OMEGA HEALTHCARE INVESTORS INC
Form 10-Q
November 07, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _______________ to _______________

Commission file number 1-11316

OMEGA HEALTHCARE INVESTORS, INC.
(Exact name of Registrant as specified in its charter)

Maryland	38-3041398
(State of incorporation)	(IRS Employer Identification No.)

200 International Circle, Suite 3500, 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.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, 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).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 28, 2011.

Common Stock, $.10 par value	103,166,383
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
September 30, 2011

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1 - Financial Statements

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Real estate properties		
Land and buildings	$2,341,012	$2,366,856
Less accumulated depreciation	(445,272)	(380,995)
Real estate properties – net	1,895,740	1,985,861
Mortgage notes receivable – net	119,076	108,557
	2,014,816	2,094,418
Other investments – net	30,394	28,735
	2,045,210	2,123,153
Assets held for sale – net	811	670
Total investments	2,046,021	2,123,823
Cash and cash equivalents	10,730	6,921
Restricted cash	19,835	22,399
Accounts receivable – net	96,615	92,819
Other assets	58,189	57,172
Operating assets for owned and operated properties	275	873
Total assets	$2,231,665	$2,304,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving line of credit	$45,000	$—
Secured borrowings	198,526	201,296
Unsecured borrowings – net	975,384	975,669
Accrued expenses and other liabilities	114,438	121,859
Operating liabilities for owned and operated properties	472	1,117
Total liabilities	1,333,820	1,299,941
Stockholders' equity:		
Preferred stock issued and outstanding – 4,340 shares Series D with an aggregate liquidation preference of $108,488 as of December 31, 2010	—	108,488
Common stock $.10 par value authorized – 200,000 shares issued, and outstanding – 103,346 shares as of September 30, 2011 and 99,233 as of December 31, 2010	10,335	9,923
Common stock – additional paid-in-capital	1,468,598	1,376,131
Cumulative net earnings	614,137	580,824
Cumulative dividends paid	(1,195,225)	(1,071,300)
Total stockholders' equity	897,845	1,004,066
Total liabilities and stockholders' equity	$2,231,665	$2,304,007

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Rental income	$68,622	$66,299	$203,446	$165,028
Mortgage interest income	3,617	2,576	10,548	7,709
Other investment income – net	383	746	1,641	3,282
Miscellaneous	196	103	265	3,852
Nursing home revenues of owned and operated assets	-	-	-	7,336
Total operating revenues	72,818	69,724	215,900	187,207
Expenses				
Depreciation and amortization	24,871	27,742	74,848	58,880
General and administrative	4,393	4,376	14,549	11,758
Acquisition costs	-	78	45	1,490
Impairment on real estate properties	-	-	24,971	155
Provisions for uncollectible mortgages, notes and accounts receivable	-	-	4,139	-
Nursing home expenses of owned and operated assets	148	480	603	7,849
Total operating expenses	29,412	32,676	119,155	80,132
Income before other income and expense	43,406	37,048	96,745	107,075
Other income (expense):				
Interest income	12	11	35	88
Interest expense	(20,101)	(19,070)	(60,173)	(47,350)
Interest – amortization of deferred financing costs	(629)	(978)	(2,026)	(2,881)
Interest –refinancing costs	(3,055)	-	(3,071)	(3,461)
Total other expense	(23,773)	(20,037)	(65,235)	(53,604)
Income before gain (loss) on assets sold	19,633	17,011	31,510	53,471
Gain (loss) on assets sold – net	1,803	(4)	1,803	(4)
Net income	21,436	17,007	33,313	53,467
Preferred stock dividends	-	(2,271)	(1,691)	(6,814)
Preferred stock redemption	-	-	(3,456)	-
Net income available to common stockholders	$21,436	$14,736	$28,166	$46,653
Income per common share available to common stockholders:				
Basic:				
Net income	$0.21	$0.15	$0.28	$0.50
Diluted:				
Net income	$0.21	$0.15	$0.28	$0.50
Dividends declared and paid per common share	$0.40	$0.36	$1.15	$1.00

Weighted-average shares outstanding, basic	103,180	95,698	101,722	92,523
Weighted-average shares outstanding, diluted	103,231	95,987	101,772	92,700
Components of other comprehensive income:				
Net income	$21,436	$17,007	$33,313	$53,467
Total comprehensive income	$21,436	$17,007	$33,313	$53,467

See notes to consolidated financial statements.

