdings, LLC (“Maplewood”) are both VIEs. Below is a summary of our assets, liabilities and collateral associated with these operators as of March 31, 2021 and December 31, 2020:

| | March 31, 2021 | | December 31, 2020 | |
|--------------------------------|-----------------------|------------------|--------------------------|------------------|
| | Agemo | Maplewood | Agemo | Maplewood |
| | (in thousands) | | (in thousands) | |
| Assets | | | | |
| Real estate investments - net | \$ 357,501 | 749,260 | \$ 371,010 | \$ 750,488 |
| Assets held for sale | 755 | — | — | — |
| Other investments | 34,253 | 162,368 | 34,253 | 147,148 |
| Contractual receivables | 615 | 979 | 346 | 887 |
| Straight-line rent receivables | — | (52,892) | — | (56,664) |
| Lease inducement | — | 68,326 | — | 69,666 |
| Subtotal | <u>393,124</u> | <u>928,041</u> | <u>405,609</u> | <u>911,525</u> |
| Liabilities | | | | |
| Net in-place lease liability | — | (324) | — | (331) |
| Security deposit | (343) | (4,609) | — | — |
| Contingent liability | — | (43,915) | — | (43,915) |
| Subtotal | <u>(343)</u> | <u>(48,848)</u> | <u>—</u> | <u>(44,246)</u> |
| Collateral | | | | |
| Letters of credit | (9,253) | — | (9,253) | — |
| Personal guarantee | (8,000) | (40,000) | (8,000) | (40,000) |
| Other collateral | (358,256) | (749,260) | (371,010) | (750,488) |
| Subtotal | <u>(375,509)</u> | <u>(789,260)</u> | <u>(388,263)</u> | <u>(790,488)</u> |
| Maximum exposure to loss | <u>\$ 17,272</u> | <u>\$ 89,933</u> | <u>\$ 17,346</u> | <u>\$ 76,791</u> |

In determining our maximum exposure to loss from the VIE, we considered the underlying carrying value of the real estate subject to leases with the operator and other collateral, if any, supporting our other investments, which may include accounts receivable, security deposits, letters of credit or personal guarantees, if any, as well as other liabilities recognized with respect to these operators.

The table below reflects our total revenues from Agemo and Maplewood for the three months ended March 31, 2021 and 2020:

| | Three Months Ended March 31, 2021 | | Three Months Ended March 31, 2020 | |
|-------------------------|--|------------------|--|------------------|
| | Agemo | Maplewood | Agemo | Maplewood |
| | (in thousands) | | | |
| Revenue | | | | |
| Rental income | \$ 11,492 | \$ 19,032 | \$ 15,287 | \$ 10,140 |
| Other investment income | 1,157 | 2,788 | 1,241 | 1,202 |
| Total ⁽¹⁾ | <u>\$ 12,649</u> | <u>\$ 21,820</u> | <u>\$ 16,528</u> | <u>\$ 11,342</u> |

(1) For the three months ended March 31, 2021 and 2020, we received cash from Agemo of approximately \$14.0 million and \$13.7 million, respectively, pursuant to our lease and other investment agreements. For the three months ended March 31, 2021 and 2020, we received cash rental income and other investment income from Maplewood of approximately \$19.3 million and \$16.8 million, respectively.

NOTE 7 - INVESTMENTS IN JOINT VENTURES

Unconsolidated Joint Ventures

Omega owns an interest in the following entities that are accounted for under the equity method (dollars in thousands):

| Entity (1) | Ownership % | Initial Investment Date | Investment(2) | Facility Type | Facilities at 3/31/2021 | Carrying Amount | |
|---|-------------|-------------------------|-------------------|--------------------|-------------------------|-------------------|-------------------|
| | | | | | | March 31, 2021 | December 31, 2020 |
| Second Spring Healthcare Investments(3) | 15% | 11/1/2016 | \$ 50,032 | SNF | — | \$ 10,624 | \$ 17,700 |
| Second Spring II LLC(4) | 15% | 3/10/2021 | 10,330 | SNF | 5 | 9,873 | — |
| Lakeway Realty, L.L.C. | 51% | 5/17/2019 | 73,834 | Specialty facility | 1 | 72,077 | 72,318 |
| Cindat Joint Venture | 49% | 12/18/2019 | 105,688 | ALF | 67 | 111,871 | 110,360 |
| OMG Senior Housing, LLC | 50% | 12/6/2019 | — | Specialty facility | 1 | — | — |
| OH CHS SNP, Inc. | 9% | 12/20/2019 | 859 | N/A | N/A | 201 | 260 |
| | | | <u>\$ 240,743</u> | | | <u>\$ 204,646</u> | <u>\$ 200,638</u> |

(1) These entities and their subsidiaries are not consolidated by the Company because it does not control, through voting rights or other means, the joint venture.

(2) Our initial investment includes our transaction costs, if any.

(3) During the first quarter of 2021, this joint venture sold 16 SNFs to an unrelated third party for approximately \$328 million in net proceeds and recognized a gain on sale of approximately \$102.2 million (\$14.9 million of which represents the Company's share of the gain). During the first quarter of 2021, this joint venture also sold 5 SNFs to Second Spring II LLC for approximately \$70.8 million in net proceeds.

(4) We acquired approximately a 15% interest in Second Spring II LLC for approximately \$10.3 million. During the first quarter of 2021, this joint venture acquired 5 SNFs from Second Spring Healthcare Investments for approximately \$70.8 million.

The following table reflects our income (loss) from unconsolidated joint ventures for the three months ended March 31, 2021 and 2020:

| Entity | Three Months Ended March 31, | |
|---|------------------------------|-----------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Second Spring Healthcare Investments(1) | \$ 11,411 | \$ 570 |
| Second Spring II LLC | (457) | — |
| Lakeway Realty, L.L.C. | 645 | 610 |
| Cindat Joint Venture | 486 | 646 |
| OMG Senior Housing, LLC | (101) | (161) |
| OH CHS SNP, Inc. | (154) | (105) |
| Total | <u>\$ 11,830</u> | <u>\$ 1,560</u> |

(1) The income from this unconsolidated joint venture includes a \$14.9 million gain on sale of real estate investments.

Asset Management Fees

We receive asset management fees from certain joint ventures for services provided. For each of the three months ended March 31, 2021 and 2020, we recognized approximately \$0.2 million of asset management fees. These fees are included in miscellaneous income in the accompanying Consolidated Statements of Operations.

NOTE 8 - ASSETS HELD FOR SALE

The following is a summary of our assets held for sale:

| | Properties Held For Sale | |
|---------------------------------|---------------------------------|--------------------------------------|
| | Number of Properties | Net Book Value (in thousands) |
| December 31, 2020 | 22 | \$ 81,452 |
| Properties sold ⁽¹⁾ | (21) | (81,252) |
| Properties added ⁽²⁾ | 5 | 7,722 |
| March 31, 2021 ⁽³⁾ | <u>6</u> | <u>\$ 7,922</u> |

- (1) In the first quarter of 2021, we sold 21 facilities for approximately \$187.6 million in net cash proceeds recognizing a net gain on sale of approximately \$100.3 million.
- (2) In the first quarter of 2021, we recorded approximately \$16.9 million of impairment expense to reduce three facilities' book value to their estimated fair value less costs to sell before they were reclassified to assets held for sale.
- (3) We plan to sell the facilities classified as assets held for sale at March 31, 2021 within the next twelve months.

NOTE 9 - INTANGIBLES

The following is a summary of our intangibles as of March 31, 2021 and December 31, 2020:

| | <u>March 31,</u> | <u>December 31,</u> |
|--------------------------|------------------|---------------------|
| | <u>2021</u> | <u>2020</u> |
| (in thousands) | | |
| Assets: | | |
| Above market leases | \$ 22,822 | \$ 22,822 |
| Accumulated amortization | (20,966) | (20,882) |
| Net above market leases | <u>\$ 1,856</u> | <u>\$ 1,940</u> |
| Liabilities: | | |
| Below market leases | \$ 139,100 | \$ 139,515 |
| Accumulated amortization | (107,301) | (100,996) |
| Net below market leases | <u>\$ 31,799</u> | <u>\$ 38,519</u> |

Above market leases, net of accumulated amortization, are included in other assets on our Consolidated Balance Sheets. Below market leases, net of accumulated amortization, are included in accrued expenses and other liabilities on our Consolidated Balance Sheets. The net amortization related to the above and below market leases is included in our Consolidated Statements of Operations as an adjustment to rental income.

For the three months ended March 31, 2021 and 2020, our net amortization related to intangibles was \$6.2 million and \$1.3 million, respectively. The estimated net amortization related to these intangibles for the remainder of 2021 and the subsequent four years is as follows: remainder of 2021 - \$3.3 million; 2022 - \$4.2 million; 2023 - \$4.0 million; 2024 - \$3.9 million and 2025 - \$3.6 million. As of March 31, 2021, the weighted average remaining amortization period of above market lease assets is approximately ten years and below market lease liabilities is approximately eight years.

The following is a summary of our goodwill as of March 31, 2021:

| | (in thousands) |
|-----------------------------------|-----------------------|
| Balance as of December 31, 2020 | \$ 651,737 |
| Add: foreign currency translation | (58) |
| Balance as of March 31, 2021 | <u>\$ 651,679</u> |

NOTE 10 - CONCENTRATION OF RISK

As of March 31, 2021, our portfolio of real estate investments consisted of 974 healthcare facilities, located in 42 states and the U.K. and operated by 70 third-party operators. Our investment in these facilities, net of impairments and allowances, totaled approximately \$10.2 billion at March 31, 2021, with approximately 97% of our real estate investments related to healthcare facilities. Our portfolio is made up of (i) 735 SNFs, 133 ALFs, 35 specialty facilities, two medical office buildings, (ii) fixed rate mortgages on 57 SNFs, three ALFs and three specialty facilities, and (iii) six facilities that are held for sale. At March 31, 2021, we also held other investments of approximately \$444.7 million, consisting primarily of secured loans to third-party operators of our facilities and \$204.6 million of investments in six unconsolidated joint ventures.

At March 31, 2021 we had investments with one operator/or manager that exceeded 10% of our total investments: Consulate Health Care (“Consulate”). Consulate also generated approximately 9% and 10% of our total revenues for the three months ended March 31, 2021 and 2020, respectively.

At March 31, 2021, the three states in which we had our highest concentration of investments were Florida (15%), Texas (10%) and Michigan (6%).

