OMEGA HEALTHCARE INVESTORS INC
Form 10-Q
August 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

(Exact name of Registrant as specified in its charter)

Maryland	**1-11316**	**38-3041398**

(Omega Healthcare Investors, Inc.)	**(Omega Healthcare Investors, Inc.)**	**(Omega Healthcare Investors, Inc.)**
Delaware	**333-203447-11**	**36-4796206**
(OHI Healthcare Properties Limited Partnership)	**(OHI Healthcare Properties Limited Partnership)**	**(OHI Healthcare Properties Limited Partnership)**
(State of incorporation or organization)	**(Commission file number)**	**(IRS Employer Identification No.)**

303 International Circle, Suite 200, Hunt Valley, MD 21030

(Address of principal executive offices)

(410) 427-1700

(Telephone number, including area code)

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

Omega Healthcare Investors, Inc. Yes x No ¨ OHI Healthcare Properties Limited Partnership Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted 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 and post such files).

Omega Healthcare Investors, Inc. Yes x No ¨ OHI Healthcare Properties Limited Partnership Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one:)

Omega Healthcare Investors, Inc.

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

OHI Healthcare Properties Limited Partnership

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x 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.

Omega Healthcare Investors, Inc. ¨ **OHI Healthcare Properties Limited Partnership** ¨

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

Omega Healthcare Investors, Inc. Yes ¨ No x **OHI Healthcare Properties Limited Partnership** Yes ¨ No x

Indicate the number of shares outstanding of each of the issuers' classes of common stock as of August 1, 2018

Omega Healthcare Investors, Inc.	
Common Stock, $.10 par value	200,335,705
OHI Healthcare Properties Limited Partnership	
N/A	**No common stock outstanding**
(Class)	**(Number of shares)**

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 of Omega Healthcare Investors, Inc. and OHI Healthcare Properties Limited Partnership (“Omega OP”). Unless stated otherwise or the context otherwise requires, (i) references to “Omega” or the “Company” means Omega Healthcare Investors, Inc. and its consolidated subsidiaries, (ii) references to “Parent” refer to Omega Healthcare Investors, Inc. without regard to its consolidated subsidiaries, and (iii) references to “Omega OP” means OHI Healthcare Properties Limited Partnership and its consolidated subsidiaries.

Omega is a self-administered real estate investment trust (“REIT”) under the Internal Revenue Code of 1986. 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, Omega OP.

Parent directly owned approximately 96% of the issued and outstanding partnership units in Omega OP (the “Omega OP Units”) at June 30, 2018. Each Omega OP Unit (other than those owned by Parent) is redeemable at the election of the holder for cash equal to the then-fair market value of one share of common stock of Parent, subject to Parent’s election to exchange the Omega OP Units tendered for redemption for common stock of the Parent on a one-for-one basis in an unregistered transaction, subject to adjustment as set forth in the partnership agreement. The management of Parent consists of the same members as the management of Omega OP.

The financial results of Omega OP are consolidated into the financial statements of Omega. Omega has no significant assets other than its investments in Omega OP. Omega and Omega OP are managed and operated as one entity. Omega OP has no significant assets other than its interests in non-guarantor subsidiaries.

We believe it is important for investors to understand the few differences between Omega and Omega OP in the context of how we operate as a consolidated company. Omega acts as the general partner of Omega OP. Net proceeds from equity issuances by Parent are contributed to Omega OP in exchange for additional partnership units. Parent and Omega OP incur indebtedness. The net proceeds of the Parent’s borrowings are loaned to Omega OP. The outstanding senior notes and certain other debt of Parent is guaranteed by Omega OP.

The presentation of debt and related interest, including amounts accrued, stockholders’ equity, owners’ equity and noncontrolling interests are the main areas of difference between the consolidated financial statements of Omega and Omega OP. The differences between debt, stockholders’ equity and owners’ equity result from differences in the debt or equity issued at the Omega and Omega OP levels. With respect to owners’ equity, the units held by the partners in

Omega OP other than the Parent are accounted for as owners' equity in Omega OP's financial statements and as noncontrolling interests in Omega's financial statements. Although classified differently, total debt and equity of Omega and Omega OP are the same.

We believe combining the quarterly reports on Form 10-Q of Omega and Omega OP into this single report results in the following benefits:

- combined reports better reflect how management and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of Omega and Omega OP by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for Omega and Omega OP and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

In order to highlight the differences between Omega and Omega OP, the separate sections in this report for Omega and Omega OP specifically refer to Omega and Omega OP. In the sections that combine disclosure of Omega and Omega OP, this report refers to "we" and "us" actions or holdings as being "our" actions or holdings. Although Omega OP and its subsidiaries hold all of our assets, we believe that reference to "we," "us" or "our" in this context is appropriate because the business is one enterprise and we operate substantially all of our business through Omega OP.

OMEGA HEALTHCARE INVESTORS, INC.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

FORM 10-Q

June 30, 2018

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Item 1 - Financial Statements

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Real estate properties		
Real estate investments	$ 7,571,661	$ 7,655,960
Less accumulated depreciation	(1,475,463)	(1,376,828)
Real estate investments – net	6,096,198	6,279,132
Investments in direct financing leases – net	349,465	364,965
Mortgage notes receivable – net	703,309	671,232
	7,148,972	7,315,329
Other investments – net	377,206	276,342
Investment in unconsolidated joint venture	32,820	36,516
Assets held for sale – net	3,782	86,699
Total investments	7,562,780	7,714,886
Cash and cash equivalents	10,951	85,937
Restricted cash	2,598	10,871
Accounts receivable – net	320,140	279,334
Goodwill	644,369	644,690
Other assets	33,301	37,587
Total assets	$ 8,574,139	$ 8,773,305
LIABILITIES AND EQUITY		
Revolving line of credit	220,000	290,000
Term loans – net	902,168	904,670
Secured borrowings – net	-	53,098
Unsecured borrowings – net	3,325,889	3,324,390
Accrued expenses and other liabilities	257,049	295,142
Deferred income taxes	14,718	17,747
Total liabilities	4,719,824	4,885,047

Equity:		
Common stock $.10 par value authorized – 350,000 shares, issued and outstanding – 200,332 shares as of June 30, 2018 and 198,309 as of December 31, 2017	20,033	19,831
Common stock – additional paid-in capital	4,997,329	4,936,302
Cumulative net earnings	2,011,689	1,839,356
Cumulative dividends paid	(3,473,406)	(3,210,248)
Accumulated other comprehensive loss	(30,157)	(30,150)
Total stockholders' equity	3,525,488	3,555,091
Noncontrolling interest	328,827	333,167
Total equity	3,854,315	3,888,258
Total liabilities and equity	$ 8,574,139	$ 8,773,305

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Rental income	$192,850	$193,997	$386,799	$386,534
Income from direct financing leases	497	15,462	1,110	31,108
Mortgage interest income	16,834	16,297	33,413	32,253
Other investment income	9,097	7,278	17,624	14,192
Miscellaneous income	603	2,763	1,134	3,454
Total operating revenues	219,881	235,797	440,080	467,541
Expenses				
Depreciation and amortization	69,609	70,350	139,970	140,343
General and administrative	15,237	11,541	31,712	24,065
Acquisition costs	-	19	-	(22)
(Recovery) impairment on real estate properties	(1,097)	10,135	3,817	17,773
Provision for uncollectible accounts	564	2,673	8,378	5,077
Total operating expenses	84,313	94,718	183,877	187,236
Income before other income and expense	135,568	141,079	256,203	280,305
Other income (expense)				
Interest income and other - net	1,125	254	1,710	258
Interest expense	(48,082)	(48,085)	(96,093)	(93,126)
Interest – amortization of deferred financing costs	(2,242)	(2,543)	(4,485)	(5,045)
Interest – refinancing costs	-	(21,965)	-	(21,965)
Contractual settlement	-	-	-	10,412
Realized (loss) gain on foreign exchange	(66)	79	(7)	140
Total other expense	(49,265)	(72,260)	(98,875)	(109,326)
Income before (loss) gain on assets sold	86,303	68,819	157,328	170,979
(Loss) gain on assets sold – net	(2,891)	(622)	14,609	6,798
Income from continuing operations	83,412	68,197	171,937	177,777
Income tax expense	(838)	(591)	(1,381)	(1,691)
(Loss) income from unconsolidated joint venture	(588)	551	(637)	1,183
Net income	81,986	68,157	169,919	177,269
Net income attributable to noncontrolling interest	(3,450)	(2,900)	(7,163)	(7,572)
Net income available to common stockholders	$78,536	$65,257	$162,756	$169,697

Earnings per common share available to common stockholders:				
Basic:				
Net income available to common stockholders	$0.39	$0.33	$0.82	$0.86
Diluted:				
Net income	$0.39	$0.33	$0.82	$0.86
Dividends declared per common share	$0.66	$0.63	$1.32	$1.25
Weighted-average shares outstanding, basic	199,497	197,433	199,204	197,223
Weighted-average shares outstanding, diluted	208,460	206,672	208,139	206,423