3

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Unaudited
(in thousands, except per share amounts)

	Preferred Stock	Common Stock Par Value	Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends	Total
Balance at December 31, 2010 (99,233 common shares)	$108,488	$9,923	$1,376,131	$580,824	$(1,071,300)	$1,004,066
Issuance of common stock:						
Grant of restricted stock (13 shares at $22.00 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	4,478	—	—	4,478
Vesting of restricted stock (grants 68 shares)	—	7	(1,261)	—	—	(1,254)
Dividend reinvestment plan (2,608 shares at $21.10 per share)	—	261	54,656	—	—	54,917
Grant of stock as payment of directors fees (6 shares at an average of $20.17 per share)	—	1	112	—	—	113
Equity Shelf Program (1,419 shares at $22.61 per share, net of issuance costs)	—	142	31,095	—	—	31,237
Preferred stock redemption	(108,488)	—	3,388	—	(3,456)	(108,556)
Net income	—	—	—	33,313	—	33,313
Common dividends ($1.15 per share).	—	—	—	—	(117,264)	(117,264)
Preferred dividends (Series D of $0.74 per share)	—	—	—	—	(3,205)	(3,205)
Balance at September 30, 2011 (103,346 common shares)	$—	$10,335	$1,468,598	$614,137	$(1,195,225)	$897,845

See notes to consolidated financial statements.

4

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities		
Net income	$33,313	$53,467
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	74,848	58,880
Impairment on real estate properties	24,971	155
Provisions for uncollectible mortgages, notes, and accounts receivable	4,139	—
Amortization of deferred financing and refinancing costs	5,097	6,342
Restricted stock amortization expense	4,518	1,756
(Gain) loss on assets sold – net	(1,803)	4
Effective yield receivable on mortgage notes	(932)	—
Amortization of in-place leases	(4,640)	(1,852)
Gain on sale of securities	—	(789)
Other	(112)	(113)
Change in operating assets and liabilities – net of amounts assumed/acquired:		
Accounts receivable, net	355	(2,033)
Straight-line rent	(9,896)	(6,928)
Lease inducement	2,538	(261)
Other operating assets and liabilities	(3,331)	(1,105)
Operating assets and liabilities for owned and operated properties	(47)	2,921
Net cash provided by operating activities	129,018	110,444
Cash flows from investing activities		
Acquisition of real estate – net of liabilities assumed and escrows acquired	(98)	(343,180)
Placement of mortgage loans	(10,461)	(2,372)
Proceeds from sale of real estate investments	4,150	81
Capital improvements and funding of other investments	(12,012)	(25,658)
Proceeds from other investments	3,186	18,720
Investments in other investments	(4,845)	(16,436)
Collection of mortgage principal – net	54	60
Net cash used in investing activities	(20,026)	(368,785)
Cash flows from financing activities		
Proceeds from credit facility borrowings	289,000	314,000
Payments on credit facility borrowings	(244,000)	(265,100)
Receipts of other long-term borrowings	—	196,556
Payments of other long-term borrowings	(1,836)	(59,882)
Payments of financing related costs	(4,236)	(9,231)
Receipts from dividend reinvestment plan	54,917	43,069
Net proceeds from issuance of common stock	31,237	136,934
Payments from exercised options and restricted stock – net	(1,254)	89
Dividends paid	(120,455)	(99,072)
Redemption of preferred stock	(108,556)	—
Net cash (used in) provided by financing activities	(105,183)	257,363
Increase (decrease) in cash and cash equivalents	3,809	(978)