NOTE 11 - STOCKHOLDERS’ EQUITY**Dividends**

The Board of Directors has declared cash dividends on common stock as set forth below:

| Record Date | Payment Date | Dividend per Common Share |
|--------------------|---------------------|----------------------------------|
| February 8, 2021 | February 16, 2021 | \$ 0.67 |
| May 3, 2021 | May 17, 2021 | 0.67 |

\$500 Million Equity Shelf Program

The table below presents information regarding the shares issued under the Equity Shelf Program for the three months ended March 31, 2020 and 2021:

| Three Months Ended | Shares issued (in millions) | Average Price Per Share | Net Proceeds (in millions) |
|---------------------------|------------------------------------|--------------------------------|-----------------------------------|
| March 31, 2020 | 0.1 | \$ 37.58 | \$ 1.8 |
| March 31, 2021 | 1.6 | 37.16 | 60.1 |

Dividend Reinvestment and Common Stock Purchase Plan

The table below presents information regarding the shares issued under the Dividend Reinvestment and Common Stock Purchase Plan for the three months ended March 31, 2020 and 2021:

| Three Months Ended | Shares issued (in millions) | Gross Proceeds (in millions) |
|---------------------------|------------------------------------|-------------------------------------|
| March 31, 2020 | 0.1 | \$ 3.7 |
| March 31, 2021 | 0.4 | 15.5 |

Accumulated Other Comprehensive Income (Loss)

The following is a summary of our accumulated other comprehensive income (loss), net of tax where applicable:

| | As of and for the Three Months Ended March 31, | |
|---|---|---------------------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Foreign Currency Translation: | | |
| Beginning balance | \$ (18,427) | \$ (35,100) |
| Translation gain (loss) | 3,530 | (31,888) |
| Realized gain (loss) | 666 | (70) |
| Ending balance | <u>(14,231)</u> | <u>(67,058)</u> |
| Derivative Instruments: | | |
| Cash flow hedges: | | |
| Beginning balance | 17,718 | (2,369) |
| Unrealized gain (loss) | 35,191 | (7,526) |
| Realized gain (loss) ⁽¹⁾ | 610 | (318) |
| Ending balance | <u>53,519</u> | <u>(10,213)</u> |
| Net investment hedge: | | |
| Beginning balance | (13,331) | (4,420) |
| Unrealized (loss) gain | (3,010) | 13,187 |
| Ending balance | <u>(16,341)</u> | <u>8,767</u> |
| Total accumulated other comprehensive income (loss) before noncontrolling interest | 22,947 | (68,504) |
| Add: portion included in noncontrolling interest | 283 | 2,716 |
| Total accumulated other comprehensive income (loss) for Omega | <u>\$ 23,230</u> | <u>\$ (65,788)</u> |

(1) Recorded in interest expense on the Consolidated Statements of Operations.

NOTE 12 - TAXES

Omega and Omega OP, including their wholly owned subsidiaries were organized, have operated, and intend to continue to operate in a manner that enables Omega to qualify for taxation as a REIT under Sections 856 through 860 of the Code. On a quarterly and annual basis we perform several analyses to test our compliance within the REIT taxation rules. If we fail to meet the requirements for qualification as a REIT in any tax year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be able to qualify as a REIT for the four subsequent years, unless we qualify for certain relief provisions that are available in the event we fail to satisfy any of the requirements.

We are also subject to federal taxation of 100% of the net income derived from the sale or other disposition of property, other than foreclosure property, that we held primarily for sale to customers in the ordinary course of a trade or business. We believe that we do not hold assets for sale to customers in the ordinary course of business and that none of the assets currently held for sale or that have been sold would be considered a prohibited transaction within the REIT taxation rules.

As a REIT under the Code, we generally will not be subject to federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. In 2020, 2019, and 2018, we distributed dividends in excess of our taxable income.

We currently own stock in an entity that has elected to be taxed as a REIT. This subsidiary entity is required to individually satisfy all of the rules for qualification as a REIT.

We have elected to treat certain of our active subsidiaries as TRSs. Our domestic TRSs are subject to federal, state and local income taxes at the applicable corporate rates. Our foreign TRSs are subject to foreign income taxes. As of March 31, 2021, one of our TRSs that is subject to income taxes at the applicable corporate rates had a net operating loss (“NOL”) carry-forward of approximately \$6.5 million. Our NOL carry-forward was fully reserved as of March 31, 2021, with a valuation allowance due to uncertainties regarding realization. Under current law, NOL carry-forwards generated up through December 31, 2017 may be carried forward for no more than 20 years, and NOL carry-forwards generated in our taxable years ended December 31, 2018 and after may be carried forward indefinitely. The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) modified the NOL carryback rules to limit recovery of taxes paid in prior tax periods. We do not anticipate that such changes will materially impact the computation of Omega’s taxable income, or the taxable income of any Omega entity, including our TRSs. We also do not expect that Omega or any Omega entity, including our TRSs, will realize a material tax benefit as a result of the changes to the provisions of the Code made by the CARES Act.

For the three months ended March 31, 2021 and 2020, we recorded approximately \$0.3 million and \$0.4 million, respectively, of state and local income tax provisions. For the three months ended March 31, 2021 and 2020, we recorded approximately \$0.7 million and \$0.6 million, respectively, of tax provisions for foreign income taxes. The expenses were included in income tax expense on our Consolidated Statements of Operations.

NOTE 13 - STOCK-BASED COMPENSATION

The following is a summary of our stock-based compensation expense for the three months ended March 31, 2021 and 2020, respectively.

| | Three Months Ended March 31, | |
|----------------------------------|---|-----------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Stock-based compensation expense | <u>\$ 5,396</u> | <u>\$ 4,635</u> |

We granted 22,051 time based restricted stock units (“RSUs”) and 142,719 time based profits interest units (“PIUs”) during the first quarter of 2021 to certain officers and key employees, and those units vest on December 31, 2023 (three years after the grant date), subject to continued employment and vesting in certain other events.

We also granted 1,232,178 performance based PIUs during the first quarter of 2021 to certain officers and key employees, which are earned based on the level of performance over the performance period (normally three years) and vest quarterly in the fourth year, subject to continued employment and vesting in certain other events.

NOTE 14 - BORROWING ACTIVITIES AND ARRANGEMENTS

The following is a summary of our borrowings:

| | <u>Net Proceeds</u> <u>(in millions)</u> | <u>Maturity</u> | <u>Annual</u> <u>Interest Rate</u> <u>as of</u> <u>March 31,</u> <u>2021</u> | <u>March 31, December 31,</u> <u>2021 2020</u> <u>(in thousands)</u> | |
|--|---|-----------------|--|--|---------------------|
| | | | | | |
| Secured borrowings: | | | | | |
| HUD mortgages ⁽¹⁾⁽²⁾ | | 2046-2052 | 3.01 % | \$ 365,410 | \$ 367,249 |
| Term loan ⁽³⁾ | | 2022 | 3.75 % | 2,275 | 2,275 |
| | | | | <u>367,685</u> | <u>369,524</u> |
| Unsecured borrowings: | | | | | |
| Revolving line of credit ⁽⁴⁾⁽⁵⁾ | | 2021 | 1.36 % | 135,000 | 101,158 |
| Sterling term loan ⁽⁵⁾⁽⁶⁾ | | N/A | N/A | — | 136,700 |
| Omega OP term loan ⁽⁷⁾ | | 2022 | 3.29 % | 50,000 | 50,000 |
| Deferred financing costs - net | | | | (86) | (351) |
| Total term loans - net | | | | <u>49,914</u> | <u>186,349</u> |
| Senior Notes:⁽⁵⁾ | | | | | |
| 2023 notes ⁽⁸⁾ | \$ 692.0 | 2023 | 4.375 % | 350,000 | 700,000 |
| 2024 notes | 394.3 | 2024 | 4.950 % | 400,000 | 400,000 |
| 2025 notes | 397.7 | 2025 | 4.500 % | 400,000 | 400,000 |
| 2026 notes | 594.4 | 2026 | 5.250 % | 600,000 | 600,000 |
| 2027 notes | 683.0 | 2027 | 4.500 % | 700,000 | 700,000 |
| 2028 notes | 540.8 | 2028 | 4.750 % | 550,000 | 550,000 |
| 2029 notes | 487.8 | 2029 | 3.625 % | 500,000 | 500,000 |
| 2031 notes | 680.5 | 2031 | 3.375 % | 700,000 | 700,000 |
| 2033 notes ⁽⁹⁾ | 689.3 | 2033 | 3.250 % | 700,000 | — |
| Subordinated debt ⁽²⁾ | | 2021 | 9.000 % | 20,000 | 20,000 |
| Discount - net | | | | (35,128) | (31,709) |
| Deferred financing costs - net | | | | (29,586) | (26,070) |
| Total senior notes and other unsecured borrowings - net | | | | <u>4,855,286</u> | <u>4,512,221</u> |
| Total unsecured borrowings - net | | | | <u>5,040,200</u> | <u>4,799,728</u> |
| Total secured and unsecured borrowings - net ⁽¹⁰⁾ | | | | <u>\$5,407,885</u> | <u>\$ 5,169,252</u> |

(1) Reflects the weighted average annual contractual interest rate on the mortgages at March 31, 2021. Secured by real estate assets with a net carrying value of \$564.5 million as of March 31, 2021.

(2) Wholly owned subsidiaries of Omega OP are the obligor on these borrowings.

(3) Borrowing is the debt of a consolidated joint venture.

(4) On April 30, 2021, the Revolving line of credit (which was scheduled to mature on May 25, 2021) was terminated and replaced with a new four-year \$1.45 billion senior unsecured credit facility ("Credit Facility").

(5) Guaranteed by Omega OP.

(6) Actual borrowing is in British Pounds Sterling and remeasured to USD. The Sterling term loan was settled in March 2021 using proceeds from the 3.250% 2033 Senior Notes offering.

(7) Omega OP is the obligor on this borrowing. On April 30, 2021, the Omega OP term loan facility (which was scheduled to mature on May 25, 2022) was terminated and replaced with a new four-year \$50 million senior unsecured term loan facility ("OP Term Loan Facility").

(8) In March 2021, we used a portion of the proceeds from the 2033 Senior Notes offering to fund the tender offer to purchase \$350 million of the 4.375% Senior Notes due 2023. In connection with this transaction, we recorded approximately \$29.7 million in related fees, premiums, and expenses which were recorded as Loss on debt extinguishment in our Consolidated Statement of Operations.

(9) We used the proceeds from this offering to pay down outstanding borrowings on the Revolving Line of Credit, repay the Sterling term loan, and fund the tender offer to purchase \$350 million of the 4.375% Senior Notes due 2023 and the payment of accrued interest and related fees, premiums and expenses.