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 81,986	$ 68,157	$ 169,919	$ 177,269
Other comprehensive (loss) income:				
Foreign currency translation	(16,153)	10,274	(6,284)	14,608
Cash flow hedges	1,788	(3,407)	6,276	(2,153)
Total other comprehensive (loss) income	(14,365)	6,867	(8)	12,455
Comprehensive income	67,621	75,024	169,911	189,724
Comprehensive income attributable to noncontrolling interest	(2,843)	(3,192)	(7,162)	(8,103)
Comprehensive income attributable to common stockholders	$ 64,778	$ 71,832	$ 162,749	$ 181,621

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands, except per share amounts)

	Common Stock Par Value	Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2017 (198,309 common shares & 8,772 Omega OP Units)	$19,831	$4,936,302	$1,839,356	$(3,210,248)	$(30,150)	$3,555,091	$333,167	$3,888,258
Cumulative effect of accounting change (see Note 1)	-	-	9,577	-	-	9,577	423	10,000
Balance at January 1, 2018 (198,309 common shares & 8,772 Omega OP Units)	19,831	4,936,302	1,848,933	(3,210,248)	(30,150)	3,564,668	333,590	3,898,258
Grant of restricted stock to company directors (38 shares at $30.36 per share)	4	(4)	-	-	-	-	-	-
Stock-based compensation expense	-	8,145	-	-	-	8,145	-	8,145
Vesting/exercising of equity compensation plan, net of tax withholdings (89 shares)	9	(1,663)	-	-	-	(1,654)	-	(1,654)
Dividend reinvestment and stock purchase	95	26,955	-	-	-	27,050	-	27,050

plan (948 shares at an average of $28.55 per share)								
Deferred compensation directors (35 shares at $30.42 per share)	3	134	-	-	-	137	-	137
Equity Shelf Program (912 shares at $30.16 per share, net of issuance costs)	91	27,418	-	-	-	27,509	-	27,509
Common dividends declared ($1.32 per share)	-	-	-	(263,158)	-	(263,158)	-	(263,158)
Conversion of Omega OP Units to common stock (1 share at $31.26 per share)	-	42	-	-	-	42	-	42
Redemption of Omega OP Units (6 units at $28.06 per share)	-	-	-	-	-	-	(160)	(160)
Omega OP Units distributions	-	-	-	-	-	-	(11,765)	(11,765)
Comprehensive income:								
Foreign currency translation	-	-	-	-	(6,019)	(6,019)	(265)	(6,284)
Cash flow hedges	-	-	-	-	6,012	6,012	264	6,276
Net income	-	-	162,756	-	-	162,756	7,163	169,919
Total comprehensive income								169,911
Balance at June 30, 2018 (200,332 shares & 8,766 Omega OP Units)	$20,033	$4,997,329	$2,011,689	$(3,473,406)	$(30,157)	$3,525,488	$328,827	$3,854,315

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income	$169,919	$177,269
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	139,970	140,343
Impairment on real estate properties	8,992	17,773
Provision for uncollectible accounts	8,378	5,077
Interest - amortization of deferred financing costs	4,485	15,240
Accretion of direct financing leases	67	(6,164)
Stock-based compensation expense	8,145	7,478
Gain on assets sold – net	(14,609)	(6,798)
Amortization of acquired in-place leases - net	(5,277)	(6,202)
Effective yield receivable on mortgage notes	(710)	(1,191)
Interest paid-in-kind	(3,493)	-
Change in operating assets and liabilities – net:		
Contractual receivables	1,563	(33,293)
Straight-line rent receivables	(30,746)	(23,174)
Lease inducements	(31,551)	895
Other operating assets and liabilities	(37,967)	(23,053)
Net cash provided by operating activities	217,166	264,200
Cash flows from investing activities		
Acquisition of real estate	(52,744)	(130,977)
Cash acquired	-	2,341
Investments in construction in progress	(63,313)	(46,108)
Investments in direct financing leases	-	(4,767)
Proceeds from sale of direct financing lease	15,433	27,253
Placement of mortgage loans	(56,944)	(24,978)
Distributions from unconsolidated joint venture	3,739	9,741
Net proceeds from sale of real estate investments	221,952	64,061
Capital improvements to real estate investments	(19,183)	(16,861)
Receipts from insurance proceeds	6,901	-
Proceeds from other investments	105,695	35,997
Investments in other investments	(192,962)	(52,228)
Collection of mortgage principal	25,176	673
Net cash used in investing activities	(6,250)	(135,853)
Cash flows from financing activities		
Proceeds from credit facility borrowings	549,000	817,000

Payments on credit facility borrowings	(619,000)	(852,000)
Receipts of other long-term borrowings	-	1,346,749
Payments of other long-term borrowings	(2,049)	(1,252,139)
Payments of financing related costs	(8)	(28,483)
Receipts from dividend reinvestment plan	27,050	19,721
Payments for exercised options and restricted stock	(1,654)	(2,120)
Net proceeds from issuance of common stock	27,509	6,634
Dividends paid	(263,021)	(246,722)
Redemption of Omega OP Units	(118)	(48)
Distributions to Omega OP Unit Holders	(11,765)	(11,143)
Net cash used in financing activities	(294,056)	(202,551)
Effect of foreign currency translation on cash, cash equivalents and restricted cash	(119)	162
Decrease in cash, cash equivalents and restricted cash	(83,259)	(74,042)
Cash, cash equivalents and restricted cash at beginning of period	96,808	107,276
Cash, cash equivalents and restricted cash at end of period	$13,549	$33,234

See notes to consolidated financial statements.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Real estate properties		
Real estate investments	$7,571,661	$7,655,960
Less accumulated depreciation	(1,475,463)	(1,376,828)
Real estate investments – net	6,096,198	6,279,132
Investments in direct financing leases – net	349,465	364,965
Mortgage notes receivable – net	703,309	671,232
	7,148,972	7,315,329
Other investments – net	377,206	276,342
Investment in unconsolidated joint venture	32,820	36,516
Assets held for sale – net	3,782	86,699
Total investments	7,562,780	7,714,886
Cash and cash equivalents	10,951	85,937
Restricted cash	2,598	10,871
Accounts receivable – net	320,140	279,334
Goodwill	644,369	644,690
Other assets	33,301	37,587
Total assets	$8,574,139	$8,773,305
LIABILITIES AND OWNERS’ EQUITY		
Term loan – net	$99,488	$99,423
Secured borrowings – net	-	53,098
Accrued expenses and other liabilities	195,463	226,028
Deferred income taxes	14,718	17,747
Intercompany loans payable	4,410,155	4,488,751
Total liabilities	4,719,824	4,885,047
Owners’ Equity:		
General partners’ equity	3,525,488	3,555,091
Limited partners’ equity	328,827	333,167
Total owners’ equity	3,854,315	3,888,258
Total liabilities and owners’ equity	$8,574,139	$8,773,305

See notes to consolidated financial statements.

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OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Rental income	$192,850	$193,997	$386,799	$386,534
Income from direct financing leases	497	15,462	1,110	31,108
Mortgage interest income	16,834	16,297	33,413	32,253
Other investment income	9,097	7,278	17,624	14,192
Miscellaneous income	603	2,763	1,134	3,454
Total operating revenues	219,881	235,797	440,080	467,541
Expenses				
Depreciation and amortization	69,609	70,350	139,970	140,343
General and administrative	15,237	11,541	31,712	24,065
Acquisition costs	-	19	-	(22)
(Recovery) impairment loss on real estate properties	(1,097)	10,135	3,817	17,773
Provision for uncollectible accounts	564	2,673	8,378	5,077
Total operating expenses	84,313	94,718	183,877	187,236
Income before other income and expense	135,568	141,079	256,203	280,305
Other income (expense)				
Interest income and other - net	1,125	254	1,710	258
Interest expense	(48,082)	(48,085)	(96,093)	(93,126)
Interest – amortization of deferred financing costs	(2,242)	(2,543)	(4,485)	(5,045)
Interest – refinancing costs	-	(21,965)	-	(21,965)
Contractual settlement	-	-	-	10,412
Realized (loss) gain on foreign exchange	(66)	79	(7)	140
Total other expense	(49,265)	(72,260)	(98,875)	(109,326)
Income before (loss) gain on assets sold	86,303	68,819	157,328	170,979
(Loss) gain on assets sold – net	(2,891)	(622)	14,609	6,798
Income from continuing operations	83,412	68,197	171,937	177,777
Income tax expense	(838)	(591)	(1,381)	(1,691)
(Loss) income from unconsolidated joint venture	(588)	551	(637)	1,183
Net income	$81,986	$68,157	$169,919	$177,269

Earnings per unit:

Basic:				
Net income	$0.39	$0.33	$0.82	$0.86
Diluted:				
Net income	$0.39	$0.33	$0.82	$0.86
Dividends declared per Omega OP Unit	$0.66	$0.63	$1.32	$1.25
Weighted-average Omega OP Units outstanding, basic	208,263	206,205	207,972	206,016
Weighted-average Omega OP Units outstanding, diluted	208,460	206,672	208,139	206,423

See notes to consolidated financial statements.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 81,986	$ 68,157	$ 169,919	$ 177,269
Other comprehensive income (loss):				
Foreign currency translation	(16,153)	10,274	(6,284)	14,608
Cash flow hedges	1,788	(3,407)	6,276	(2,153)
Total other comprehensive (loss) income	(14,365)	6,867	(8)	12,455
Comprehensive income	$ 67,621	$ 75,024	$ 169,911	$ 189,724

See notes to consolidated financial statements.