Cash and cash equivalents at beginning of period	6,921	2,170
Cash and cash equivalents at end of period	$10,730	$1,192
Interest paid during the period, net of amounts capitalized	$55,882	$41,764
Non-cash investing activities		
Assumed debt obligations	$—	$202,015
Non-cash settlement of mortgage obligations	—	(12,395)
Non-cash acquisition of real estate properties	—	12,395
Stock consideration issued for acquisition	—	19,693
Net non-cash investing activities	$—	$221,708

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
September 30, 2011

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview

Omega Healthcare Investors, Inc. ("Omega" or the "Company") has one reportable segment consisting of investments in healthcare-related real estate properties. Our core business is to provide financing and capital to the long-term healthcare industry with a particular focus on skilled nursing facilities ("SNFs") located in the United States. 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements for Omega 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. We have evaluated all subsequent events through the date of the filing of this Form 10-Q. 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.

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega, and (iii) TC Healthcare ("TC Healthcare"), an entity and interim operator created to operate the 15 facilities we assumed as a result of the bankruptcy of one of our former tenants/operators. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer, and as of such date, TC Healthcare no longer operates these facilities. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Accounts Receivable

Accounts receivable includes: contractual 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 the lease agreement. Straight-line 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 or renewal of the lease and will be amortized as a reduction of rental revenue over the non cancellable lease term. On a quarterly basis, we review the collection of our contractual payments and determine the appropriateness of our allowance for uncollectible contractual rents. In the case of a lease recognized on a straight-line basis or existence of lease inducements, we generally provide an allowance for straight-line accounts receivable or the lease inducements when certain conditions or indicators of adverse collectability are present.

6

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

	September 30, 2011	December 31, 2010
	(in thousands)	
Contractual receivables	$ 7,291	$ 5,354
Straight-line receivables	71,927	62,423
Lease inducements	23,519	29,026
Allowance	(6,122)	(3,984)
Accounts receivable – net	$ 96,615	$ 92,819

During the second quarter, we entered into a master transition agreement ("2011 MTA") with one of our current lessee/operators and a third party lessee/operator to transition the facilities from the current operator to the new operator. The 2011 MTA closing is subject to receipt of healthcare regulatory approvals from several states for the operating license transfer from the current operator to the new operator. Upon closing of the 2011 MTA, the current lease will be terminated and the new operator will enter into a new twelve-year master lease for the facilities. As a result of the 2011 MTA, during the second quarter of 2011, we evaluated the recoverability of the straight-line rent and lease inducements associated with the current lease and have recorded a $4.1 million provision for uncollectible accounts associated with straight-line receivables and lease inducements.

We continuously evaluate the payment history and financial strength of our operators and have historically established allowance reserves for straight-line rent adjustments for operators that do not meet our requirements. We consider factors such as payment history and the operator's financial condition as well as current and future anticipated operating trends when evaluating whether to establish allowance reserves.

NOTE 2 – PROPERTIES AND INVESTMENTS

In the ordinary course of our business activities, we periodically evaluate investment opportunities and extend credit to customers. We also regularly engage in lease and/or loan extensions and modifications. Additionally, we actively monitor and manage our investment portfolio with the objectives of improving credit quality and increasing investment returns. In connection with our portfolio management, we may engage in various collection and foreclosure activities.

If we acquire real estate pursuant to a foreclosure or bankruptcy proceeding, the assets will initially be included on the consolidated balance sheet at the lower of cost or estimated fair value (see Note 3 – Owned and Operated Assets).

Leased Property

Our leased real estate properties, represented by 369 SNFs, 10 assisted living facilities ("ALFs") and five specialty facilities at September 30, 2011, are leased under provisions of single or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. 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 2.5%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as 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.

7

Connecticut Properties

In January 2011, at our request, a complaint was filed by the State of Connecticut, Commissioner of Social Services (the "State") against the licensees/operators of four Connecticut SNFs, seeking the appointment of a receiver. The facilities were leased and operated by affiliates of FC/SCH Capital, LLC and were managed by Genesis Healthcare, and had approximately 472 licensed beds as of March 31, 2011. The Superior Court, Judicial District of Hartford, Connecticut (the "Court") appointed a receiver.