(10) All borrowings are direct borrowings of Parent unless otherwise noted.

\$400 Million Forward Starting Swaps

On March 27, 2020, we entered into five forward starting swaps totaling \$400 million. We designated the forward starting swaps as cash flow hedges of interest rate risk associated with interest payments on a forecasted issuance of fixed rate long-term debt, initially expected to occur within the next five years. The swaps are effective on August 1, 2023 and expire on August 1, 2033 and were issued at a fixed rate of approximately 0.8675%. In March 2021, in conjunction with the issuance of \$700 million aggregate principal amount of our 3.25% Senior Notes due 2033, we discontinued hedge accounting for these five forward starting swaps. Amounts reported in Accumulated Other Comprehensive Income related to these discontinued cash flow hedging relationships will be reclassified to interest expense over a ten year term. Simultaneously, we re-designated these swaps in new cash flow hedging relationships of interest rate risk associated with interest payments on another forecasted issuance of long-term debt. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 46 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

£174 Million Foreign Exchange Forward Starting Swaps

From the issuance date of our GBP borrowings through the prepayment date in March 2021, we used a nonderivative, GBP-denominated term loan and line of credit totaling £174 million to hedge a portion of our net investments in foreign operations. During March 2021 and concurrent with the settlement of our GBP-denominated term loan and repayment of our GBP denominated borrowings under our line of credit, we entered into four foreign currency forwards that mature on March 8, 2024 to hedge a portion of our net investments in foreign operations, effectively replacing the terminated net investment hedge. For these derivatives that are designated and qualify as net investment hedges, the gain or loss on the derivative is reported in Accumulated Other Comprehensive Income as part of the cumulative translation adjustment. Amounts are reclassified out of Accumulated Other Comprehensive Income into earnings when the hedged net investment is either sold or substantially liquidated.

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of March 31, 2021 and December 31, 2020, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

NOTE 15 - FINANCIAL INSTRUMENTS

The net carrying amount of cash and cash equivalents, restricted cash, contractual receivables, other assets and accrued expenses and other liabilities reported in the Consolidated Balance Sheets approximates fair value because of the short maturity of these instruments (Level 1).

At March 31, 2021 and December 31, 2020, the net carrying amounts and fair values of our other financial instruments were as follows:

| | March 31, 2021 | | December 31, 2020 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (in thousands) | | | | |
| Assets: | | | | |
| Investments in direct financing leases - net | \$ 10,757 | \$ 10,757 | \$ 10,764 | \$ 10,764 |
| Mortgage notes receivable - net | 890,068 | 929,623 | 885,313 | 924,353 |
| Other investments - net | 444,719 | 452,848 | 467,442 | 474,552 |
| Total | \$1,345,544 | \$1,393,228 | \$1,363,519 | \$1,409,669 |
| Liabilities: | | | | |
| Revolving line of credit | \$ 135,000 | \$ 135,000 | \$ 101,158 | \$ 101,158 |
| Term loan | 2,275 | 2,275 | 2,275 | 2,275 |
| Sterling term loan | — | — | 136,453 | 136,700 |
| Omega OP term loan | 49,914 | 50,000 | 49,896 | 50,000 |
| 4.375% notes due 2023 - net | 348,674 | 379,864 | 696,981 | 770,635 |
| 4.95% notes due 2024 - net | 396,966 | 445,362 | 396,714 | 441,194 |
| 4.50% notes due 2025 - net | 397,114 | 436,262 | 396,924 | 444,652 |
| 5.25% notes due 2026 - net | 596,614 | 685,558 | 596,437 | 697,993 |
| 4.50% notes due 2027 - net | 691,275 | 770,272 | 690,909 | 794,294 |
| 4.75% notes due 2028 - net | 543,152 | 607,222 | 542,899 | 633,950 |
| 3.625% notes due 2029 - net | 489,774 | 511,116 | 489,472 | 532,248 |
| 3.375% notes due 2031 - net | 682,250 | 693,896 | 681,802 | 731,541 |
| 3.25% notes due 2033 - net | 689,405 | 671,583 | — | — |
| HUD mortgages - net | 365,410 | 384,979 | 367,249 | 409,004 |
| Subordinated debt - net | 20,062 | 21,207 | 20,083 | 21,599 |
| Total | \$5,407,885 | \$5,794,596 | \$5,169,252 | \$5,767,243 |

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 2 - Summary of Significant Accounting Policies in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

- Direct financing leases: The fair value of the investments in direct financing leases are estimated using a discounted cash flow analysis, using interest rates being offered for similar leases to borrowers with similar credit ratings (Level 3).
- Mortgage notes receivable: The fair value of the mortgage notes receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings (Level 3).
- Other investments: Other investments are primarily comprised of notes receivable. The fair values of notes receivable are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings (Level 3).
- Revolving line of credit, secured borrowing and term loans: The fair value of our borrowings under variable rate agreements are estimated using a present value technique based on expected cash flows discounted using the current market rates (Level 3).

- Senior notes and subordinated debt: The fair value of our borrowings under fixed rate agreements are estimated using a present value technique based on inputs from trading activity provided by a third-party (Level 2).
- HUD mortgages: The fair value of our borrowings under HUD debt agreements are estimated using an expected present value technique based on quotes obtained by HUD debt brokers (Level 2).

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Litigation

The Company and certain of its officers, *C. Taylor Pickett, Robert O. Stephenson, and Daniel J. Booth*, are defendants in a purported securities class action lawsuit pending in the U.S. District Court for the Southern District of New York (the "Securities Class Action"). Brought by lead plaintiff Royce Setzer and additional plaintiff Earl Holtzman, the Securities Class Action purports to assert claims for violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated thereunder, as well as Section 20(a) of the Exchange Act, and seeks an unspecified amount of monetary damages, interest, fees and expenses of attorneys and experts, and other relief. The Securities Class Action alleges that the defendants violated the Exchange Act by making materially false and/or misleading statements, and by failing to disclose material adverse facts about the Company's business, operations, and prospects, including the financial and operating results of one of the Company's operators, the ability of such operator to make timely rent payments, and the impairment of certain of the Company's leases and the uncollectibility of certain receivables. The initial complaint was dismissed with prejudice by the U.S. District Court, but the dismissal was overturned by the U.S. Court of Appeals for the Second Circuit in 2020. Thereafter, the plaintiffs filed a Second Consolidated Amended Complaint in August 2020. In November 2020, the Company and the officers named in the Securities Class Action filed a Motion to Dismiss the Second Consolidated Amended Complaint, which is fully briefed and pending before the District Court.

Certain derivative actions have also been brought against the officers named in the Securities Class Action, and certain current and former directors of the Company, alleging claims relating to the matters at issue in the Securities Class Action. These derivative actions are currently stayed pending certain developments in the Securities Class Action.

In 2018, Stourbridge Investments LLC, a purported stockholder of the Company, filed a derivative action purportedly on behalf of the Company in the United States District Court for the Southern District of New York, alleging violations of Section 14(a) of the Exchange Act and state-law claims including breach of fiduciary duty. The complaint alleges, among other things, that the named defendants are responsible for the Company's failure to disclose the financial condition of Orianna Health Systems, the alleged non-disclosures that are also the subject of the Securities Class Action described above. The plaintiff did not make a demand on the Company to bring the action prior to filing it, but rather alleges that demand would have been futile. The case has been stayed pending the entry of judgement or a voluntary dismissal with prejudice in the Securities Class Action.

In 2019, purported stockholder Phillip Swan by his counsel, and stockholders Tom Bradley and Sarah Smith by their counsel, filed derivative actions in the Baltimore City Circuit Court of Maryland, purportedly on behalf of the Company, asserting claims for breach of fiduciary duty, waste of corporate assets and unjust enrichment against the named defendants. Those actions have been consolidated and stayed in the Maryland court pending completion of fact discovery in the Securities Class Action. Prior to filing suit, each of these stockholders had made demands on the Board of Directors in 2018 that the Company bring such lawsuits. After an investigation and due consideration, and in the exercise of its business judgment, the Board determined that it is not in the best interests of the Company to commence litigation against any current or former officers or directors based on the matters raised in the demands.

In addition, in late 2020, Robert Wojcik, a purported shareholder of the Company, filed a derivative action in the U.S. District Court for the District of Maryland, purportedly on behalf of the Company, asserting violations of Section 14(a) of the Exchange Act, Sections 10(b) and 21D of the Exchange Act, as well as claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. Wojcik also did not make a demand on the Company prior to filing suit. The case has been stayed pending the entry of judgement or a voluntary dismissal with prejudice in the Securities Class Action.

The Company believes that the claims asserted against it in these lawsuits are without merit and intends to vigorously defend against them.

Other

In September 2016, MedEquities received a Civil Investigative Demand (“CID”) from the U.S. Department of Justice (“DOJ”), which indicates that it is conducting an investigation regarding alleged violations of the False Claims Act, Stark Law and Anti-Kickback Statute in connection with claims that may have been submitted to Medicare and other federal payors for services rendered to patients at Lakeway Hospital or by providers with financial relationships with Lakeway Hospital. As a result of the acquisition of MedEquities, the Company owns a 51% interest in an unconsolidated partnership that owns Lakeway Hospital (the “Lakeway Realty, L.L.C.”). The CID requested certain documents and information related to the acquisition and ownership of Lakeway Hospital through Lakeway Realty, L.L.C.. The Company has learned that the DOJ is investigating MedEquities’ conduct in connection with its investigation of financial relationships related to Lakeway Hospital, including allegations by the DOJ that these relationships violate and continue to violate the Anti-Kickback Statute and, as a result, related claims submitted to federal payors violated and continue to violate the False Claims Act. The Company is cooperating fully with the DOJ in connection with the CID and has produced all of the information that has been requested to date.

On September 29, 2020 the Department of Justice announced it had reached a settlement of a False Claims Act case with Lakeway Regional Medical Center wherein Lakeway Regional Medical Center agreed to pay \$1.1 million for inducing certain physicians to refer patients by offering a low risk and high return investment in the form of a joint venture to purchase and then lease back the hospital to Lakeway Regional Medical Center. A MedEquities subsidiary was a party to this transaction but was not included in settlement discussions. The documents relating to the settlement are not publicly available.

The Company believes that the acquisition, ownership and leasing of Lakeway Hospital through the Lakeway Partnership was and is in compliance with all applicable laws. However, due to the uncertainties surrounding this matter and its ultimate outcome, we are unable to determine whether it is probable that any loss has been incurred.