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OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Unaudited

(in thousands)

	General Partners' Omega OP Units	Limited Partners' Omega OP Units	Total Omega OP Units	General Partners' Equity	Limited Partners' Equity	Total Owners' Equity
Balance at December 31, 2017	198,309	8,772	207,081	$3,555,091	$333,167	$3,888,258
Cumulative effect of accounting change (see Note 1)	-	-	-	9,577	423	10,000
Balance at January 1, 2018	198,309	8,772	207,081	3,564,668	333,590	3,898,258
Contributions from partners	2,023	-	2,023	61,229	-	61,229
Distributions to partners	-	-	-	(263,158)	(11,765)	(274,923)
Omega OP Unit redemptions	-	(6)	(6)	-	(160)	(160)
Comprehensive income						
Foreign currency translation	-	-	-	(6,019)	(265)	(6,284)
Cash flow hedges	-	-	-	6,012	264	6,276
Net income	-	-	-	162,756	7,163	169,919
Total comprehensive income						169,911
Balance at June 30, 2018	200,332	8,766	209,098	$3,525,488	$328,827	$3,854,315

See notes to consolidated financial statements.

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OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$169,919	$177,269
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	139,970	140,343
Impairment on real estate properties	8,992	17,773
Provision for uncollectible accounts	8,378	5,077
Interest - amortization of deferred financing costs	4,485	15,240
Accretion of direct financing leases	67	(6,164)
Stock-based compensation expense	8,145	7,478
Gain on assets sold – net	(14,609)	(6,798)
Amortization of acquired in-place leases - net	(5,277)	(6,202)
Effective yield receivable on mortgage notes	(710)	(1,191)
Interest paid-in-kind	(3,493)	-
Change in operating assets and liabilities – net:		
Contractual receivables	1,563	(33,293)
Straight-line rent receivables	(30,746)	(23,174)
Lease inducements	(31,551)	895
Other operating assets and liabilities	(37,967)	(23,053)
Net cash provided by operating activities	217,166	264,200
Cash flows from investing activities		
Acquisition of real estate	(52,744)	(130,977)
Cash acquired	-	2,341
Investments in construction in progress	(63,313)	(46,108)
Investments in direct financing leases	-	(4,767)
Proceeds from sale of direct financing lease	15,433	27,253
Placement of mortgage loans	(56,944)	(24,978)
Distributions from unconsolidated joint venture	3,739	9,741
Proceeds from sale of real estate investments	221,952	64,061
Capital improvements to real estate investments	(19,183)	(16,861)
Receipts from insurance proceeds	6,901	-
Proceeds from other investments	105,695	35,997
Investments in other investments	(192,962)	(52,228)
Collection of mortgage principal	25,176	673
Net cash used in investing activities	(6,250)	(135,853)
Cash flows from financing activities		
Proceeds from intercompany loans payable to Omega	549,000	2,163,749

Repayment of intercompany loans payable to Omega	(621,049)	(2,104,139)
Payment of financing related costs incurred by Omega	(8)	(28,483)
Equity contributions from general partners	52,905	24,235
Distributions to general partners	(263,021)	(246,722)
Distributions to limited partners	(11,765)	(11,143)
Redemption of Omega OP Units	(118)	(48)
Net cash used in financing activities	(294,056)	(202,551)
Effect of foreign currency translation on cash, cash equivalents and restricted cash	(119)	162
Decrease in cash, cash equivalents and restricted cash	(83,259)	(74,042)
Cash, cash equivalents and restricted cash at beginning of period	96,808	107,276
Cash, cash equivalents and restricted cash at end of period	$13,549	$33,234

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC. AND OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

June 30, 2018

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview and Organization

Omega Healthcare Investors, Inc. (“Omega”) was formed as a real estate investment trust (“REIT”) and incorporated in the State of Maryland on March 31, 1992. 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”). Omega OP was formed as a limited partnership and organized in the State of Delaware on October 24, 2014. Unless stated otherwise or the context otherwise requires, the terms the “Company,” “we,” “our” and “us” means Omega and Omega OP, collectively.

The Company 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”) and, to a lesser extent, assisted living facilities (“ALFs”), independent living facilities and rehabilitation and acute care facilities. Our core portfolio consists of long-term leases and mortgage agreements. All of our leases are “triple-net” leases, which require the tenants to pay all property-related expenses. Our mortgage revenue derives from fixed rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Our other investment income derives from fixed and variable rate loans, which are either unsecured or secured by the collateral of the borrower.

Omega OP is governed by the Second Amended and Restated Agreement of Limited Partnership of OHI Healthcare Properties Limited Partnership, dated as of April 1, 2015 (the “Partnership Agreement”). Omega has exclusive control over Omega OP’s day-to-day management pursuant to the Partnership Agreement. As of June 30, 2018, Omega owned approximately 96% of the issued and outstanding units of partnership interest in Omega OP (“Omega OP Units”), and investors owned approximately 4% 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 23, 2018.

Omega's consolidated financial statements include the accounts of (i) Omega, (ii) Omega OP, and (iii) all direct and indirect wholly owned subsidiaries of Omega. 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.

Omega OP's consolidated financial statements include the accounts of (i) Omega OP, and (ii) all direct and indirect wholly owned subsidiaries of Omega OP. All intercompany transactions and balances have been eliminated in consolidation.

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 venture 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 (iv) our representation on the VIE's board of directors. We perform this analysis on an ongoing basis.

As of June 30, 2018, 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 entity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with a maturity date of three months or less when purchased. These investments are stated at cost, which approximates fair value. The majority of our cash, cash equivalents and restricted cash are held at major commercial banks. Certain cash account balances exceed FDIC insurance limits of $250,000 per account and, as a result, there is a concentration of credit risk related to amounts in excess of the insurance limits. We regularly monitor the financial stability of these financial institutions and believe that we are not exposed to any significant credit risk in cash, cash equivalents or restricted cash.

Restricted Cash

Restricted cash consists primarily of liquidity deposits escrowed for tenant obligations required by us pursuant to certain contractual terms. Prior to June 1, 2018, restricted cash also included other deposits required by the U.S. Department of Housing and Urban Development ("HUD") in connection with our mortgage borrowings guaranteed by HUD. For additional information see Note 2 – Properties and Investments and Note 14 – Borrowing Activities and Arrangements.

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 considers 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 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 of the Company's assets in a future period that could be material to the Company's results of operations.

For the three months ended June 30, 2018 and 2017, we recognized (a recovery on) impairment on real estate properties of $(1.1) million and $10.1 million, respectively. For the six months ended June 30, 2018 and 2017, we recognized impairment on real estate properties of $3.8 million and $17.8 million, respectively. For additional information see Note 2 – Properties and Investments.

Allowance for Losses on Mortgages, Other Investments and Direct Financing Leases

The allowances for losses on mortgage notes receivable, other investments and direct financing leases (collectively, our "loans") are maintained at a level believed adequate to absorb potential losses. The determination of the allowances is based on a quarterly evaluation of these loans, including general economic conditions and estimated collectability of loan payments. We evaluate the collectability of our loans based on a combination of factors, including, but not limited to, delinquency status, financial strength of the borrower and guarantors, if applicable, and the value of the underlying collateral. If such factors indicate that there is greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required. A loan is 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 collectability is diminished, we will return these loans to full accrual status. When management identifies potential loan impairment indicators, 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, if applicable. 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.

We account for impaired loans using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost-recovery method for impaired loans for which impairment reserves were recorded. We utilize the cash basis method for impaired loans for which no impairment reserves were recorded because the net present value of the discounted cash flows expected under the loan and/or the underlying collateral supporting the loan were equal to or exceeded the book value of the loan. Under the cost-recovery method, we apply cash received against the outstanding loan balance prior to recording interest income. Under the cash basis method, we apply cash received to principal or interest income based on the terms of the agreement. As of June 30, 2018 and December 31, 2017, we had $177.1 million and $177.5 million, respectively, of reserves on our loans. For additional information see Note 3 – Direct Financing Leases, Note 4 – Mortgage Notes Receivable and Note 5 – Other Investments.

Goodwill Impairment

We assess goodwill for potential impairment during the fourth quarter of each fiscal year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the net assets of the reporting unit. In evaluating goodwill for impairment on an interim basis, we assess qualitative factors such as a significant decline in real estate valuations, current macroeconomic conditions, state of the equity and capital markets and our overall financial and operating performance or a significant decline in the value of our market capitalization, to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying amount. On an annual basis during the fourth quarter of each fiscal year, or on an interim basis if we conclude it is more likely than not that the fair value of the reporting unit is less than its carrying value, we perform a two-step goodwill impairment test to identify potential impairment and measure the amount of impairment we will recognize, if any.