The receiver is responsible for (i) operating the facilities and funding all operational expenses incurred after the appointment of the receiver and (ii) for providing the Court with recommendations regarding the facilities. In March 2011, the receiver moved to close all four SNFs and we objected. At the hearing held on April 21, 2011, we stated our position that the receiver failed to comply with the statutory requirements prior to recommending the facilities' closure. In addition, alternative operators expressed interest in operating several of the facilities. On April 27, 2011, the Court granted the receiver's motion and ordered the facilities closed.

We timely filed our notice of appeal, taking the position that the Court's Order (the "Order") is final and appealable, and erroneous. Following our notice of appeal, we negotiated a stipulation with the State and the receiver which afforded it significant concessions. Those concessions included: (a) an agreed recognition of us as a secured lienholder with a priority claim, (b) an accelerated timeframe for the (i) allocation by the receiver of collected funds between pre- and post- receivership periods, and (ii) disbursement to us of pre-receivership funds collected, and (c) an agreement by the State that it would forego its right to seek recoupment of pre-receivership funds as reimbursement for post-receivership advances. In exchange for these concessions (among others), we withdrew our appeal.

As a result of these developments, during the three months ended March 31, 2011, we recorded an impairment charge of $24.4 million to reduce the carrying values of the Connecticut SNFs to their estimated fair values. We estimated the fair value of these facilities based on the facilities' potential sales value assuming that the facilities would not be used as skilled nursing facilities. As of November 1, 2011, all of the residents of the four facilities have been relocated and the receiver has surrendered possession of all of the facilities to us. We are actively marketing the facilities for sale and/or lease (for purposes other than the provision of skilled nursing care).

143 Facility CapitalSource Acquisitions (December 2009 and June 2010)

In November 2009, we entered into a securities purchase agreement (the "CapitalSource Purchase Agreement") with CapitalSource Inc. ("CapitalSource") and several of its affiliates, pursuant to which we agreed to purchase CapitalSource subsidiaries owning 80 long term care facilities, plus an option to purchase CapitalSource subsidiaries owning an additional 63 facilities (the "Option"), for approximately $858 million. We accounted for these acquisitions as business combinations.

The transactions closed in three phases: (i) on December 22, 2009, we purchased CapitalSource entities owning 40 facilities for approximately $271 million and an option to purchase CapitalSource entities owning 63 additional facilities for $25 million; (ii) on June 9, 2010, we completed our purchase of the 63 CapitalSource facilities pursuant to the option for an aggregate purchase price of approximately $293 million in cash, plus the $25 million purchase option deposit, representing a total purchase price of $318 million; and (iii) on June 29, 2010, we purchased CapitalSource entities owning 40 facilities for approximately $271 million and paid approximately $15 million for escrow accounts transferred to us at closing.

As of December 31, 2010, we completed our purchase price allocation for all three of these transactions. The allocation included the fair value adjustment for above-market debt assumed in the transactions as well as above and below-market in-place leases assumed. For the nine months ended September 30, 2011, we amortized approximately

$1.1 million of above-market adjustments related to the assumed debt and approximately $4.6 million of net below market in-place leases assumed from these transactions.

The facilities acquired from CapitalSource on June 9, 2010 and June 29, 2010 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect each of the CapitalSource transactions as if they occurred on January 1, 2010. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisition have been made. The following pro forma information is not indicative of future operations.

	Pro Forma			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, except per share amount, unaudited)			
Revenues	$72,818	$69,724	$215,900	$218,964
Net income available to common stockholders	$21,436	$14,736	$28,166	$53,552
Earnings per share – diluted:				
Net income available to common stockholders – as reported	$0.21	$0.15	$0.28	$0.50
Net income available to common stockholders – pro forma	$0.21	$0.15	$0.28	$0.57

Assets Sold or Held for Sale

Assets Sold

On September 30, 2011, we sold a SNF in North Carolina for approximately $4.2 million resulting in a gain of approximately $1.8 million.