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

Indemnification Agreements

In connection with certain facility transitions, we have agreed to indemnify certain operators in certain events. As of March 31, 2021, our maximum funding commitment under these indemnification agreements was approximately \$8.1 million. Claims under these indemnification agreements may be made within 18 months to 72 months of the transition date. These indemnification agreements were provided to certain operators in connection with facility transitions and generally would be applicable in the event that the prior operators do not perform under their transition agreements. The Company does not expect to fund a material amount under these indemnification agreements.

Commitments

We have committed to fund the construction of new leased and mortgaged facilities, capital improvements and other commitments. We expect the funding of these commitments to be completed over the next several years. Our remaining commitments at March 31, 2021, are outlined in the table below (in thousands):

| | |
|---------------------------------------|-------------------|
| Total commitments | \$ 596,615 |
| Amounts funded to date ⁽¹⁾ | (454,837) |
| Remaining commitments ⁽²⁾ | <u>\$ 141,778</u> |

(1) Includes finance costs.

(2) This amount excludes our remaining commitments to fund under our other investments of approximately \$81.0 million.

NOTE 17 - EARNINGS PER SHARE

The following tables set forth the computation of basic and diluted earnings per share:

| | Three Months Ended | |
|---|--|------------------|
| | March 31, | |
| | 2021 | 2020 |
| | (in thousands, except per share amounts) | |
| Numerator: | | |
| Net income | \$ 164,366 | \$ 92,279 |
| Deduct: net income attributable to noncontrolling interests | <u>(4,388)</u> | <u>(2,364)</u> |
| Net income available to common stockholders | <u>\$ 159,978</u> | <u>\$ 89,915</u> |
| Denominator: | | |
| Denominator for basic earnings per share | 232,572 | 227,261 |
| Effect of dilutive securities: | | |
| Common stock equivalents | 944 | 1,261 |
| Noncontrolling interest - Omega OP Units | 6,391 | 5,984 |
| Denominator for diluted earnings per share | <u>239,907</u> | <u>234,506</u> |
| Earnings per share - basic: | | |
| Net income available to common stockholders | <u>\$ 0.69</u> | <u>\$ 0.40</u> |
| Earnings per share - diluted: | | |
| Net income | <u>\$ 0.69</u> | <u>\$ 0.39</u> |

NOTE 18 - SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The following are supplemental disclosures to the consolidated statements of cash flows for the three months ended March 31, 2021 and 2020:

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Reconciliation of cash and cash equivalents and restricted cash: | | |
| Cash and cash equivalents | \$ 51,376 | \$ 347,965 |
| Restricted cash | 4,522 | 4,057 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 55,898</u> | <u>\$ 352,022</u> |
| Supplemental information: | | |
| Interest paid during the period, net of amounts capitalized | <u>\$ 67,538</u> | <u>\$ 64,457</u> |
| Taxes paid during the period | <u>\$ 1,509</u> | <u>\$ 2,655</u> |
| Non cash financing activities | | |
| Change in fair value of cash flow hedges | 36,672 | (7,844) |
| Remeasurement of debt denominated in a foreign currency | 3,010 | (13,187) |

NOTE 19 - SUBSEQUENT EVENTS

On April 30, 2021, the Company closed a new four-year \$1.45 billion senior unsecured credit facility ("Credit Facility"). The Credit Facility replaced a \$1.25 billion senior unsecured credit facility that was scheduled to mature on May 25, 2021.

On April 30, 2021, the Company closed a new four-year \$50 million senior unsecured term loan facility ("OP Term Loan Facility") to its operating partnership subsidiary. The OP Term Loan Facility replaced a \$50 million senior unsecured term loan facility that was scheduled to mature on May 25, 2022.

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

Forward-Looking Statements and Factors Affecting Future Results

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this document. This document contains "forward-looking statements" within the meaning of the federal securities laws. These statements relate to our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements other than statements of historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology including, but not limited to, terms such as "may," "will," "anticipates," "expects," "believes," "intends," "should" or comparable terms or the negative thereof. These statements are based on information available on the date of this filing and only speak as to the date hereof and no obligation to update such forward-looking statements should be assumed. Our actual results may differ materially from those reflected in the forward-looking statements contained herein as a result of a variety of factors, including, among other things:

- (i) those items discussed under "Risk Factors" in Part I, Item 1A to our annual report on [Form 10-K](#);
- (ii) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
- (iii) the impact of the novel coronavirus ("COVID-19") on our business and the business of our operators, including without limitation, the extent and duration of the COVID-19 pandemic, increased costs and decreased occupancy levels experienced by operators of skilled nursing facilities ("SNFs") and assisted living facilities ("ALFs") in connection therewith, the ability of operators to comply with new infection control and vaccine protocols, the long-term impact of vaccination on facility infection rates, and the extent to which continued government support may be available to operators to offset such costs and the conditions related thereto;
- (iv) the ability of any of Omega's operators in bankruptcy to reject unexpired lease obligations, modify the terms of Omega's mortgages and impede the ability of Omega to collect unpaid rent or interest during the pendency of a bankruptcy proceeding and retain security deposits for the debtor's obligations, and other costs and uncertainties associated with operator bankruptcies;
- (v) our ability to re-lease, otherwise transition, or sell underperforming assets or assets held for sale on a timely basis and on terms that allow us to realize the carrying value of these assets;
- (vi) the availability and cost of capital to us;
- (vii) changes in our credit ratings and the ratings of our debt securities;
- (viii) competition in the financing of healthcare facilities;
- (ix) competition in long-term healthcare industry and shifts in the perception of various types of long-term care facilities, including SNFs and ALFs;
- (x) additional regulatory and other changes in the healthcare sector;
- (xi) changes in the financial position of our operators;
- (xii) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
- (xiii) changes in interest rates;
- (xiv) the timing, amount and yield of any additional investments;
- (xv) changes in tax laws and regulations affecting real estate investment trusts ("REITs");
- (xvi) the potential impact of changes in the SNF and ALF markets or local real estate conditions on our ability to dispose of assets held for sale for the anticipated proceeds or on a timely basis, or to redeploy the proceeds therefrom on favorable terms;
- (xvii) our ability to maintain our status as a REIT; and
- (xviii) the effect of other factors affecting our business or the businesses of our operators that are beyond our or their control, including natural disasters, other health crises or pandemics and governmental action; particularly in the healthcare industry.

Overview

Omega Healthcare Investors, Inc. (“Omega”) was incorporated in the State of Maryland on March 31, 1992, and has elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. Omega is structured as an umbrella partnership REIT (“UPREIT”) under which all of Omega’s assets are owned directly or indirectly by, and all of Omega’s operations are conducted directly or indirectly through, its operating partnership subsidiary, OHI Healthcare Properties Limited Partnership (“Omega OP”). Unless stated otherwise or the context otherwise requires, the terms “Omega”, the “Company,” “we,” “our” and “us” refer to Omega Healthcare Investors, Inc. and its consolidated subsidiaries, including Omega OP, references to “Parent” refer to Omega Healthcare Properties, Inc. without regard to its consolidated subsidiaries, and references to “Omega OP” mean OHI Healthcare Properties Limited Partnership and its consolidated subsidiaries. As of March 31, 2021, Omega owned approximately 97% of the issued and outstanding units of partnership interest in Omega OP (“Omega OP Units”), and investors owned approximately 3% of the Omega OP Units.

Omega has one reportable segment consisting of investments in healthcare-related real estate properties located in the United States (“U.S.”) and the United Kingdom (“U.K.”). Our core business is to provide financing and capital to the long-term healthcare industry with a particular focus on SNFs and ALFs, and to a lesser extent, independent living facilities (“ILFs”), rehabilitation and acute care facilities (“specialty facilities”) and medical office buildings. Our core portfolio consists of long-term leases and mortgage agreements. All of our leases are “triple-net” leases, which require the operators (we use the term “operator” to refer to our tenants and mortgagors and their affiliates who manage and/or operate our properties) to pay all property-related expenses. Our mortgage revenue derives from fixed rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Our other investment income derives from fixed and variable rate loans to our operators and/or their principals to fund working capital and capital expenditures. These loans, which may be either unsecured or secured by the collateral of the borrower, are classified as other investments.

COVID-19 Pandemic Update

For the year ended December 31, 2020 and for the first quarter of 2021, we have collected substantially all of the contractual rents owed to us from our operators (other than operators under a forbearance agreement prior to the pandemic). However, the COVID-19 pandemic continues to have a significant impact on our operators. As of April 27, 2021, our operators reported cases of COVID-19 within 212, or 22%, of our 949 operating facilities as of December 31, 2020, which includes cases involving employees and residents. This represents a meaningful decline in cases from the 614 facilities with cases, or 64% of our 959 operating facilities, that our operators reported as of December 22, 2020. We caution that we have not independently validated such facility virus incidence information, it may be reported on an inconsistent basis by our operators, and we can provide no assurance regarding its accuracy or that there have not been any changes since the time the information was obtained from our operators; we also undertake no duty to update this information. While we believe the decline in reported cases noted above is due in large part to vaccination programs for COVID-19 which have been implemented in many of our facilities, it remains uncertain when and to what extent these vaccination programs will continue to mitigate the effects of COVID-19 in our facilities, or how effective existing vaccines will be against variants of the COVID-19 virus. The impact of these programs will depend in part on the continued speed, distribution, efficacy and delivery of the vaccine in our facilities, as well as participation levels in vaccination programs among the residents and employees of our operators. Our operators have reported considerable variation in participation levels among both employees and residents, which may change over time as additional vaccination clinics are held.

In addition to experiencing outbreaks of positive cases and deaths of residents and employees during the pandemic, our operators have been required to, and continue to, adapt their operations rapidly throughout the pandemic to manage the spread of the COVID-19 virus as well as the implementation of new treatments and vaccines, and to implement new requirements relating to infection control, personal protective equipment (“PPE”), quality of care, visitation protocols, staffing levels, and reporting, among other regulations, throughout the pandemic. Many of our operators have reported incurring significant cost increases as a result of the COVID-19 pandemic, with dramatic increases for facilities with positive cases. We believe these increases primarily stem from elevated labor costs, including increased use of overtime and bonus pay, as well as a significant increase in both the cost and usage of PPE, testing equipment and processes and supplies, as well as implementation of new infection control protocols and vaccination programs. In addition, many of our operators have reported experiencing declines, in some cases that are material, in occupancy levels as a result of the pandemic, which declines on average appear to be stabilizing. We believe these declines may be in part due to COVID-19 related fatalities at the facilities, the delay of SNF placement and/or utilization of alternative care settings for those with lower level of care needs, the suspension and/or postponement of elective hospital procedures, fewer discharges from hospitals to SNFs and higher hospital readmittances from SNFs.