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.

Foreign Operations

The U.S. dollar 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 U.S. dollar (“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 Omega OP's owners' equity and Omega's accumulated other comprehensive loss ("AOCL"), as a separate component of equity and a proportionate amount of gain or loss is allocated to noncontrolling interests.

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 Omega OP's owners' equity and Omega's AOCL and a proportionate amount of gain or loss is allocated to noncontrolling interests.

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 the Company's 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 Omega OP's owners' equity and Omega's AOCL as a separate component of equity and a proportionate amount of gain or loss is allocated to noncontrolling interest. 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 June 30, 2018 and December 31, 2017, $7.7 million and $1.5 million, respectively, of qualifying cash flow hedges were recorded at fair value in other assets on our Consolidated Balance Sheets.

Net investment hedge

The Company is exposed to fluctuations in the GBP against its functional currency, the USD, relating to its investments in healthcare-related real estate properties located in the U.K. The Company uses a nonderivative, GBP-denominated term loan to manage its exposure to fluctuations in the GBP-USD exchange rate. The foreign currency transaction gain or loss on the nonderivative hedging instrument that is designated and qualifies as a net investment hedge is reported in Omega OP's owners' equity and Omega's AOCL in our Consolidated Balance Sheets.

Accounts Receivable

Accounts receivable includes: contractual receivables, effective yield interest receivables, straight-line rent receivables and lease inducements, net of an estimated provision for losses related to uncollectible and disputed accounts. 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.

On a quarterly basis, and more frequently as appropriate, we review our accounts receivable to determine their collectability. The determination of collectability of these assets requires significant judgment and is affected by several factors relating to the credit quality of our operators that we regularly monitor, including (i) payment history, (ii) the age of the contractual receivables, (iii) the current economic conditions and reimbursement environment, (iv) the ability of the tenant to perform under the terms of their lease and/or contractual loan agreements and (v) the value of the underlying collateral of the agreement, if any. If we determine collectability of any of our contractual receivables is at risk, we estimate the potential uncollectible amounts and provide an allowance. In the case of a lease recognized on a straight-line basis, a loan recognized on an effective yield basis or the existence of lease inducements, we generally provide an allowance for straight-line, effective interest, and/or lease inducement accounts receivable when certain conditions or indicators of adverse collectability are present. If the accounts receivable balance is subsequently deemed uncollectible, the receivable and allowance for doubtful account balance are written off.

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Contractual receivables	$37,655	$ 43,258
Effective yield interest receivables	12,384	11,673
Straight-line rent receivables	226,633	216,054
Lease inducements	48,456	16,812
Allowance	(4,988)	(8,463)
Accounts receivable – net	$320,140	$ 279,334

During the first quarter of 2018, we wrote-off approximately $7.8 million of straight-line rent receivables to provision for uncollectible accounts, as a result of facility transitions to other operators.

During the second quarter of 2018, we placed two of our operators on a cash basis and wrote-off approximately $2.8 million of straight-line rent receivables and reserved approximately $0.6 million of contractual receivables to provision for uncollectible accounts related to these two operators. The provision for uncollectible accounts was offset by a recovery of approximately $2.8 million.

During the first quarter of 2018, we paid an existing operator approximately $50 million in exchange for a reduction of such operator’s participation in an in-the-money purchase option. As a result, we recorded an approximate $28 million lease inducement that will be amortized as a reduction to rental income over the remaining term of the lease. The remaining $22 million was recorded as a reduction to the initial contingent liability which was included in accrued expenses and other liabilities on our Consolidated Balance Sheets.

Reclassification

Certain prior quarter amounts have been reclassified to conform to the current quarter presentation.

Accounting Pronouncements Adopted in 2018

In 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. In addition, the FASB issued targeted updates to clarify specific implementation issues of ASU 2014-09. These updates included ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* ASU 2016-10, *Identifying Performance Obligations and Licensing,* and ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients.* As a result of adopting ASU 2014-09 and its updates on January 1, 2018, the Company recognized $10.0 million of deferred gain resulting from the sale of facilities to a third-party in December 2017 through opening equity on January 1, 2018. The Company adopted ASU 2014-09 and its subsequent updates in accordance with the modified retrospective approach. The adoption of ASU 2014-09 and its related updates did not have a material impact on our consolidated financial statements, as a substantial portion of our revenue consists of rental income from leasing arrangements and interest income from loan arrangements, both of which are specifically excluded from ASU 2014-09 and its updates.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The purpose of this updated guidance is to better align the financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method will require the Company to recognize the cumulative effect of initially applying ASU 2017-12 as an adjustment to accumulated other comprehensive income (loss) with a corresponding adjustment to the opening balance of equity as of the beginning of the fiscal year that an entity adopts the update. On January 1, 2018, the Company adopted ASU 2017-12 using the modified retrospective transition method. As a result of adopting the standard, the Company is making certain adjustments to its existing hedge designation documentation for active hedging relationships in order to take advantage of specific provisions in the new guidance and to fully align its documentation with ASU 2017-12. The adoption of ASU 2017-12 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements - Pending Adoption

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective for the Company beginning January 1, 2019. Early adoption of ASU 2016-02 as of its issuance is permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. As a result of the pending adoption of ASU 2016-02, the Company may be required to record real estate tax revenues and an equal and offsetting real estate tax expense, as a result of our operators paying real estate taxes on our behalf. In July 2018, the FASB issued ASU 2018-11, *Leases* ("ASU 2018-11")*: Targeted Improvements* to simplify the implementation of ASU 2016-02. This targeted improvement permits the adoption of ASU 2016-02 at the adoption date instead of the earliest comparative period presented in the financial statements and a practical expedient permitting lessors to not separate nonlease components from the associated lease component if certain conditions are met. Upon adoption of ASU 2016-02 and its updates, we intend to transition to the new leasing accounting standard on January 1, 2019, without modifying our prior year balance sheet and recognizing the cumulative-effect adjustment to opening equity. We continue to evaluate the other impacts of adopting ASU 2016-02 and its updates on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326*) ("ASU 2016-13"), which changes 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 losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. We are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

NOTE 2 – PROPERTIES AND INVESTMENTS

Leased Property

Our leased real estate properties, represented by 709 SNFs, 116 ALFs, 14 specialty facilities and one medical office building at June 30, 2018, are leased under provisions of single or master operating leases with initial terms typically ranging from five to 15 years, plus renewal options. Also see Note 3 – Direct Financing Leases for information regarding additional properties accounted for as direct financing leases. Substantially all of our 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 specific provisions of each lease as follows: (i) a specific annual percentage 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 ("CPI")); or (iii) specific dollar increases over prior years.

Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

A summary of our investment in leased real estate properties is as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Buildings	$5,985,795	$6,098,119
Land	782,913	795,874
Furniture, fixtures and equipment	436,680	440,737
Site improvements	230,304	227,150
Construction in progress	135,969	94,080
Total real estate investments	7,571,661	7,655,960
Less accumulated depreciation	(1,475,463)	(1,376,828)
Real estate investments - net	$6,096,198	$6,279,132

The following table summarizes the significant acquisitions that occurred during the first six months of 2018:

Period	Number of Facilities SNF	ALF	Country/ State	Total Investment (in millions)	Land	Building & Site Improvements	Furniture & Fixtures	Initial Annual **Cash Yield**[(3)]
Q1	-	1	UK	$4.0 [(1)]	$0.9	$ 2.9	$ 0.2	8.5 %
Q1	-	1	UK	5.7 [(2)]	1.4	4.1	0.2	8.5 %
Q1	1	-	PA	7.4	1.6	5.4	0.4	9.5 %
Q1	1	-	VA	13.2	2.4	10.5	0.3	9.5 %
Q2	5	-	TX	22.8	0.5	20.4	1.9	9.5 %
Total	7	2		$53.1	$6.8	$ 43.3	$ 3.0	

(1) Omega recorded a non-cash deferred tax liability of approximately $0.4 million in connection with this acquisition.
(2) Omega recorded a non-cash deferred tax liability of approximately $0.2 million in connection with this acquisition.
(3) The cash yield is based on the purchase price.

For the six months ended June 30, 2018, we acquired two parcels of land (not reflected in the table above) for approximately $3.5 million with the intent of building new facilities for our existing operators.

Asset Sales, Impairments and Other

During the first quarter of 2018, we sold 14 facilities (five of which were previously held for sale at December 31, 2017) subject to operating leases for approximately $74.7 million in net cash proceeds recognizing a gain on sale of approximately $17.5 million. In addition, we recorded impairments on real estate properties of approximately $4.9 million on 17 facilities (16 of which were subsequently reclassified to assets held for sale).

During the second quarter of 2018, we sold 45 facilities and one ancillary building (33 of which were previously held for sale at March 31, 2018) subject to operating leases for approximately $147.2 million in net cash proceeds recognizing a loss on sale of approximately $2.9 million. In addition, we recorded impairments of approximately $4.1 million on nine facilities (three of which were subsequently reclassified to assets held for sale). Our impairments were offset by $5.2 million of insurance proceeds received related to a facility destroyed in November 2017.