Held for Sale

At September 30, 2011, we had two SNFs classified as held-for-sale with an aggregate net book value of approximately $0.8 million.

Mortgage Notes Receivable

On July 18, 2011, we entered into a first mortgage loan with Nexion Health, Inc. (“Nexion”) in the amount of $5.0 million. The mortgage loan matures on July 17, 2012 and carries an interest rate of 10% per year.

Our mortgage notes receivable relate to 15 long-term care facilities and one construction mortgage on a facility currently under construction. 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 five (5) states, which are operated by five (5) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans. As of September 30, 2011, none of our mortgages were in default or in foreclosure proceedings. Where appropriate, the mortgage properties are generally cross-collateralized with the master lease agreement.

Mortgage interest income is recognized as earned over the terms of the related mortgage notes, 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 application of security deposits.

NOTE 3 – OWNED AND OPERATED ASSETS

In November 2007, affiliates of Haven Healthcare (“Haven”), one of our former operators/lessees/mortgagors, operated under Chapter 11 bankruptcy protection. Commencing in February 2008, the assets of the Haven facilities were marketed for sale via an auction process to be conducted through proceedings established by the bankruptcy court. The auction process failed to produce a qualified buyer. As a result, and pursuant to our rights as ordered by the bankruptcy court, Haven moved the bankruptcy court to authorize us to credit bid certain of the indebtedness that it owed to us in exchange for taking ownership of and transitioning certain of its assets to a new entity in which we have a substantial ownership interest, all of which was approved by the bankruptcy court on July 4, 2008. Effective July 7, 2008, we took ownership and/or possession of 15 facilities previously operated by Haven. TC Healthcare, a new entity and an interim operator, in which we have a substantial economic interest, began operating these facilities on our behalf through an independent contractor.

On August 6, 2008, we entered into a Master Transaction Agreement (“2008 MTA”) with affiliates of FC/SCH whereby FC/SCH agreed (subject to certain closing conditions, including the receipt of licensure) to lease 14 SNFs and one ALF facility under a master lease. These facilities were formerly leased to Haven.

Effective September 1, 2008, we completed the operational transfer of 12 SNFs and one ALF to affiliates of FC/SCH, in accordance with the terms of the 2008 MTA. These 13 facilities are located in Connecticut (5), Rhode Island (4), New Hampshire (3) and Massachusetts (1). As part of the transaction, Genesis has entered into a long-term management agreement with FC/SCH to oversee the day-to-day operations of each of these facilities. The two remaining facilities in Vermont, which were operated by TC Healthcare until May 31, 2010, were transferred to FC/SCH upon licensure from the state of Vermont. As a result of the transition of the operations to FC/SCH, we no longer operate any owned and operated facilities, effective June 1, 2010. Our consolidated financial statements include the results of operations of Vermont facilities from July 7, 2008 to May 31, 2010.

Nursing home revenues and expenses, included in our consolidated financial statements that relate to such owned and operated assets are set forth in the tables below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Nursing home revenues	$—	$—	$—	$7,336
Nursing home expenses	148	480	603	7,849
Loss from nursing home operations	$(148)	$(480)	$(603)	$(513)

NOTE 4 – CONCENTRATION OF RISK

As of September 30, 2011, our portfolio of real estate investments consisted of 401 healthcare facilities, located in 35 states and operated by 49 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $2.5 billion at September 30, 2011, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 369 SNFs, 10 ALFs, five specialty facilities, fixed rate mortgages on 15 SNFs, and two SNFs that are held-for-sale. At September 30, 2011, we also held miscellaneous investments of approximately $30.4 million, consisting primarily of secured loans to third-party operators of our facilities. Included in the $30.4 million miscellaneous investments is a working capital note with an operator that is secured by the operator’s accounts receivables. We have classified the note as impaired but believe that the collateral supporting the working capital note is in excess of the balance and therefore, no reserve is recorded. As part of the 2011 MTA, the new third party lessee/operator will assume approximately $15 million of the working capital note as well as the accounts receivables supporting the note related to the 12 facilities that are expected to be transitioned to the new operator. We are in the process of working with the Connecticut receiver to collect the Connecticut receivables that support the remaining portion of the note.