While substantial government support, primarily through the federal CARES Act in the U.S. and distribution of PPE, vaccines and testing equipment by federal and state governments, has been allocated to SNFs and to a lesser extent to ALFs, further government support will likely be needed to continue to offset these impacts. It is unclear whether and to what extent such government support will continue to be sufficient and timely to offset these impacts. In particular, it remains unclear as to whether unallocated funds under the Provider Relief Fund will be distributed to our operators in any meaningful way, whether additional funds will be added to the Provider Relief Fund or otherwise allocated to health care operators or our operators, or whether additional Medicaid funds under the recently enacted American Rescue Plan Act of 2021 (the “American Rescue Plan Act”) in the U.S. will ultimately support reimbursement to our operators. Further, to the extent the cost and occupancy impacts on our operators continue or accelerate and are not offset by continued government relief that is sufficient and timely, we anticipate that the operating results of certain of our operators would be materially and adversely affected, some may be unwilling or unable to pay their contractual obligations to us in full or on a timely basis and we may be unable to restructure such obligations on terms as favorable to us as those currently in place. Citing in part the impact of the COVID-19 pandemic and uncertainties regarding the continuing availability of sufficient government support, during the third and fourth quarters of 2020, four of our operators indicated in their financial statements substantial doubt regarding their ability to continue as going concerns.

There are a number of uncertainties we face as we consider the potential impact of COVID-19 on our business, including how long census disruption and elevated COVID-19 costs will last, the impact of vaccination programs and participation levels in those programs in reducing the spread of COVID-19 in our facilities, and the extent to which funding support from the federal government and the states will continue to offset these incremental costs as well as lost revenues. Notwithstanding vaccination programs, we expect that heightened clinical protocols for infection control within facilities will continue for some period; however, we do not know if future reimbursement rates or equipment provided by governmental agencies will be sufficient to cover the increased costs of enhanced infection control and monitoring.

While we continue to believe that longer term demographics will drive increasing demand for needs-based skilled nursing care, we expect the uncertainties to our business described above to persist at least for the near term until we can gain more information as to the level of costs our operators will continue to experience and for how long, and the level of additional governmental support that will be available to them, the potential support our operators may request from us and the future demand for needs-based skilled nursing care and senior living facilities. We continue to monitor the impact of occupancy declines at many of our operators, and it remains uncertain whether and when demand and occupancy levels will return to pre-COVID-19 levels.

We continue to monitor the impacts of other regulatory changes, as discussed in *Item 1. Business – Government Regulation and Reimbursement*, including any significant limits on the scope of services reimbursed and on reimbursement rates and fees, which could have a material adverse effect on an operator’s results of operations and financial condition, which could adversely affect the operator’s ability to meet its obligations to us.

Government Regulation and Reimbursement

The healthcare industry is heavily regulated. Our operators, which are primarily based in the U.S., are subject to extensive and complex federal, state and local healthcare laws and regulations; we also have several U.K.-based operators that are impacted by a variety of laws and regulations in their jurisdiction. These laws and regulations are subject to frequent and substantial changes resulting from the adoption of new legislation, rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes, which may be applied retroactively, cannot be predicted. Changes in laws and regulations impacting our operators, in addition to regulatory non-compliance by our operators, can have a significant effect on the operations and financial condition of our operators, which in turn may adversely impact us. There is the potential that we may be subject directly to healthcare laws and regulations because of the broad nature of some of these regulations, such as the Anti-kickback Statute and False Claims Act, among others.

The following information supplements and updates, and should be read in conjunction with, the information contained under the caption "*Item 1. Business - Government Regulation and Reimbursement*" in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020. Except as discussed below, there have been no changes to the matters discussed therein that we believe materially impact us.

The U.S. Department of Health and Human Services ("HHS") declared a public health emergency on January 31, 2020 following the World Health Organization's decision to declare COVID-19 a public health emergency of international concern. This declaration, which has been extended through July 20, 2021, allows HHS to provide temporary regulatory waivers and new reimbursement rules designed to equip providers with flexibility to respond to the COVID-19 pandemic by suspending various Medicare patient coverage criteria and documentation and care requirements, including, for example, suspension of the three-day prior hospital stay coverage requirement and expanding the list of approved services which may be provided via telehealth. These regulatory actions could contribute to a change in census volumes and skilled nursing mix that may not otherwise have occurred. It remains uncertain when federal and state regulators will resume enforcement of those regulations which are waived or otherwise not being enforced during the public health emergency due to the exercise of enforcement discretion.

These temporary changes to regulations and reimbursement, as well as emergency legislation, including the CARES Act enacted on March 27, 2020 and discussed below, continue to have a significant impact on the operations and financial condition of our operators. The extent of the COVID-19 pandemic's effect on the Company's and our operators' operational and financial performance will depend on future developments, including the sufficiency and timeliness of additional governmental relief, the duration, spread and intensity of the outbreak, the impact of new vaccine distributions on our operators and their populations, as well as the difference in how the pandemic may impact SNFs in contrast to ALFs, all of which developments and impacts are uncertain and difficult to predict. Due to these uncertainties, we are not able at this time to estimate the effect of these factors on our business; however, the adverse impact on our business, results of operations, financial condition and cash flows could be material.

A significant portion of our operators' revenue is derived from government-funded reimbursement programs, consisting primarily of Medicare and Medicaid. As federal and state governments continue to focus on healthcare reform initiatives, efforts to reduce costs by government payors will likely continue. Significant limits on the scope of services reimbursed and/or reductions of reimbursement rates could therefore have a material adverse effect on our operators' results of operations and financial condition. Additionally, new and evolving payor and provider programs that are tied to quality and efficiency could adversely impact our tenants' and operators' liquidity, financial condition or results of operations, and there can be no assurance that payments under any of these government health care programs are currently, or will be in the future, sufficient to fully reimburse the property operators for their operating and capital expenses.

The following is a discussion of recent developments regarding certain U.S. laws and regulations generally applicable to our operators, and in certain cases, to us, and their impact. This discussion supplements and should be read in conjunction with the information under the heading "*Item 1. Business - Government Regulation and Reimbursement*" in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

Reimbursement Changes Related to COVID-19:

U.S. Federal Stimulus Funds, through the CARES Act and Provider Relief Fund, Appropriating \$178 Billion to Health Care Providers. In response to the pandemic, Congress enacted a series of economic stimulus and relief measures throughout 2020. On March 18, 2020, the Families First Coronavirus Response Act was enacted in the U.S., providing a temporary 6.2% increase to each qualifying state and territory's Medicaid Federal Medical Assistance Percentage ("FMAP") effective January 1, 2020. The temporary FMAP increase will extend through the last day of the calendar quarter in which the public health emergency terminates. States will make individual determinations about how this additional Medicaid reimbursement will be applied to SNFs, if at all.

In a further response to the pandemic, the CARES Act authorized approximately \$178 Billion to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund") to reimburse eligible healthcare providers for health care related expenses or lost revenues that are attributable to coronavirus. The Provider Relief Fund is administered under the broad authority and discretion of HHS and recipients are not required to repay distributions received to the extent they are used in compliance with applicable requirements.

HHS began distributing Provider Relief Fund grants in April 2020 and has made grants available to various provider groups in three general phases. In May 2020, HHS announced that approximately \$9.5 Billion in targeted distributions would be made available to eligible skilled nursing facilities, approximately \$2.5 Billion of which were composed of performance-based incentive payments tied to a facility's infection rate. Approximately \$8.5 billion in additional funds were added to the Provider Relief Fund through the American Rescue Plan Act enacted on March 11, 2021; however, these funds are limited to rural providers and suppliers.

As of March 15, 2021, based on data published by HHS, it appears that less than \$29 billion of the Provider Relief Fund remains unallocated. HHS continues to evaluate and provide allocations of, and issue regulations and guidance regarding, grants made under the CARES Act and related legislation. There are substantial uncertainties regarding the extent to which our operators will receive funds which have not been allocated, whether additional funds will be allocated to the Provider Relief Fund, health care providers or senior care providers and whether additional payments will be distributed to providers, the financial impact of receiving any of these funds on their operations or financial condition, and whether operators will be able to meet the compliance requirements associated with the funds. HHS continues to evaluate and provide allocations of, and issue regulation and guidance regarding, grants made under the CARES Act.

The CARES Act and related legislation also made other forms of financial assistance available to healthcare providers, which have the potential to impact our operators to varying degrees. This assistance includes Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advance Payment Program, which made available accelerated payments of Medicare funds in order to increase cash flow to providers. These payments are loans that providers must repay. Additionally, CMS suspended Medicare sequestration payment adjustments, which would have otherwise reduced payments to Medicare providers by 2%, from May 1, 2020 through December 31, 2021, but also extended sequestration through 2030. While not limited to healthcare providers, the CARES Act additionally provided payroll tax relief for employers, allowing them to defer payment of employer Social Security taxes that are otherwise owed for wage payments made after March 27, 2020 through December 31, 2020 to December 31, 2021 with respect to 50% of the payroll taxes owed, with the remaining 50% deferred until December 31, 2022.

Quality of Care Initiatives and Additional Requirements Related to COVID-19:

In addition to COVID-19 reimbursement changes, several regulatory initiatives announced in 2020 and the first quarter of 2021 focused on addressing quality of care in long-term care facilities, including those related to COVID-19 testing and infection control protocols, vaccine protocols, staffing levels, reporting requirements, and visitation policies, as well as increased inspection of nursing homes. For example, recent updates to the Nursing Home Care website and the Five Star Quality Rating System include revisions to the inspection process, adjustment of staffing rating thresholds and the implementation of new quality measures. Although the American Rescue Plan Act did not allocate specific funds to SNF or assisted living facility providers, approximately \$200 million was allocated to quality improvement organizations to provide infection control and vaccination uptake support to SNFs.

On June 16, 2020, the U.S. House of Representatives Select Subcommittee on the Coronavirus Crisis announced the launch of an investigation into the COVID-19 response of nursing homes and the use of federal funds by nursing homes during the pandemic. The Select Subcommittee continued to be active throughout the remainder of 2020 and the first quarter of 2021. In March 2021, the Oversight Subcommittee of the House Ways and Means Committee held a hearing on examining the impact of private equity in the U.S. health care system, including the impact on quality of care provided within the skilled nursing industry. These hearings could result in legislation imposing additional requirements on our operators.