Of the 45 facilities sold during the second quarter of 2018, we sold 12 SNFs on June 1, 2018 (12 of which were previously held for sale at March 31, 2018) secured by HUD mortgages to subsidiaries of an existing operator. The Company sold the 12 SNF facilities with carrying values of approximately $62 million for approximately $78 million which consisted of $25 million of cash consideration and their assumption of approximately $53 million of our HUD mortgages. See Note 14 – Borrowing Activities and Arrangements for additional details. Simultaneously, subsidiaries of the operator assumed our HUD restricted cash accounts, deposits and escrows. The Company recorded a gain on sale of approximately $11 million after approximately $5 million of closing and other transaction related costs. In connection with this sale, we provided a principal of an existing operator an unsecured loan of approximately $39.7 million. See Note 5 – Other Investments for details.

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 assets 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 Level 3 inputs (which generally consist of non-binding offers from unrelated third parties). Also see Note 8 – Assets Held For Sale.

NOTE 3 – DIRECT FINANCING LEASES

The components of investments in direct financing leases consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Minimum lease payments receivable	$3,649,602	$3,707,079
Less unearned income	(3,127,950)	(3,169,942)
Investment in direct financing leases	521,652	537,137
Less allowance for loss on direct financing lease	(172,187)	(172,172)
Investment in direct financing leases – net	$349,465	$364,965
Properties subject to direct financing leases	40	41
Number of direct financing leases	4	5

The following minimum rents are due under our direct financing leases for the remainder of 2018 and the subsequent five years (in thousands):

2018[(1)]	**2019[(1)]**	**2020[(1)]**	**2021[(1)]**	**2022[(1)]**	**2023[(1)]**
$ 580	$1,166	$1,170	$1,084	$1,106	$1,128

(1) Orianna has been excluded from the contractual minimum rent payments due under our direct financing leases as the facilities are expected to be transitioned or sold. See below for additional information.

In June 2018, we sold one SNF with a carrying value of approximately $15.4 million subject to a direct financing lease to an unrelated third-party for approximately $15.4 million.

On November 27, 2013, we closed an aggregate $529 million purchase/leaseback transaction in connection with the acquisition of Ark Holding Company, Inc. (“Ark Holding”) by 4 West Holdings Inc. At closing, we acquired 55 SNFs and 1 ALF operated by Ark Holding and leased the facilities back to Ark Holding, now known as New Ark Investment Inc. (“New Ark” which does business as “Orianna Health Systems” and is herein referred to as “Orianna”), pursuant to four 50-year master leases with rental payments yielding 10.6% per annum over the term of the leases. The purchase/leaseback transaction is being accounted for as a direct financing lease.

The 38 facilities remaining under our master leases with Orianna as of June 30, 2018 are located in seven states, predominantly in the southeastern U.S. (37 facilities) and Indiana (1 facility). Our recorded investment in these direct financing leases, net of the $172.2 million allowance, amounted to $337.7 million as of June 30, 2018. We have not recognized any direct financing lease income from Orianna for the period from July 1, 2017 through June 30, 2018.

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Orianna has not satisfied the contractual payments due under the terms of the remaining two direct financing leases or the separate operating lease covering four facilities with the Company and the collectability of future amounts due is uncertain.

In March 2018, Orianna commenced voluntary Chapter 11 proceedings in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the "Bankruptcy Court"). As described in Orianna's filings with the Bankruptcy Court, we entered into a Restructuring Support Agreement ("RSA") that was expected to form the basis for Orianna's restructuring. The RSA provided for the recommencement, in April 2018, of partial rent payments at $1.0 million per month and established a specific timeline for the implementation of Orianna's planned restructuring. The RSA provided for the transition of 23 facilities to new operators and the potential sale of the remaining 19 facilities subject to the plan of reorganization as approved by the Bankruptcy Court. On July 25, 2018, we terminated the RSA with Orianna. See Note 19 – Subsequent Events.

To provide liquidity to Orianna during their Chapter 11 proceedings, we entered into a senior secured superpriority debtor-in-possession ("DIP") credit agreement with Orianna for a revolving credit and term loan DIP facility of up to $30 million, which DIP facility was approved by the Bankruptcy Court on an interim basis on March 9, 2018 and on a final basis on May 14, 2018. On July 23, 2018, we notified Orianna that it was in default under the DIP facility. See Note 5 – Other Investments and Note 19 – Subsequent Events.

In 2017, we recorded an allowance for loss on direct financing leases of $172.2 million with Orianna covering 38 facilities in the Southeast region of the U.S. The amount of the allowance was determined based on the fair value of the facilities subject to the direct financing lease. To estimate the fair value of the underlying collateral, we utilized an income approach and Level 3 inputs. Our estimate of fair value assumed annual rents ranging between $32.0 million and $38.0 million, rental yields between 9% and 10%, current and projected operating performance of the facilities, coverage ratios and bed values. Such assumptions are subject to change based on changes in market conditions and the ultimate resolution of this matter. Such changes could be significantly different than the currently estimated fair value and such differences could have a material impact on our financial statements.

In addition to our direct financing leases with Orianna, we own four facilities and lease them to Orianna under a master lease which expires in 2026. The four facility lease is being accounted for as an operating lease. We have not recognized any income on this operating lease for the period from July 1, 2017 through June 30, 2018, as Orianna did not pay the contractual amounts due and collectability is uncertain. Our recorded investment in the four facilities subject to this operating lease was $37.3 million as of June 30, 2018.

NOTE 4 – MORTGAGE NOTES RECEIVABLE

As of June 30, 2018, mortgage notes receivable relate to six fixed rate mortgage notes on 53 long-term care 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 six states that are operated by five independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding mortgage notes.

Mortgage interest income is recognized as earned over the terms of the related mortgage notes, typically using the effective yield method. Allowances are provided against earned revenues from mortgage interest when collection of amounts due becomes questionable or when negotiations for restructurings of troubled operators lead to lower expectations regarding ultimate collection. When collection is uncertain, mortgage interest income on impaired mortgage loans is recognized as received after taking into account the application of security deposits.

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Mortgage note due 2027; interest at 10.18%	$112,500	$ 112,500
Mortgage notes due 2029; interest at 9.67% [1]	529,960	476,320
Other mortgage notes outstanding [2]	65,754	87,317
Mortgage notes receivable, gross	708,214	676,137
Allowance for loss on mortgage notes receivable [3]	(4,905)	(4,905)
Total mortgages — net	$703,309	$ 671,232

(1) Approximates the weighted average interest rate on 39 facilities. Two notes totaling approximately $15.2 million are construction mortgages maturing in 2018 and 2019. The remaining loan balance matures in 2029.

(2) Other mortgage notes outstanding have a weighted average interest rate of 11.25% per annum and maturity dates between 2018 and 2028.

(3) The allowance for loss on mortgage notes receivable relates to one mortgage with an operator. The carrying value and fair value of the mortgage note receivable is approximately $1.5 million at June 30, 2018 and December 31, 2017.

$112.5 Million of Mortgage Note due 2027

On January 17, 2014, we entered into a $112.5 million first mortgage loan with an existing operator. The loan is secured by 7 SNFs and 2 ALFs located in Pennsylvania (7) and Ohio (2). The mortgage is cross-defaulted and cross-collateralized with our existing master lease with the operator. In March 2018, we extended the maturity date to January 31, 2027 and provided an option to extend the maturity for a five year period through January 31, 2032 and a second option to extend the maturity for a two year period through September 30, 2034.

$530.0 Million of Mortgage Notes due 2029

On June 30, 2014, we entered into a mortgage loan agreement with Ciena Healthcare ("Ciena") to refinance/consolidate $117 million in existing mortgages with maturity dates ranging from 2021 to 2023 on 17 facilities into one mortgage and simultaneously provide mortgage financing for an additional 14 facilities. The $415 million mortgage (the "Master Mortgage") matures in 2029 and is secured by 30 facilities. The Master Mortgage note bore an initial interest rate of 9.0% per annum which increases each year by 0.225% per annum. As of June 30, 2018, the outstanding principal balance of the Master Mortgage note is approximately $410.0 million and the interest rate is 9.68% per annum.

Subsequent to June 30, 2014, the Company amended its Master Mortgage with Ciena to provide for additional borrowings in the form of incremental facility mortgages, construction and/or improvement mortgages with maturity dates in 2018, 2019 and 2029 with initial annual interest rates ranging between 8.5% and 10% and fixed annual escalators of 2% or 2.5% over the prior year's interest rate, or a fixed increase of 0.225% per annum. As of June 30, 2018 the outstanding principal balance of these mortgage notes are approximately $75.8 million.