At September 30, 2011, we had two investments with operators and/or managers that exceeded 10% of our total investment: (i) CommuniCare Health Services (“CommuniCare”) (13%) and (ii) Airamid Health Management, LLC through its subsidiaries and management relationships, (“Airamid”) (11%). No other operator and/or manager represented more than 10% of our investments for the nine month period ended September 30, 2011. The two states in which we had our highest concentration of investments were Florida (24%) and Ohio (15%) at September 30, 2011.

For the three-month period ended September 30, 2011, our revenues from operations totaled $72.8 million, of which approximately $9.7 million was from CommuniCare (13%) and $8.4 million was from Sun Healthcare (“Sun”) (12%). No other operator generated more than 10% of our revenues from operations for the three-month period ended September 30, 2011.

For the nine-month period ended September 30, 2011, our revenues from operations totaled $215.9 million, of which approximately $28.9 million was from CommuniCare (13%) and $25.1 million was from Sun (12%). No other operator generated more than 10% of our revenues from operations for the nine-month period ended September 30, 2011.

Sun is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited interim financial information. Sun’s filings with the SEC can be found at the SEC’s website at www.sec.gov. We are providing this data for information purposes only, and we undertake no responsibility for Sun’s filings.

NOTE 5 – DIVIDENDS

Common Dividends

On October 13, 2011, the Board of Directors declared a common stock dividend of $0.40 per share to be paid November 15, 2011 to common stockholders of record on October 31, 2011.

On July 14, 2011, the Board of Directors declared a common stock dividend of $0.40 per share, increasing the quarterly common dividend by $0.02, or 5.3%, per share over the prior quarter, that was paid August 15, 2011 to common stockholders of record on August 1, 2011.

On April 14, 2011, the Board of Directors declared a common stock dividend of $0.38 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, that was paid May 16, 2011 to common stockholders of record on April 29, 2011.

On January 14, 2011, the Board of Directors declared a common stock dividend of $0.37 per share that was paid February 15, 2011 to common stockholders of record on January 31, 2011.

Series D Preferred Dividends

On January 14, 2011, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per preferred share on the Series D Preferred Stock that was paid February 15, 2011 to preferred stockholders of record on January 31, 2011.

Redemption of Series D Preferred Stock

On March 7, 2011, pursuant to authorization from our Board of Directors, we redeemed all of the outstanding shares of our 8.375% Series D Cumulative Redeemable Preferred Stock at a redemption price of $25 per share plus $0.21519 per share in accrued and unpaid dividends up to and including the redemption date, for an aggregate redemption price of $25.21519 per share. Dividends on the shares of Series D Preferred Stock ceased to accrue on and after the redemption date, after which the Series D Preferred Stock ceased to be outstanding.

We borrowed approximately $103 million under our previous 2010 Credit Facility to fund the redemption price. In connection with the redemption of the Series D Preferred Stock, we wrote-off $3.4 million of preferred stock issuance costs that reduced first quarter 2011 net income attributable to common stockholders by approximately $0.03 per common share.

NOTE 6 – TAXES

So long as we qualify as a real estate investment trust ("REIT") under the Internal Revenue Code (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. On a quarterly and annual basis, we test our compliance within the REIT taxation rules to ensure that we were in compliance with the rules.

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"). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. As of September 30, 2011, the TRS had a net operating loss carry-forward of $1.1 million. The loss carry-forward is fully reserved with a valuation allowance as we concluded it was more-likely-than-not that the deferred tax asset would not be realized.

NOTE 7 – STOCK-BASED COMPENSATION

The following is a summary of our stock-based compensation expense for the three- and nine- month periods ended September 30, 2011 and 2010, respectively:

Three Months Ended September 30,		Nine Months Ended September 30,	
2011	2010	2011	2010
(in thousands)			