Reimbursement Generally:

Medicaid. The American Rescue Plan Act contains several provisions designed to increase coverage, expand benefits, and adjust federal financing for state Medicaid programs. For example, the American Rescue Plan Act increases the FMAP by 10 percentage points for state home and community-based services expenditures beginning April 1, 2021 through March 30, 2022 in an effort to assist seniors and people with disabilities to receive services safely in the community rather than in nursing homes and other congregate care settings. As a condition for receiving the FMAP increase, states must enhance, expand, or strengthen their Medicaid home and community-based services program during this period. These potential enhancements to Medicaid reimbursement funding may be offset in certain states by state budgetary concerns, the ability of the state to allocate matching funds and to comply with the new requirements, the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes resulting from the COVID-19 pandemic, and the potential allocation of state Medicaid funds available for reimbursement away from SNFs in favor of home and community-based programs. These challenges may particularly impact us in states where we have a larger presence, including Florida and Texas. In Texas in particular, several of our operators have historically experienced lower operating margins on their SNFs, as compared to other states, as a result of lower Medicaid reimbursement rates and higher labor costs. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement or an increase in the percentage of Medicaid patients has in the past and may in the future adversely affect our operators' results of operations and financial condition, which in turn could adversely impact us.

Medicare. Payments to providers continue to be increasingly tied to quality and efficiency. The Patient Driven Payment Model ("PDPM"), which was designed by CMS to improve the incentives to treat the needs of the whole patient, became effective October 1, 2019. Prior to COVID-19, we believed that certain of our operators could realize efficiencies and cost savings from increased concurrent and group therapy under PDPM and some had reported early positive results. Given the ongoing impacts of COVID-19, many operators are and may continue to be restricted from pursuing concurrent and group therapy and unable to realize these benefits. Additionally, our operators continue to adapt to the reimbursement changes and other payment reforms resulting from the value based purchasing programs applicable to SNFs under the 2014 Protecting Access to Medicare Act, which became effective on October 1, 2018. These reimbursement changes have had and may, together with any further reimbursement changes to PDPM, in the future have an adverse effect on the operations and financial condition of some operators and could adversely impact the ability of operators to meet their obligations to us.

Department of Justice and Other Enforcement Actions:

SNFs are under intense scrutiny for ensuring the quality of care being rendered to residents and appropriate billing practices conducted by the facility. The Department of Justice (“DOJ”) has historically used the False Claims Act to civilly pursue nursing homes that bill the federal government for services not rendered or care that is grossly substandard. For example, California prosecutors announced in March 2021 an investigation into a skilled nursing provider that is affiliated with one of our operators, alleging the chain manipulated the submission of staffing level data in order to improve its Five Star rating. In 2020, the DOJ launched a National Nursing Home Initiative to coordinate and enhance civil and criminal enforcement actions against nursing homes with grossly substandard deficiencies. Such enforcement activities are unpredictable and may develop over lengthy periods of time. An adverse resolution of any of these enforcement activities or investigations incurred by our operators may involve injunctive relief and/or substantial monetary penalties, either or both of which could have a material adverse effect on their reputation, business, results of operations and cash flows.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, and a summary of our significant accounting policies is included in Note 2 - Summary of Significant Accounting Policies to our Annual Report on [Form 10-K](#) for the year ended December 31, 2020. Our preparation of the financial statements requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying footnotes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the consolidated financial statements. We have described our most critical accounting policies in our 2020 Annual Report on [Form 10-K](#) for the year ended December 31, 2020, in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

There have been no material changes to our critical accounting policies or estimates since December 31, 2020. See also Note 2 - Summary of Significant Accounting Policies to our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

Results of Operations

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

Three Months Ended March 31, 2021 and 2020

Revenues

Our revenues for the three months ended March 31, 2021 totaled \$273.8 million, an increase of approximately \$20.7 million over the same period in 2020. The \$20.7 million increase was primarily the result of (i) a \$26.8 million increase in rental income resulting from facility acquisitions, facilities placed in service, and facility transitions, (ii) a \$4.9 million increase in rental income resulting from the acceleration of certain in-place lease liabilities, and (iii) a \$1.0 million increase in other investment income primarily related to new mortgages or notes and additional funding to existing operators. These increases were partially offset by (i) a \$8.6 million decrease in rental income resulting from placing operators on cash basis of revenue recognition and (ii) a \$3.6 million decrease in rental income resulting from facility sales and facility transitions.

Expenses

Expenses for the three months ended March 31, 2021 totaled \$191.2 million, an increase of approximately \$28.8 million over the same period in 2020. The \$28.8 million increase was primarily due to: (i) a \$25.1 million increase in impairment on real estate properties related to four facilities in the first quarter of 2021 (compared to three facilities during the same period in 2020) to reduce their book values to their estimated fair value less costs to sell or fair value, (ii) a \$3.1 million increase in interest expense primarily resulting from the issuance during the fourth quarter of 2020 of the \$700 million of Senior Notes due 2031 and the issuance during the first quarter of 2021 of the \$700 million of Senior Notes due 2033, partially offset by the retirement of term loans in the fourth quarter of 2020, (iii) a \$2.2 million increase in depreciation expense primarily resulting from facility acquisitions and capital additions, offset by facility sales and facilities reclassified to assets held for sale, and (iv) a \$2.0 million increase in acquisition, merger and transition related costs primarily resulting from the Daybreak transition. These increases were partially offset by (i) a \$1.0 million recovery for credit losses primarily resulting from decreases in average time to maturity, decreases in loss rates, and decreases in loan balances compared to a \$1.5 million provision for credit losses during the same period in 2020 and (ii) a \$0.9 million decrease in real estate taxes primarily related to facility sales and transitions.

Other Income (Expense)

For the three months ended March 31, 2021, total other income was \$70.9 million, an increase of approximately \$69.9 million over the same period in 2020. The increase was mainly due to a \$98.5 million increase in gain on assets sold related to the sale of 24 facilities in the first quarter of 2021 compared to the sale of six facilities during the same period in 2020 offset by a \$29.7 million increase in loss on debt extinguishment primarily related to fees, premiums, and expenses related to the purchase of \$350 million of the 4.375% Senior Notes due 2023 during the first quarter of 2021.

National Association of Real Estate Investment Trusts Funds From Operations

Our funds from operations ("Nareit FFO") for the three months ended March 31, 2021 was \$170.2 million compared to \$181.0 million for the same period in 2020.

We calculate and report Nareit FFO in accordance with the definition of Funds from Operations and interpretive guidelines issued by the National Association of Real Estate Investment Trusts ("Nareit"), and, consequently, Nareit FFO is defined as net income (computed in accordance with GAAP), adjusted for the effects of asset dispositions and certain non-cash items, primarily depreciation and amortization and impairment on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures and changes in the fair value of warrants. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis. We believe that Nareit FFO is an important supplemental measure of our operating performance. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time, while real estate values instead have historically risen or fallen with market conditions. Nareit FFO was designed by the real estate industry to address this issue. Nareit FFO herein is not necessarily comparable to Nareit FFO of other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us.

Nareit FFO is a non-GAAP financial measure. We use Nareit FFO as one of several criteria to measure the operating performance of our business. We further believe that by excluding the effect of depreciation, amortization, impairment on real estate assets and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, Nareit FFO can facilitate comparisons of operating performance between periods and between other REITs. We offer this measure to assist the users of our financial statements in evaluating our financial performance under GAAP, and Nareit FFO should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investors and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income. The following table presents our Nareit FFO results for the three months ended March 31, 2021 and 2020:

| | Three Months Ended | |
|--|---------------------------|-------------------|
| | March 31, | |
| | 2021 | 2020 |
| | (in thousands) | |
| Net income | \$ 164,366 | \$ 92,279 |
| Deduct gain from real estate dispositions | (100,342) | (1,838) |
| Deduct gain from real estate dispositions - unconsolidated joint ventures | (14,924) | (117) |
| | 49,100 | 90,324 |
| Elimination of non-cash items included in net income: | | |
| Depreciation and amortization | 84,849 | 82,643 |
| Depreciation - unconsolidated joint ventures | 3,361 | 3,632 |
| Add back impairments on real estate properties | 28,689 | 3,639 |
| Add back impairments on real estate properties - unconsolidated joint ventures | 4,178 | — |
| Add back unrealized loss on warrants | 72 | 775 |
| Nareit FFO | \$ 170,249 | \$ 181,013 |

Portfolio and Recent Developments

The following table summarizes the significant asset acquisitions that occurred during the first three months of 2021:

| Period | Number of Facilities | | | Country/ State | Total Investment (in millions) | Initial Annual Cash Yield ⁽¹⁾ |
|--------|----------------------|-----|-----------|--|-----------------------------------|--|
| | SNF | ALF | Specialty | | | |
| Q1 | — | 17 | 7 | AZ, CA, FL, IL, NJ, OR, PA, TN, TX, VA, WA | \$ 511.3 ⁽²⁾ | 8.43 % |
| Q1 | 6 | — | — | FL | 83.1 | 9.25 % |
| Total | 6 | 17 | 7 | | \$ 594.4 | |

(1) The initial annual cash yield reflects the initial cash rent divided by the purchase price.

(2) On January 20, 2021, we acquired 24 facilities from Healthpeak Properties, Inc. The acquisition involved the assumption of an in-place master lease with Brookdale Senior Living Inc.

Other Recent Developments

On April 30, 2021, the Company closed a new four-year \$1.45 billion senior unsecured credit facility (“Credit Facility”). The Credit Facility replaced a \$1.25 billion senior unsecured credit facility that was scheduled to mature on May 25, 2021.

On April 30, 2021, the Company closed a new four-year \$50 million senior unsecured term loan facility (“OP Term Loan Facility”) to its operating partnership subsidiary. The OP Term Loan Facility replaced a \$50 million senior unsecured term loan facility that was scheduled to mature on May 25, 2022.

Asset Held for Sale

As of March 31, 2021, we have 6 facilities, totaling \$7.9 million classified as assets held for sale. We expect to sell these facilities over the next twelve months.

Asset Sales, Impairments, Contractual Receivables and Other Receivables and Lease Inducements

Asset Sales

During the first quarter of 2021, we sold 24 facilities subject to operating leases for approximately \$188.3 million in net cash proceeds, recognizing a net gain of approximately \$100.3 million.

Impairments

During the first quarter of 2021, we recorded impairments on real estate properties of approximately \$28.7 million on four facilities (three were subsequently reclassified to assets held for sale). Our recorded impairments were primarily the result of decisions to exit certain non-strategic facilities and/or operators. We reduced the net book value of the impaired facilities to their estimated fair values or, with respect to the facilities reclassified to held for sale, to their estimated fair values less costs to sell. To estimate the fair value of the facilities, we utilized a market approach which considered binding sale agreements (a Level 1 input) and/or non-binding offers from unrelated third parties and/or broker quotes (a Level 3 input).