In June 2018, we amended the Master Mortgage with the addition of a $44.7 million mortgage note related to five SNFs located in Michigan. The mortgage note matures on June 30, 2029 and bears an initial annual interest rate of 9.5% which increases each year by 0.225%. As of June 30, 2018 the outstanding principal balance of this mortgage note is approximately $44.2 million. Additionally, the Company committed to fund an additional $9.6 million to Ciena if certain performance metrics are achieved by the portfolio.

The mortgage notes with Ciena are cross-defaulted and cross-collateralized with our existing master lease and other investment notes with the operator.

Mortgage notes paid off

In January 2018, one of our operators repaid two construction loans with a total outstanding balance of approximately $21.2 million. These construction loans bore interest at 8.75%.

NOTE 5 – OTHER INVESTMENTS

A summary of our other investments is as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Other investment notes due 2018-2022; interest at 8.29% (1)	$39,984	$ 15,115
Other investment notes due 2018-2023; interest at 10.59% (1)	39,166	40,985
Other investment notes due 2020; interest at 13.05% (1)	68,175	49,490
Other investment note due 2021; interest at 6.00%	39,689	7,000
Other investment notes due 2023-2030; interest at 7.24% (1)	62,800	64,050
Other investment note due 2023; interest at 12.00%	59,324	49,708
Other investment notes due 2024-2025; interest at 8.52% (1)	41,987	31,987
Other investment notes outstanding (2)	26,081	18,380
Other investments, gross	377,206	276,715
Allowance for loss on other investments (3)	-	(373)
Total other investments	$377,206	$ 276,342

(1) Approximate weighted average interest rate as of June 30, 2018.
(2) Other investment notes have a weighted average interest rate of 8.55% and maturity dates through 2028.
(3) The allowance for loss on other investments relates to one loan with an operator that was fully reserved at December 31, 2017 and written off during the second quarter of 2018.

Other investment notes due 2018 - 2022

In March 2018, we agreed to provide senior secured superpriority DIP financing to Orianna consisting of a $14.2 million term loan and a $15.8 million revolving credit facility. The DIP financing has been approved by the Bankruptcy Court. The DIP financing is secured by a security interest in and liens on substantially all of Orianna's existing and future real and personal property. The $14.2 million term loan bears interest at 1-month LIBOR plus 5.5% per annum and matures on September 30, 2018. Orianna has borrowed the full amount of the term loan to repay their previous secured working capital lender. As of June 30, 2018, approximately $14.2 million is outstanding on this term loan. The $15.8 million revolving credit facility bears interest at 1-month LIBOR plus 9.0% per annum and matures on September 30, 2018. The borrowings under the revolving credit facility are to be used for general business expenses and other uses permitted under the loan documents. As of June 30, 2018, approximately $10.5 million is outstanding on this revolving credit facility. On July 23, 2018, we notified Orianna that it was in default under the DIP facility. See Note 19 – Subsequent Events.

In May 2017, we provided Orianna an $18.8 million maximum borrowing secured revolving working capital loan that bears interest at 9% per annum (with one-half (1/2) of all accrued interest to be paid-in-kind and added to the loan balance) and matures on April 30, 2022. This revolving working capital loan has a default rate of 5% per annum. As of June 30, 2018, approximately $15.2 million is outstanding on this revolving working capital loan. Pursuant to the Bankruptcy Court's interim order approving the DIP financing, Orianna is obligated to pay one-half (1/2) of all accrued post-bankruptcy interest payable on this revolving working capital loan at the default rate. As of June 30, 2018, our total other investments outstanding with Orianna was approximately $40.0 million.

Other investment notes due 2020

On July 29, 2016, we provided Genesis HealthCare, Inc. ("Genesis") a $48.0 million secured term loan bearing interest at LIBOR with a floor of 1% plus 13% maturing on July 29, 2020. The $48.0 million term loan (and the $16.0 million term loan discussed below) is secured by a perfected first priority lien on and security interest in certain collateral of Genesis. The term loan required monthly principal payments of $0.25 million through July 2019, and $0.5 million from August 2019 through maturity. In addition, a portion of the monthly interest accrued to the outstanding principal balance of the loan. In November 2017, we provided Genesis forbearance through February 2018. The forbearance allowed for the deferral of principal payments and permitted Genesis to accrue all interest due to the outstanding principal balance of the loan.

On March 6, 2018, we amended certain terms of the $48.0 million secured term loan. As of February 22, 2018, the $48.0 million term loan bears interest at a fixed rate of 14% per annum, of which 9% per annum will be paid-in-kind. Additionally, the amended term loan does not require monthly payments of principal. All principal and accrued and unpaid interest will be due at maturity on July 29, 2020. As of June 30, 2018, approximately $52.0 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 will be paid-in-kind and matures on July 29, 2020. As of June 30, 2018, approximately $16.2 million is outstanding on this term loan. As of June 30, 2018, our total other investments outstanding with Genesis was approximately $68.2 million.

Other investment note due 2021

Simultaneously, with the sale of 12 SNFs to subsidiaries of an existing operator we provided a principal of the existing operator a $39.7 million unsecured loan bearing interest at 6% per annum that matures on May 31, 2021. Commencing October 1, 2018 and the first day of each subsequent quarter, the loan requires principal payments of $0.6 million and additional quarterly principal payments of $0.3 million in the future. The borrower has one option to extend the loan to May 31, 2024 subject to an extension fee. A $7.0 million loan provided to the same principal in 2017 was repaid with proceeds from the $39.7 million loan. As of June 30, 2018, our total other investments outstanding with this principal borrower was approximately $39.7 million.

Other investment note due 2023

On February 26, 2016, we acquired and funded a $50.0 million mezzanine loan at a discount of approximately $0.75 million. In May 2018, the Company amended the mezzanine loan with the borrower which is secured by an equity interest in subsidiaries of the borrower. As part of the refinancing, the Company increased the mezzanine loan by $10.0 million, extended the maturity date to May 31, 2023 and fixed the interest rate at 12% per annum. The mezzanine loan requires semi-annual principal payments of $2.5 million commencing December 31, 2018 (payments due each December 31 and June 30). As of June 30, 2018, our total other investments outstanding with this borrower was approximately $59.3 million. In connection with the amendment, the Company recognized fees of approximately $1.1 million of which $0.5 million was paid at closing with the remainder due at maturity. The discount and loan fee are deferred and recognized on an effective basis over the term of the loan.

Other investment note due 2024-2025

On September 30, 2016, we acquired and amended a term loan with a fair value of approximately $37.0 million with Agemo Holdings LLC (“Agemo” an entity formed in May 2018 to silo the leases and loans formerly held by Signature Healthcare). A $5.0 million tranche of the term loan that bore interest at 13% per annum was repaid in August 2017. The remaining $32.0 million tranche of the term loan bears interest at 9% per annum and currently matures on December 31, 2024. The $32.0 million term loan (and the $25.0 million working capital loan discussed below) is secured by a security interest in the collateral of Agemo.

On May 7, 2018, the Company provided Agemo a $25.0 million secured working capital loan bearing interest at 7% per annum that matures on April 30, 2025. The proceeds of the working capital loan are for paying operating expenses, settlement payments, fees, taxes and other costs approved by the Company. As of June 30, 2018, approximately $10.0 million is outstanding on this working capital loan. Our total loans outstanding with Agemo at June 30, 2018 approximate $42.0 million.

On May 7, 2018, the Company also provided principals of Agemo a one year unsecured $2.8 million loan. The proceeds were used to pay down contractual receivables outstanding.

Other investments note

On December 28, 2017, we provided $10.0 million of financing to a third-party to acquire ten SNFs previously owned by us. The loan bears interest at 10% per annum and requires principal payments of $5.0 million in December 2018, $2.0 million in December 2019 and $3.0 million at maturity in December 2020. In March 2018, the third-party buyer repaid $5.0 million related to this financing.

NOTE 6 – VARIABLE INTEREST ENTITIES

As of June 30, 2018, Orianna and Agemo are VIEs. Below is a summary of our assets and liabilities associated with each operator as of June 30, 2018:

	Operator	
	Orianna	Agemo
	(in thousands)	
Assets		
Real estate investments - net	$37,286	$409,450
Investments in direct financing leases - net	337,705	-
Other investments - net	39,984	41,987
Contractual receivables - net	279	17,574
Straight-line rent receivables	-	28,737
Above market lease	-	4
Subtotal	415,254	497,752
Liabilities		
Letters of credit	-	(9,253)

Subtotal	-	(9,253)
Collateral		
Personal guarantee	-	(15,000)
Other collateral	(399,926)	(409,450)
Subtotal	(399,926)	(424,450)
Maximum exposure to loss	$15,328	$64,049

In determining our maximum exposure to loss from these VIEs, we considered the underlying fair value of the real estate subject to leases with these operators and other collateral, if any, supporting our other investments, which may include accounts receivable, security deposits, letters of credit or personal guarantees, if any. See Note 5 – Other Investments regarding the terms of other investments with these two operators. The Company has also committed to provide Agemo with up to approximately $13.6 million of capital expenditure funding through 2021 to be used for general maintenance and capital improvements for our facilities. As of June 30, 2018, approximately $13.1 million of the $13.6 million remains unfunded by the Company.

The table below reflects our total revenues from Orianna and Agemo for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Operator		Operator	
	Orianna	Agemo	Orianna	Agemo
	(in thousands)			
Revenue				
Rental income	$-	$14,860	$ -	$ 29,711
Other investment income	1,145	828	1,664	1,548
Total	$1,145	$15,688	$ 1,664	$ 31,259

NOTE 7 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

On November 1, 2016, we invested approximately $50.0 million for an approximate 15% ownership interest in a joint venture operating as Second Spring Healthcare Investments. The other approximate 85% interest is owned by affiliates of Lindsey Goldberg LLC. We account for our investment in the joint venture using the equity method. On November 1, 2016, the joint venture acquired 64 SNFs for approximately $1.1 billion and leased them to Genesis. During the second quarter of 2018, the joint venture sold 12 SNF facilities subject to an operating lease for approximately $149.3 million in net cash proceeds and recognized a loss on sale of approximately $4.4 million.

We receive asset management fees from the joint venture for services provided. For the three months ended June 30, 2018 and 2017, we recognized $0.5 million of asset management fees in each period. For the six months ended June 30, 2018 and 2017, we recognized $1.0 million of asset management fees in each period. These fees are included in miscellaneous income in the accompanying Consolidated Statements of Operations. The accounting policies for the unconsolidated joint venture are the same as those of the Company.

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, 2017	22	$ 86,699
Properties sold/other [1]	(5)	(9,307)
Properties added [2]	16	66,027
March 31, 2018	33	143,419
Properties sold/other [1]	(33)	(143,419)
Properties added [2]	3	3,782
June 30, 2018[3]	3	$ 3,782

(1) In the first quarter of 2018, we sold five facilities for approximately $13.1 million in net cash proceeds recognizing a gain on sale of approximately $3.5 million. In the second quarter of 2018, we sold 33 facilities for approximately $96.4 million in net cash proceeds recognizing a gain on sale of approximately $3.5 million.

(2) In the first quarter of 2018, we recorded $3.5 million of impairments to reduce 16 facilities and one ancillary building's net book value to their estimated fair values less costs to sell before they were reclassified to assets held for sale. In the second quarter of 2018, we recorded approximately $2.5 million of impairments to reduce three facilities net book value to their estimated fair values less cost 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 June 30, 2018 within the next twelve months.

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NOTE 9 – INTANGIBLES

The following is a summary of our intangibles as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(in thousands)	
Assets:		
Goodwill	$644,369	$ 644,690
Above market leases	$22,426	$ 22,426
In-place leases	167	167
Accumulated amortization	(17,541)	(17,059)
Net intangible assets	$5,052	$ 5,534
Liabilities:		
Below market leases	$161,286	$ 164,443
Accumulated amortization	(89,584)	(83,824)
Net intangible liabilities	$71,702	$ 80,619

Above market leases and in-place 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 June 30, 2018 and 2017, our net amortization related to intangibles was $2.6 million and $3.1 million, respectively. For the six months ended June 30, 2018 and 2017, our net amortization related to intangibles was $5.3 million and $6.2 million, respectively. The estimated net amortization related to these intangibles for the remainder of 2018 and the subsequent four years is as follows: remainder of 2018 – $4.3 million; 2019 – $8.2 million; 2020 – $8.0 million; 2021– $7.6 million and 2022 – $7.0 million. As of June 30, 2018, the weighted average remaining amortization period of above market leases and below market leases is approximately seven years and nine years, respectively.

The following is a summary of our goodwill as of June 30, 2018:

(in thousands)

Balance as of December 31, 2017	$	644,690
Less: foreign currency translation		(321)
Balance as of June 30, 2018	$	644,369

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NOTE 10 – CONCENTRATION OF RISK

As of June 30, 2018, our portfolio of real estate investments consisted of 936 healthcare facilities, located in 41 states and the U.K. and operated by 67 third-party operators. Our investment in these facilities, net of impairments and allowances, totaled approximately $8.6 billion at June 30, 2018, with approximately 99% of our real estate investments related to long-term care facilities. Our portfolio is made up of 748 SNFs, 117 ALFs, 14 specialty facilities, one medical office building, fixed rate mortgages on 51 SNFs and two ALFs, and three facilities that are held for sale. At June 30, 2018, we also held other investments of approximately $377.2 million, consisting primarily of secured loans to third-party operators of our facilities and a $32.8 million investment in an unconsolidated joint venture.

At June 30, 2018, we had investments with one operator/or manager that exceeded 10% of our total investments: Ciena. Ciena also generated approximately 10% of our total revenues for the three and six months ended June 30, 2018 and 2017. At June 30, 2018, the three states in which we had our highest concentration of investments were Texas (10%), Florida (10%) and Michigan (8%).

NOTE 11 – STOCKHOLDERS'/OWNERS' EQUITY

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

Record Date	Payment Date	Dividend per Common Share
January 31, 2018	February 15, 2018	$ 0.66
April 30, 2018	May 15, 2018	0.66
July 31, 2018	August 15, 2018	0.66

On the same dates listed above, Omega OP Unit holders received the same distributions per unit as those paid to the common stockholders of Omega.

$500 Million Equity Shelf Program

For the three months ended June 30, 2018, we issued 0.9 million shares of our common stock at an average price of $30.19 per share, net of issuance costs, generating net proceeds of $27.5 million under our $500 million Equity Shelf Program. For the six months ended June 30, 2018, we issued 0.9 million shares of our common stock at an average price of $30.16 per share, net of issuance costs, generating net proceeds of $27.5 million under our $500 million Equity Shelf Program.

Dividend Reinvestment and Common Stock Purchase Plan

For the three months ended June 30, 2018, approximately 0.8 million shares of our common stock at an average price of $29.22 per share were issued through our Dividend Reinvestment and Common Stock Purchase Plan for gross proceeds of approximately $22.2 million. For the six months ended June 30, 2018, approximately 0.9 million shares of our common stock at an average price of $28.55 per share were issued through our Dividend Reinvestment and Common Stock Purchase Plan for gross proceeds of approximately $27.1 million.

Accumulated Other Comprehensive Loss

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

	As of and For the Three Months Ended June 30,		As of and For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Foreign Currency Translation:				
Beginning balance	$(11,015)	$(50,614)	$(25,993)	$(54,948)
Translation (loss) gain	(24,383)	10,195	(9,464)	14,468
Realized (loss) gain	(66)	79	(7)	140
Ending balance	(35,464)	(40,340)	(35,464)	(40,340)
Derivative Instruments:				
Cash flow hedges:				
Beginning balance	5,951	(166)	1,463	(1,420)
Unrealized gain (loss)	1,735	(1,840)	5,970	(1,350)
Realized gain[1]	53	626	306	1,390
Ending balance	7,739	(1,380)	7,739	(1,380)
Net investment hedge:				
Beginning balance	(12,219)	-	(7,110)	-
Unrealized gain (loss)	8,296	(2,193)	3,187	(2,193)
Ending balance	(3,923)	(2,193)	(3,923)	(2,193)
Total accumulated other comprehensive loss for Omega OP[2]	(31,648)	(43,913)	(31,648)	(43,913)
Add: portion included in noncontrolling interest	1,491	2,010	1,491	2,010
Total accumulated other comprehensive loss for Omega	$(30,157)	$(41,903)	$(30,157)	$(41,903)

(1) Recorded in interest expense on the Consolidated Statements of Operations.
(2) These amounts are included in owners' equity.

NOTE 12 – TAXES

Omega is a REIT for United States federal income tax purposes, and Omega OP is a pass through entity for United States federal income tax purposes.

Since our inception, Omega has elected to be taxed as a REIT under the applicable provisions of the Internal Revenue Code ("Code"). A REIT is generally not subject to federal income tax on that portion of its REIT taxable income which is distributed to its stockholders, provided that at least 90% of such taxable income is distributed each tax year and certain other requirements are met, including asset and income tests. So long as we qualify 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.

If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income taxes on its taxable income at regular corporate rates and dividends paid to our stockholders will not be deductible by us in computing taxable income. Further, we would not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which qualification is denied, unless the Internal Revenue Service grants us relief under certain statutory provisions. Failing to qualify as a REIT could materially and adversely affect the Company's net income; however, we believe we are organized and operate in such a manner as to qualify for treatment as a REIT. We test our compliance within the REIT taxation rules to ensure that we are in compliance with the REIT rules on a quarterly and annual basis. We review our distributions and projected distributions each year to ensure we have met and will continue to meet the annual REIT distribution requirements. In 2018, we expect to pay dividends in excess of our taxable income.

Subject to the limitation under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries (“TRSs”). We have elected for two of our active subsidiaries to be treated as TRSs. One of our TRSs is subject to federal, state and local income taxes at the applicable corporate rates and the other is subject to foreign income taxes. As of June 30, 2018, our TRS that is subject to federal, state and local income taxes at the applicable corporate rates had a net operating loss carry-forward of approximately $5.8 million. The loss carry-forward is fully reserved as of June 30, 2018, with a valuation allowance due to uncertainties regarding realization. Our net operating loss carryforwards will be carried forward for no more than 20 years.

For the three months ended June 30, 2018 and 2017, we recorded approximately $0.2 million and $0.5 million, respectively, of state and local income tax provision. For the six months ended June 30, 2018 and 2017, we recorded approximately $0.3 million and $1.5 million, respectively, of state and local income tax provision. For the three months ended June 30, 2018 and 2017, we recorded approximately $0.6 million and $0.1 million, respectively, of tax provision for foreign income taxes. For the six months ended June 30, 2018 and 2017, we recorded approximately $1.0 million and $0.2 million, respectively, of tax provision for foreign income taxes. The expenses were included in income tax expense on our Consolidated Statements of Operations.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act includes numerous changes to existing U.S. tax law, including lowering the statutory U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company has completed its preliminary assessment of these changes, and has determined that there is an immaterial impact to the consolidated financial statements.

NOTE 13 – STOCK-BASED COMPENSATION

On June 8, 2018, at our Company’s Annual Meeting, our stockholders approved the 2018 Stock Incentive Plan (the “2018 Plan”), which amended and restated the Company’s 2013 Stock Incentive Plan (the “2013 Plan”). The 2018 Plan is a comprehensive incentive compensation plan that allows for various types of equity-based compensation, including restricted stock units (including performance-based restricted stock units), stock awards (including restricted stock), deferred restricted stock units, incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance unit awards, certain cash-based awards (including performance-based cash awards) and other stock-based awards. The 2018 Plan increases the number of shares of common stock available for issuance under the 2013 Plan by 4.5 million.

The following is a summary of our stock-based compensation expense for the three and six months ended June 30, 2018 and 2017, respectively:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)			
Stock-based compensation expense	$4,089	$3,734	$ 8,145	$ 7,478

Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock units ("RSUs") are subject to forfeiture if the holder's service to us terminates prior to vesting, subject to certain exceptions for certain qualifying terminations of service or a change in control of the Company. Prior to vesting, ownership of the shares/units cannot be transferred. Restricted stock has the same dividend and voting rights as our common stock. RSUs accrue dividend equivalents but have no voting rights. Restricted stock and RSUs are valued at the price of our common stock on the date of grant. We expense the cost of these awards ratably over their vesting period. We awarded 169,900 RSUs to employees on January 1, 2018.

Performance Restricted Stock Units and LTIP Units

Performance restricted stock units ("PRSUs") and long term incentive plan units ("LTIP Units") are subject to forfeiture if the performance requirements are not achieved or if the holder's service to us terminates prior to vesting, subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. The PRSUs and the LTIP Units have varying degrees of performance requirements to achieve vesting, and each PRSU and LTIP Units award represents the right to a variable number of shares of common stock or partnership units. Each LTIP Unit once earned and vested is convertible into one Omega OP Unit in Omega OP, subject to certain conditions. The vesting requirements are based on either the (i) total shareholder return ("TSR") of Omega or (ii) Omega's TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index for awards before 2016 and in the FTSE NAREIT Equity Health Care Index for awards granted in or after 2016 (both "Relative TSR"). Vesting, in general, requires that the employee remain employed by us until the date specified in the applicable PRSU or LTIP agreement, which may be later than the date that the TSR or Relative TSR requirements are satisfied. We expense the cost of these awards ratably over their service period.

Prior to vesting and the distribution of shares, ownership of the PRSUs cannot be transferred. Dividends on the PRSUs are accrued and only paid to the extent the applicable performance requirements are met. While each LTIP Unit is unearned, the employee receives a partnership distribution equal to 10% of the quarterly approved regular periodic distributions per Omega OP Unit. The remaining partnership distributions (which in the case of normal periodic distributions is equal to the total approved quarterly dividend on Omega's common stock) on the LTIP Units accumulate, and if the LTIP Units are earned, the accumulated distributions are paid.

The number of shares or units earned under the TSR PRSUs or LTIP Units depends generally on the level of achievement of Omega's TSR over the indicated performance period. We awarded 677,488 LTIP Units to employees on January 1, 2018.

The number of shares earned under the Relative TSR PRSUs depends generally on the level of achievement of Omega's TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index or FTSE NAREIT Equity Health Care Index TSR over the performance period indicated. We awarded 334,544 Relative TSR PRSUs to employees on January 1, 2018.

The following table summarizes our total unrecognized compensation cost as of June 30, 2018 associated with RSUs, PRSU awards, and LTIP Unit awards to employees:

	Grant Year	Shares / Units	Grant Date Average Fair Value Per Unit/ Share	Total Compensation Cost **(in millions)** (1)	Weighted Average Period of Expense Recognition (in months)	Unrecognized Compensation Cost (in millions)	Performance Period	Vesting Dates
RSUs								
3/17/16 RSU	2016	130,006	$ 34.78	$ 4.50	33	$ 0.80	N/A	12/31/2018
1/1/2017 RSU	2017	140,416	31.26	4.40	36	2.20	N/A	12/31/2019
1/1/2018 RSU	2018	169,900	27.54	4.70	36	3.90	N/A	12/31/2020
Restricted Stock Units Total		440,322	$ 30.86	$ 13.60		$ 6.90		
TSR PRSUs and LTIP Units								
3/31/15 2017 LTIP Units	2015	137,249	$ 14.66	$ 2.00	45	$ 0.30	1/1/2015-12/31/2017	Quarterly in 2018
4/1/2015 2017 LTIP Units	2015	53,387	14.81	0.80	45	0.10	1/1/2015-12/31/2017	Quarterly in 2018
3/17/2016 2018 LTIP Units	2016	370,152	13.21	4.90	45	1.90	1/1/2016-12/31/2018	Quarterly in 2019
1/1/2017 2019 LTIP Units	2017	399,726	12.61	5.00	48	3.20	1/1/2017-12/31/2019	Quarterly in 2020
1/1/2018 2020 LTIP Units	2018	677,488	7.31	5.00	48	4.30	1/1/2018-12/31/2020	Quarterly in 2021
TSR PRSUs & LTIP Total		1,638,002	$ 10.80	$ 17.70		$ 9.80		

Relative TSR PRSUs								
3/31/15 2017 Relative TSR	2015	137,249	$ 22.50	$ 3.10	45	$ 0.40	1/1/2015-12/31/2017	Quarterly in 2018
4/1/2015 2017 Relative TSR	2015	53,387	22.92	1.20	45	0.20	1/1/2015-12/31/2017	Quarterly in 2018
3/17/2016 2018 Relative TSR	2016	305,563	16.44	5.00	45	2.00	1/1/2016-12/31/2018	Quarterly in 2019
1/1/2017 2019 Relative TSR	2017	285,338	18.04	5.10	48	3.20	1/1/2017-12/31/2019	Quarterly in 2020
1/1/2018 2020 Relative TSR	2018	334,544	16.65	5.60	48	4.80	1/1/2018-12/31/2020	Quarterly in 2021
Relative TSR PRSUs Total		1,116,081	$ 17.97	$ 20.00		$ 10.60		
Grand Total		3,194,405	$ 16.07	$ 51.30		$ 27.30		

(1) Total shares/units and compensation costs are net of shares/units cancelled.

(2) This table excludes approximately $1.5 million of unrecognized compensation costs related to outstanding director restricted stock grants.

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NOTE 14 – BORROWING ACTIVITIES AND ARRANGEMENTS

Secured and Unsecured Borrowings

The following is a summary of our borrowings:

	Maturity	Annual Interest Rate as of June 30, 2018		June 30, 2018		December 31, 2017	
				(in thousands)			
Secured borrowings:							
HUD mortgages assumed December 2011	2044	-		$-		$ 53,666	
Deferred financing costs – net				-		(568	)
Total secured borrowings – net[1]				-		53,098	
Unsecured borrowings:							
Revolving line of credit	2021	3.29	%	220,000		290,000	
U.S. term loan	2022	3.54	%	425,000		425,000	
Sterling term loan [2]	2022	1.95	%	132,030		135,130	
Omega OP term loan[1]	2022	3.54	%	100,000		100,000	
2015 term loan	2022	3.80	%	250,000		250,000	
Discounts and deferred financing costs – net[3]				(4,862	)	(5,460	)
Total term loans – net				902,168		904,670	
2023 notes	2023	4.375	%	700,000		700,000	
2024 notes	2024	4.950	%	400,000		400,000	
2025 notes	2025	4.500	%	400,000		400,000	
2026 notes	2026	5.250	%	600,000		600,000	
2027 notes	2027	4.500	%	700,000		700,000	
2028 notes	2028	4.750	%	550,000		550,000	
Other	2018	-		-		1,500	
Subordinated debt	2021	9.000	%	20,000		20,000	
Discount – net				(19,798	)	(21,073	)
Deferred financing costs – net				(24,313	)	(26,037	)
Total senior notes and other unsecured borrowings – net				3,325,889		3,324,390	

Total unsecured borrowings - net	4,448,057	4,519,060
Total secured and unsecured borrowings – net[4]	$4,448,057	$ 4,572,158

(1) These amounts