Contractual Receivables, Other Receivables and Lease Inducements

A summary of our net receivables by type is as follows:

| | <u>March 31,</u> <u>2021</u> | <u>December 31,</u> <u>2020</u> |
|---|---------------------------------|------------------------------------|
| | <u>(in thousands)</u> | |
| Contractual receivables - net | \$ 11,428 | \$ 10,408 |
| Effective yield interest receivables | \$ 11,884 | \$ 12,195 |
| Straight-line rent receivables | 143,599 | 139,046 |
| Lease inducements | 81,186 | 83,425 |
| Other receivables and lease inducements | <u>\$ 236,669</u> | <u>\$ 234,666</u> |

During the first quarter of 2021, we wrote-off approximately \$2.7 million of straight-line rent receivables to rental income as a result of transitioning one facility and placing one operator on a cash basis due to changes in our evaluation of the collectibility of future rent payments due under the lease agreement.

Other Investments

Genesis

On March 6, 2018, we amended certain terms of our \$48.0 million secured term loan with Genesis. The \$48.0 million term loan bears interest at a fixed rate of 14% per annum, of which 9% per annum is paid-in-kind and was initially scheduled to mature on July 29, 2020. The maturity date of this loan was extended during the first quarter of 2021 to January 1, 2024. This term loan (and the \$16.0 million term loan discussed below) is secured by a first priority lien on and security interest in certain collateral of Genesis. As of March 31, 2021, approximately \$66.7 million is outstanding on this term loan.

Also on March 6, 2018, we provided Genesis an additional \$16.0 million secured term loan bearing interest at a fixed rate of 10% per annum, of which 5% per annum is paid-in-kind, and was initially scheduled to mature on July 29, 2020. The maturity date of this loan was extended during the first quarter of 2021 to January 1, 2024. As of March 31, 2021, approximately \$18.6 million is outstanding on this term loan.

Daybreak

During the first quarter of 2021, we transitioned 14 Daybreak facilities to existing operators and sold two Daybreak facilities. As of March 31, 2021, we had two remaining Daybreak facilities with a net book value of approximately \$0.7 million, which we expect to sell during the second quarter of 2021. The total annual rent or rent equivalents achieved through transitioning the Daybreak portfolio equal \$16.6 million. On April 6, 2021, we terminated the Daybreak master lease and exited that relationship.

We continue to closely monitor the performance of all of our operators, as well as industry trends and developments generally.

Liquidity and Capital Resources

At March 31, 2021, we had total assets of \$9.8 billion, total equity of \$4.1 billion and debt of \$5.5 billion, representing approximately 56.9% of total capitalization.

Financing Activities and Borrowing Arrangements

\$700 Million 3.250% Senior Notes due 2033

In March 2021, we issued \$700 million aggregate principal amount of our 3.250% Senior Notes due 2033 (the "2033 Senior Notes"). The 2033 Senior Notes mature on April 15, 2033. The 2033 Senior Notes were sold at an issue price of 99.304% of their face value before the underwriters' discount. We used the proceeds from this offering to pay down outstanding borrowings on the Revolving Line of Credit, repay the Sterling term loan, and fund the tender offer to purchase \$350 million of the 4.375% Senior Notes due 2023 and the payment of accrued interest and related fees, premiums and expenses. In connection with this transaction, we recorded approximately \$29.7 million in related fees, premiums, and expenses which were recorded as Loss on debt extinguishment in our Consolidated Statement of Operations.

\$400 Million Forward Starting Swaps

On March 27, 2020, we entered into five forward starting swaps totaling \$400 million. We designated the forward starting swaps as cash flow hedges of interest rate risk associated with interest payments on a forecasted issuance of fixed rate long-term debt, initially expected to occur within the next five years. The swaps are effective on August 1, 2023 and expire on August 1, 2033 and were issued at a fixed rate of approximately 0.8675%. In March 2021, in conjunction with the issuance of \$700 million aggregate principal amount of our 3.25% Senior Notes due 2033, we discontinued hedge accounting for these five forward starting swaps. Amounts reported in Accumulated Other Comprehensive Income related to these discontinued cash flow hedging relationships will be reclassified to interest expense over a ten year term. Simultaneously, we re-designated these swaps in new cash flow hedging relationships of interest rate risk associated with interest payments on another forecasted issuance of long-term debt. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 46 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

£174 Million Foreign Exchange Forward Starting Swaps

From the issuance date of our GBP borrowings through the prepayment date in March 2021, we used a nonderivative, GBP-denominated term loan and line of credit totaling £174 million to hedge a portion of our net investments in foreign operations. During March 2021 and concurrent with the settlement of our GBP-denominated term loan and repayment of our GBP denominated borrowings under our line of credit, we entered into four foreign currency forwards that mature on March 8, 2024 to hedge a portion of our net investments in foreign operations, effectively replacing the terminated net investment hedge. For these derivatives that are designated and qualify as net investment hedges, the gain or loss on the derivative is reported in Accumulated Other Comprehensive Income as part of the cumulative translation adjustment. Amounts are reclassified out of Accumulated Other Comprehensive Income into earnings when the hedged net investment is either sold or substantially liquidated.

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of March 31, 2021 and December 31, 2020, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

Supplemental Guarantor Information

Parent has issued approximately \$4.9 billion aggregate principal of senior notes outstanding at March 31, 2021 that were registered under the Securities Act of 1933, as amended. The senior notes are guaranteed by Omega OP.

The SEC adopted amendments to Rule 3-10 of Regulation S-X and created Rule 13-01 to simplify disclosure requirements related to certain registered securities, such as our senior notes. As a result of these amendments, registrants are permitted to provide certain alternative financial and non-financial disclosures, to the extent material, in lieu of separate financial statements for subsidiary issuers and guarantors of registered debt securities. Accordingly, separate consolidated financial statements of Omega OP have not been presented. Parent and Omega OP, on a combined basis, have no material assets, liabilities or operations other than financing activities (including borrowings under the senior unsecured revolving and term loan credit facility, Omega OP term loan and the outstanding senior notes) and their investments in non-guarantor subsidiaries.

Omega OP is currently the sole guarantor of our senior notes. The guarantees by Omega OP of our senior notes are full and unconditional and joint and several with respect to the payment of the principal and premium and interest on our senior notes. The guarantees of Omega OP are senior unsecured obligations of Omega OP that rank equal with all existing and future senior debt of Omega OP and are senior to all subordinated debt. However, the guarantees are effectively subordinated to any secured debt of Omega OP. As of March 31, 2021, there were no significant restrictions on the ability of Omega OP to make distributions to Omega.

\$500 Million Equity Shelf Program

The table below presents information regarding the shares issued under the Equity Shelf Program for the three months ended March 31, 2020 and 2021:

| Three Months Ended | Shares issued (in millions) | Average Price Per Share | Net Proceeds (in millions) |
|---------------------------|--|------------------------------------|---------------------------------------|
| March 31, 2020 | 0.1 | \$ 37.58 | \$ 1.8 |
| March 31, 2021 | 1.6 | 37.16 | 60.1 |

Dividend Reinvestment and Common Stock Purchase Plan

The table below presents information regarding the shares issued under the Dividend Reinvestment and Common Stock Purchase Plan for the three months ended March 31, 2020 and 2021:

| Three Months Ended | Shares issued (in millions) | Gross Proceeds (in millions) |
|---------------------------|--|---|
| March 31, 2020 | 0.1 \$ | 3.7 |
| March 31, 2021 | 0.4 | 15.5 |

Commitments

We have committed to fund the construction of new leased and mortgaged facilities, capital improvements and other commitments. We expect the funding of these commitments to be completed over the next several years. Our remaining commitments at March 31, 2021, are outlined in the table below (in thousands):

| | |
|---|--------------------------|
| Total commitments | \$ 596,615 |
| Amounts funded to date ⁽¹⁾ | <u>(454,837)</u> |
| Remaining commitments ⁽²⁾ | <u>\$ 141,778</u> |

(1) Includes finance costs.

(2) This amount excludes our remaining commitments to fund under our other investments of approximately \$81.0 million.

Dividends

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

For the three months ended March 31, 2021, we paid dividends of approximately \$158.3 million to our common stockholders. On February 16, 2021, we paid dividends of \$0.67 per outstanding common share to the common stockholders of record as of the close of business on February 8, 2021.

Liquidity

We believe our liquidity and various sources of available capital, including cash from operations, our existing availability under our credit facilities, existing equity sales programs, facility sales and expected proceeds from mortgage and other investment payoffs are adequate to finance operations, meet recurring debt service requirements and fund future investments through the next twelve months.

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

- normal recurring expenses;
- debt service payments;
- capital improvement programs;
- common stock dividends; and
- growth through acquisitions of additional properties.

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

Cash, cash equivalents and restricted cash totaled \$55.9 million as of March 31, 2021, a decrease of \$111.7 million as compared to the balance at December 31, 2020. The following is a discussion of changes in cash, cash equivalents and restricted cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows.

Operating Activities - Operating activities generated \$176.0 million of net cash flow for the three months ended March 31, 2021, as compared to \$139.1 million for the same period in 2020, an increase of \$36.9 million, which is primarily due to facility acquisitions and transitions, investments in mortgages and other investments, and a reduction in lease inducements provided to our operators.

Investing Activities - Net cash flow from investing activities was an outflow of \$396.3 million for the three months ended March 31, 2021, as compared to an outflow of \$55.2 million for the same period in 2020. The \$341.1 million change in cash flow from investing activities related primarily to a \$575.4 million increase in real estate acquisitions, offset by (i) a \$170.2 million increase in proceeds from the sales of real estate investments, (ii) a \$35.0 million change in other investments - net, (iii) a \$26.7 million decrease in investment in construction in progress and capital expenditures and (iv) a \$2.5 million refund of an acquisition related deposit in the first quarter of 2021.

Financing Activities - Net cash flow from financing activities was an inflow of \$108.6 million for the three months ended March 31, 2021, as compared to an inflow of \$235.2 million for the same period in 2020. The \$126.6 million change in cash provided by financing activities was primarily related to (i) a \$364.0 million change in our credit facility borrowings - net, (ii) a \$33.8 million increase in payment of financing related costs and (iii) a \$3.7 million increase in dividends paid, offset by (i) a \$206.8 million change in other long-term borrowings - net, (ii) a \$58.3 million increase in cash proceeds from the issuance of common stock in 2021, as compared to the same period in 2020 and (iii) a \$11.7 million increase in net proceeds from our dividend reinvestment plan in 2021, as compared to the same period in 2020.

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

During the quarter ended March 31, 2021, there were no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed under Item 7A of our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

Item 4 - Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of our Form 10-Q as of and for the quarter ended March 31, 2021, management evaluated the effectiveness of the design and operation of the disclosure controls and procedures of the Company as of March 31, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures of the Company were effective at a reasonable assurance level as of March 31, 2021.

Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2021 identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

See Note 16 - Commitments and Contingencies in the Financial Statements - Part I, Item 1 hereto, which is hereby incorporated by reference in response to this item.

Item 1A - Risk Factors

In addition to the risk factors previously disclosed in Item 1A contained in Part I of our Annual Report on [Form 10-K](#) for the year ended December 31, 2020, investors should carefully consider the following additional risk factor, which should be read in conjunction with the risk factors set forth in such [Form 10-K](#) and Form 10-Q and the other information contained in this report and our other filings with the Securities and Exchange Commission.

The COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The COVID-19 pandemic has significantly adversely impacted, and may continue to so impact, SNFs and long term care providers generally, with higher rates of virus transmission and fatality among the elderly and frail populations these facilities serve. As a result, many of our operators have been and may continue to be significantly impacted by the pandemic. In addition to experiencing outbreaks of positive cases and deaths of residents and employees during the pandemic, our operators have been required to, and continue to, adapt their operations rapidly throughout the pandemic to manage the spread of the COVID-19 virus as well as the implementation of new treatments and vaccines, and to implement new requirements relating to infection control, PPE, quality of care, visitation protocols, staffing levels, and reporting, among other regulations, throughout the pandemic. It remains uncertain when and to what extent vaccination programs for COVID-19, which have been implemented in many of our facilities, will continue to mitigate the effects of COVID-19 in our facilities, or how effective existing vaccines will be against the variants of the COVID-19 virus; the impact of these programs will depend in part on the continued speed, distribution, efficacy and delivery of the vaccine in our facilities, as well as participation levels in vaccination programs among the residents and employees of our operators. Our operators have reported considerable variation in participation levels among both employees and residents, which may change over time as additional vaccination clinics are held.

In addition to the risks associated with managing the spread of the virus, delivery of the vaccines and care of their patients and residents, many of our operators reported incurring, and may continue to incur, significant cost increases as a result of the COVID-19 pandemic, with dramatic increases for facilities with positive cases. We believe these increases primarily stem from elevated labor costs, including increased use of overtime and bonus pay, as well as a significant increase in both the cost and usage of PPE, testing equipment and processes and supplies, as well as implementation of new infection control protocols and delivery of the vaccine. In addition, many of our operators have reported experiencing declines in occupancy levels as a result of the pandemic. We believe these declines may be in part due to COVID-19-induced fatalities at the facilities, the delay of SNF placement and/or utilization of alternative care settings for those with lower level of care needs, the suspension or postponement of elective hospital procedures, fewer discharges from hospitals to SNFs and higher hospital readmittances from SNFs. We continue to monitor the impact of occupancy declines at many of our operators, and it remains uncertain whether and when demand and occupancy levels will return to pre-COVID-19 levels.

While substantial government support, primarily through the federal CARES Act in the U.S. and distribution of PPE and testing equipment by federal and state governments, has been allocated to SNFs and to a lesser extent to ALFs, further government support will likely be needed to continue to offset these impacts and it is unclear whether and to what extent such government support has been and will continue to be sufficient and timely to offset these impacts. In particular, it remains unclear as to whether unallocated funds under the Provider Relief Fund will be distributed to our operators in any meaningful way, whether additional funds will be added to the Provider Relief Fund or otherwise allocated to health care operators or our operators, or whether additional Medicaid funds under the federal American Rescue Plan Act will ultimately support reimbursement to our operators. Further, to the extent the impacts of the pandemic continue or accelerate and are not offset by continued government relief that is sufficient and timely, we anticipate that the operating results of certain of our operators would be materially and adversely affected, some may be unwilling or unable to pay their contractual obligations to us in full or on a timely basis and we may be unable to restructure such obligations on terms as favorable to us as those currently in place. Even if operators are able to avail themselves of government relief to offset some of these costs, they may face challenges in complying with the terms and conditions of government support and may face longer-term adverse impacts to their personnel and business operations from the COVID-19 pandemic, including potential patient litigation and decreased demand for their services, loss of business due to an interruption in their operations, workforce challenges, new regulatory restrictions, or other liabilities related to gathering restrictions, quarantines, reopening plans, vaccine distribution or delivery, spread of infection or other related factors.

Numerous state and local governments and the federal government have initiated efforts that may also affect landlords' and/or mortgagees' ability to collect payments due or enforce remedies for the failure to pay amounts due. Additionally, a growing number of professional liability and employment related claims have been filed or are threatened to be filed against long-term care providers related to the COVID-19 pandemic. While such claims may be subject to liability protection provisions within various state executive orders or legislation and/or federal legislation, an adverse resolution of any of legal proceeding or investigations against our operators may involve injunctive relief and/or substantial monetary penalties, either or both of which could have a material adverse effect on our reputation, business, results of operations and cash flows.

The COVID-19 pandemic has also caused, and is likely to continue to cause, severe economic, market and other disruptions worldwide. The pandemic has led governments and other authorities in the U.S., U.K. and around the world to impose measures intended to control its spread, including but not limited to, restrictions on freedom of movement and business operations which may remain in place along with continuing uncertainty around the potential duration of the pandemic. We cannot assure you that conditions in the bank lending, capital and other financial markets will not deteriorate as a result of the COVID-19 pandemic, or that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancing. In addition, our employees may be impacted directly or indirectly by the pandemic and we may be required to make changes to our internal controls as a result of changes in our business processes or personnel; any such changes may increase our operational and financial reporting risks.

The extent of the COVID-19 pandemic’s effect on our and our operators’ operational and financial performance will depend on future developments, including the ability to control the spread of the outbreak generally and in our facilities, and the delivery and efficacy of and participation in vaccination programs and other treatments for COVID-19, government funds and other support for the senior care sector and the efficacy of other policies and measures that may mitigate the impact of the pandemic, as well as the future demand for needs-based skilled nursing care and senior living facilities, all of which are uncertain and difficult to predict. Due to these uncertainties, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended March 31, 2021, Omega issued an aggregate of 2,221 shares of Omega common stock in exchange for an equivalent number of Omega OP Units tendered to Omega OP for redemption in accordance with the provisions of the Partnership Agreement. The Company issued these shares of Omega common stock in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, based upon factual representations received from the limited partners who received the Omega common stock.

Issuer Purchases of Equity Securities

On March 20, 2020, the Company authorized the repurchase of up to \$200 million of our outstanding common stock from time to time over the twelve months ending March 20, 2021. The Company is authorized to repurchase shares of its common stock in open market and privately negotiated transactions or in any other manner as determined by the Company’s management and in accordance with applicable law. The timing and amount of stock repurchases will be determined, in management’s discretion, based on a variety of factors, including but not limited to market conditions, other capital management needs and opportunities, and corporate and regulatory considerations. The Company has no obligation to repurchase any amount of its common stock, and such repurchases, if any, may be discontinued at any time.

During the first quarter of 2021, we did not purchase any shares of our outstanding common stock.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that may be Purchased Under these Plans or Programs |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| January 1, 2021 to January 31, 2021 | — | \$ — | — | — |
| February 1, 2021 to February 28, 2021 | — | — | — | — |
| March 1, 2021 to March 31, 2021 | — | — | — | — |
| Total | — | \$ — | — | — |

Item 6-Exhibits

| Exhibit No. | |
|-------------|--|
| 3.1 | Amended and Restated Bylaws of Omega Healthcare Investors, Inc. as of April 8, 2021 (incorporated by reference to Exhibit 3.1 on the Company's Form 8-K, filed on April 14, 2021). |
| 4.1 | Indenture dated as of March 10, 2021, among Omega Healthcare Investors, Inc., OHI Healthcare Properties Limited Partnership, as Subsidiary Guarantor, and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 on the Company's Form 8-K, filed on March 10, 2021). |
| 10.1 | Form of Amendment to Employment Agreement for the Company's executive officers, effective as of January 1, 2021 for the Company's executive officers (incorporated by reference to Exhibit 10.12 on the Company's Form 10-K, filed on February 22, 2021). |
| 22.1 | Subsidiary guarantors of guaranteed securities.* |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Omega Healthcare Investors, Inc.* |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Omega Healthcare Investors, Inc.* |
| 32.1 | Section 1350 Certification of the Chief Executive Officer of Omega Healthcare Investors, Inc.* |
| 32.2 | Section 1350 Certification of the Chief Financial Officer of Omega Healthcare Investors, Inc.* |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags. |
| 104 | Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101). |

* Exhibits that are filed herewith.

SIGNATURES

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

OMEGA HEALTHCARE INVESTORS, INC.
Registrant

Date: May 4, 2021

By: /S/ C. TAYLOR PICKETT

C. Taylor Pickett
Chief Executive Officer

Date: May 4, 2021

By: /S/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer

Subsidiary guarantors of guaranteed securities

From time to time Omega Healthcare Investors, Inc., a Maryland corporation (the “Company”), may issue debt securities under a registration statement on Form S-3 filed with the Securities and Exchange Commission that are fully and unconditionally guaranteed by OHI Healthcare Properties Limited Partnership, a Delaware limited partnership (the “Partnership”). As of March 31, 2021, the Partnership has fully and unconditionally guaranteed the outstanding senior notes of the Company identified below:

- \$700 million 4.375% Senior Notes due 2023
 - \$400 million 4.950% Senior Notes due 2024
 - \$400 million 4.50% Senior Notes due 2025
 - \$600 million 5.250% Senior Notes due 2026
 - \$700 million 4.50% Senior Notes due 2027
 - \$550 million 4.750% Senior Notes due 2028
 - \$500 million 3.625% Senior Notes due 2029
 - \$700 million 3.375% Senior Notes due 2031
 - \$700 million 3.250% Senior Notes due 2033
-

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

I, C. Taylor Pickett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2021

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

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

I, Robert O. Stephenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2021

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

**SECTION 1350 CERTIFICATION
OF THE CHIEF EXECUTIVE OFFICER**

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

- (1) the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2021

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

**SECTION 1350 CERTIFICATION
OF THE CHIEF FINANCIAL OFFICER**

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

- (1) the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2021

/s/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer
