OMEGA HEALTHCARE INVESTORS INC
Form 10-Q
August 05, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2015**

**or**

**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**<br>**(IRS Employer** |
| **(State of incorporation)** | **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** **No**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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** **No**

**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** **Accelerated filer** **Non-accelerated filer** **Smaller reporting company**

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

**Yes** **No**

**Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 30, 2015.**

| | |
|---|---|
| **Common Stock, \$.10 par value** | **183,816,001** |
| **(Class)** | **(Number of shares)** |

**OMEGA HEALTHCARE INVESTORS, INC.**

**FORM 10-Q**

**June 30, 2015**

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**PART I – FINANCIAL INFORMATION**

**Item 1 - Financial Statements**

**OMEGA HEALTHCARE INVESTORS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except per share amounts)**

| | **June 30, 2015** (Unaudited) | **December 31, 2014** |
|---|---|---|
| **ASSETS** | | |
| Real estate properties | | |
| Land and buildings | $6,513,674 | $3,223,785 |
| Less accumulated depreciation | (898,734) | (821,712) |
| Real estate properties – net | 5,614,940 | 2,402,073 |
| Investments in direct financing leases | 571,377 | 539,232 |
| Mortgage notes receivable | 682,255 | 648,079 |
| | 6,868,572 | 3,589,384 |
| Other investments | 82,955 | 48,952 |
| | 6,951,527 | 3,638,336 |
| Assets held for sale – net | 15,903 | 12,792 |
| Total investments | 6,967,430 | 3,651,128 |
| | | |
| Cash and cash equivalents | 25,154 | 4,489 |
| Restricted cash | 21,545 | 29,076 |
| Accounts receivable – net | 189,037 | 168,176 |
| Goodwill | 543,093 | — |
| Other assets | 67,417 | 68,776 |
| Total assets | $7,813,676 | $3,921,645 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| Revolving line of credit | $351,000 | $85,000 |
| Term loans | 500,000 | 200,000 |
| Secured borrowings | 263,068 | 251,454 |
| Unsecured borrowings – net | 2,333,856 | 1,842,049 |
| Accrued expenses and other liabilities | 271,584 | 141,815 |
| Deferred income taxes | 16,852 | — |
| Total liabilities | 3,736,360 | 2,520,318 |

| | | |
|---|---|---|
| Equity: | | |
| Common stock $.10 par value authorized – 350,000 shares, issued and outstanding – 183,321 shares as of June 30, 2015 and 127,606 as of December 31, 2014 | 18,332 | 12,761 |
| Common stock – additional paid-in capital | 4,503,180 | 2,136,234 |
| Cumulative net earnings | 1,232,478 | 1,147,998 |
| Cumulative dividends paid | (2,047,257) | (1,895,666) |
| Accumulated other comprehensive income | 2,839 | — |
| Total stockholders' equity | 3,709,572 | 1,401,327 |
| Noncontrolling interest | 367,744 | — |
| Total equity | 4,077,316 | 1,401,327 |
| Total liabilities and equity | $7,813,676 | $3,921,645 |

See notes to consolidated financial statements.

**OMEGA HEALTHCARE INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**AND COMPREHENSIVE INCOME**

**Unaudited**

**(in thousands, except per share amounts)**

| | **Three Months Ended** | | **Six Months Ended** | |
|---|---|---|---|---|
| | **June 30,** | | **June 30,** | |
| | **2015** | **2014** | **2015** | **2014** |
| **Revenue** | | | | |
| Rental income | $163,112 | $96,242 | $264,076 | $192,160 |
| Income from direct financing leases | 15,020 | 14,146 | 29,366 | 28,230 |
| Mortgage interest income | 17,562 | 9,923 | 34,141 | 19,249 |
| Other investment income – net | 2,017 | 1,489 | 3,548 | 3,162 |
| Total operating revenues | 197,711 | 121,800 | 331,131 | 242,801 |
| | | | | |
| **Expenses** | | | | |
| Depreciation and amortization | 59,156 | 31,301 | 89,766 | 62,745 |
| General and administrative | 10,308 | 6,297 | 16,322 | 12,794 |
| Acquisition costs | 47,084 | 45 | 51,952 | 140 |
| Impairment loss on real estate properties | 6,916 | 1,558 | 12,898 | 1,558 |
| Provisions for uncollectible mortgages, notes and accounts receivable | (7) | 2,761 | (9) | 2,745 |
| Total operating expenses | 123,457 | 41,962 | 170,929 | 79,982 |
| | | | | |
| **Income before other income and expense** | **74,254** | **79,838** | **160,202** | **162,819** |
| **Other income (expense)** | | | | |
| Interest income | 7 | 17 | 200 | 25 |
| Interest expense | (38,248) | (29,447) | (70,607) | (56,528) |
| Interest – amortization of deferred financing costs | (1,826) | (946) | (3,179) | (1,868) |
| Interest – refinancing gain (costs) | 1,016 | (2,645) | (8,361) | (4,685) |
| Total other expense | (39,051) | (33,021) | (81,947) | (63,056) |
| | | | | |
| **Income before gain on assets sold** | **35,203** | **46,817** | **78,255** | **99,763** |
| Gain on assets sold – net | 8,802 | - | 8,802 | 2,883 |
| **Income from continuing operations before income taxes** | **44,005** | **46,817** | **87,057** | **102,646** |
| Income taxes | (539) | - | (539) | - |
| **Net income** | **43,466** | **46,817** | **86,518** | **102,646** |
| **Net income attributable to noncontrolling interest** | **(2,038)** | **-** | **(2,038)** | **-** |
| **Net income available to common stockholders** | **$41,428** | **$46,817** | **$84,480** | **$102,646** |
| | | | | |
| **Net income** | **$43,466** | **$46,817** | **$86,518** | **$102,646** |
| Other comprehensive income - foreign currency translation | 2,839 | - | 2,839 | - |

| | | | | |
|---|---|---|---|---|
| **Total comprehensive income** | **46,305** | **46,817** | **89,357** | **102,646** |
| Less: comprehensive income attributable to noncontrolling interest | (133 ) | - | (133 ) | - |
| **Comprehensive income attributable to common stockholders** | **$46,172** | **$46,817** | **$89,224** | **$102,646** |
| | | | | |
| **Income per common share available to common stockholders:** | | | | |
| **Basic:** | | | | |
| Net income available to common stockholders | $0.23 | $0.37 | $0.53 | $0.82 |
| **Diluted:** | | | | |
| Net income | $0.22 | $0.37 | $0.53 | $0.81 |
| | | | | |
| Dividends declared and paid per common share | $0.18 | $0.50 | $1.07 | $0.99 |
| | | | | |
| Weighted-average shares outstanding, basic | 182,697 | 126,474 | 158,521 | 125,467 |
| Weighted-average shares outstanding, diluted | 194,482 | 127,436 | 164,644 | 126,130 |

See notes to consolidated financial statements.

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**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 Paid | Accumulated Other Comprehensive Income | Total Stockholders' Equity | Noncontrolling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2014 (127,606 common shares) | $12,761 | $2,136,234 | $1,147,998 | $(1,895,666) | $— | $1,401,327 | $— | $1,401,327 |
| Amortization of restricted stock | — | 4,483 | — | — | — | 4,483 | — | 4,483 |
| Vesting of equity compensation plan, net of tax withholdings (261 shares) | 26 | (7,008) | — | — | — | (6,982) | — | (6,982) |
| Dividend reinvestment plan (813 shares at an average of $37.07 per share) | 81 | 30,030 | — | — | — | 30,111 | — | 30,111 |
| Value of assumed options in merger/acquisition | — | 109,346 | — | — | — | 109,346 | — | 109,346 |
| Value of assumed other equity compensation plan in merger/acquisition | — | 13,219 | — | — | — | 13,219 | — | 13,219 |
| Grant of stock as payment of directors fees (4 shares at an average of $37.74 per share) | — | 137 | — | — | — | 137 | — | 137 |
| Deferred compensation directors | — | 1,291 | — | — | — | 1,291 | — | 1,291 |
| | 1,093 | 438,943 | — | — | — | 440,036 | — | 440,036 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock (10,925 shares at an average of $40.32 per share) | | | | | | | | |
| Issuance of common stock – merger – related (43,713 shares) | 4,371 | 1,776,505 | — | — | — | 1,780,876 | — | 1,780,876 |
| Common dividends declared ($1.07 per share) | — | — | — | (151,591 ) | — | (151,591 ) | — | (151,591 ) |
| OP Units issuance (9,165 units) | — | — | — | — | — | — | 373,394 | 373,394 |
| Cash conversion of OP Units (176 units) | — | — | — | — | — | — | (6,038 ) | (6,038 ) |
| OP units distributions | — | — | — | — | — | — | (1,650 ) | (1,650 ) |
| OP units earnings | — | — | — | — | — | — | 2,038 | 2,038 |
| Foreign currency translation | — | — | — | — | 2,839 | 2,839 | — | 2,839 |
| Net income | — | — | 84,480 | — | — | 84,480 | — | 84,480 |
| Balance at June 30, 2015 (183,321 shares & 8,989 OP Units) | $18,332 | $4,503,180 | $1,232,478 | $(2,047,257) | $2,839 | $3,709,572 | $367,744 | $4,077,316 |

See notes to consolidated financial statements.

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**OMEGA HEALTHCARE INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Unaudited (in thousands)**

| | Six Months Ended June 30, 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $86,518 | $102,646 |
| Adjustment to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 89,766 | 62,745 |
| Provision for impairment on real estate properties | 12,898 | 1,558 |
| Provision for uncollectible mortgages, notes and accounts receivable | (9) | 2,745 |
| Amortization of deferred financing costs and refinancing costs | 11,540 | 6,553 |
| Accretion of direct financing leases | (5,321) | (4,764) |
| Stock-based compensation | 4,483 | 4,548 |
| Gain on assets sold – net | (8,802) | (2,883) |
| Amortization of acquired in-place leases - net | (2,883) | (2,571) |
| Change in operating assets and liabilities – net of amounts assumed/acquired: | | |
| Accounts receivable, net | 1,129 | 912 |
| Straight-line rent receivables | (15,871) | (10,701) |
| Lease inducements | (328) | 1,362 |
| Effective yield receivable on mortgage notes | (2,253) | (584) |
| Other operating assets and liabilities | 22,225 | 5,189 |
| Net cash provided by operating activities | 193,092 | 166,755 |
| **Cash flows from investing activities** | | |
| Acquisition of real estate – net of liabilities assumed and escrows acquired | (183,784) | (22,000) |
| Cash acquired in merger | 84,858 | — |
| Investment in construction in progress | (15,913) | — |
| Placement of mortgage loans | (4,701) | (528,343) |
| Proceeds from sale of real estate investments | 26,846 | 3,924 |
| Capital improvements to real estate investments | (11,351) | (8,362) |
| Proceeds from other investments | 14,206 | 2,345 |
| Investments in other investments | (36,600) | (5,379) |
| Collection of mortgage principal | 1,735 | 117,522 |
| Net cash used in investing activities | (124,704) | (440,293) |
| **Cash flows from financing activities** | | |
| Proceeds from credit facility borrowings | 782,000 | 590,000 |
| Payments on credit facility borrowings | (516,000) | (646,000) |
| Receipts of other long-term borrowings | 989,822 | 594,320 |
| Payments on other long-term borrowings | (1,587,591) | (202,490) |
| Payments of financing related costs | (26,123) | (12,740) |
| Receipts from dividend reinvestment plan | 30,111 | 45,804 |
| Payments for exercised options and restricted stock – net | (6,982) | (943) |

| | | |
|---|---|---|
| Net proceeds from issuance of common stock | 440,036 | 57,152 |
| Dividends paid | (151,387) | (125,492) |
| Distributions to OP Unit Holders | (1,650) | — |
| Net cash (used in) provided by financing activities | (47,764) | 299,611 |
| | | |
| Increase in cash and cash equivalents | 20,624 | 26,073 |
| Effect of foreign currency translation on cash and cash equivalents | 41 | — |
| Cash and cash equivalents at beginning of period | 4,489 | 2,616 |
| Cash and cash equivalents at end of period | $25,154 | $28,689 |
| Interest paid during the period, net of amounts capitalized | $61,073 | $50,378 |
| | | |
| **Non-cash investing and financing activities:** | | |
| | | |
| **Non- cash investing activities** | | |
| Non-cash acquisition of business (see Note 2 for details) | $(3,602,614) | $— |
| Total | $(3,602,614) | $— |
| **Non-cash financing activities** | | |
| Assumed Aviv debt | $1,410,637 | $— |
| Stock exchanged in merger | 1,903,441 | — |
| OP Units exchanged in merger | 373,394 | — |
| Total | $3,687,472 | $— |

See notes to consolidated financial statements.

**OMEGA HEALTHCARE INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Unaudited**

**June 30, 2015**

## NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Business Overview and Organization

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

Omega was formed as a real estate investment trust ("REIT") and incorporated in the State of Maryland on March 31, 1992. In April 2015, Aviv REIT, Inc., a Maryland corporation ("Aviv"), merged (the "Aviv Merger") with and into a wholly owned subsidiary of Omega, pursuant to the terms of that certain Agreement and Plan of Merger, dated as of October 30, 2014 (the "Merger Agreement"), by and among the Company, Aviv, OHI Healthcare Properties Holdco, Inc., a Delaware corporation and a direct wholly-owned subsidiary of Omega ("Merger Sub"), OHI Healthcare Properties Limited Partnership, a Delaware limited partnership ("Omega OP"), and Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership (the "Aviv OP").

Prior to April 1, 2015 and in accordance with the Merger Agreement, Omega restructured the manner in which it holds its assets by converting to an umbrella partnership real estate investment trust structure (the "UPREIT Conversion"). As a result of the UPREIT Conversion and following the consummation of the Aviv Merger, substantially all of the Company's assets are held by Omega OP.

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"). Pursuant to the Partnership Agreement, the Company and Merger Sub are the general partners of Omega OP, and have exclusive control over

Omega OP's day-to-day management. As of June 30, 2015, the Company owned approximately 95% of the issued and outstanding units of partnership interest in Omega OP ("Omega OP Units"), and investors owned approximately 5% of the Omega OP Units.

**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. The results of operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year. 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) Omega OP, and (iii) all direct and indirect wholly owned subsidiaries of Omega. All intercompany transactions and balances have been eliminated in consolidation, and our net earnings are reduced by the portion of net earnings attributable to noncontrolling interests.

**Goodwill**

Goodwill represents a purchase price in excess of the fair value of assets acquired and liabilities assumed and the cost associated with expanding our portfolio. Goodwill is not amortized. 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 entity. In evaluating goodwill for impairment, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the entity is less than its carrying amount. If we conclude that it is more likely than not that the fair value of the entity is less than its carrying value, then we perform a two-step goodwill impairment test to identify potential impairment and measure the amount of impairment we will recognize, if any. We do not expect any of the goodwill to be deductible for tax purposes.

**Redeemable Limited Partnership Unitholder Interests and Noncontrolling Interests**

As of April 1, 2015 and after giving effect to the Aviv Merger, the Company owned approximately 138.8 million Omega OP Units and Aviv OP owned approximately 52.9 million Omega OP Units. Each of the Omega OP Units (other than the Omega OP Units owned by Omega) is redeemable at the election of the Omega OP Unit holder for cash equal to the then-fair market value of one share of Omega common stock, par value $0.10 per share ("Omega Common Stock"), subject to the Company's election to exchange the Omega OP Units tendered for redemption for unregistered shares of Omega Common Stock on a one-for-one basis, subject to adjustment as set forth in the Partnership Agreement. Effective June 30, 2015, the Company (through Merger Sub, in its capacity as the general partner of Aviv OP) caused Aviv OP to make a distribution of Omega OP Units held by Aviv OP (or equivalent value) to Aviv OP investors (the "Aviv OP Distribution") in connection with the liquidation of Aviv OP. As a result of the Aviv OP Distribution, Omega directly and indirectly owns approximately 95% of the outstanding Omega OP Units, and the other investors own approximately 5% of the outstanding Omega OP Units. As a part of the Aviv OP Distribution, Omega settled approximately 0.2 million units via cash settlement.

**Noncontrolling Interests**

Noncontrolling interests is the portion of equity in a subsidiary not attributable to a parent. 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, on our Consolidated Balance Sheets. Income attributable to the entity's parent is included in net income attributable to common stockholders on our Consolidated Statements of Operations and Comprehensive Income. In addition, we include net income attributable to the noncontrolling interests in net income in our Consolidated Statements of Operations and Comprehensive Income.

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.

**Foreign Operations**

The U.S. dollar is the functional currency for our consolidated subsidiaries operating in the United States. The functional currency for our consolidated subsidiaries operating in countries other than the United States is the principal currency in which the entity primarily generates and expends cash. For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into the U.S. dollar. We translate assets and liabilities at the exchange rate in effect as of the financial statement date. The resulting translation adjustments are included in Accumulated Other Comprehensive Income ("AOCI") in the Consolidated Balance Sheets. Certain balance sheet items, primarily equity and capital-related accounts, are reflected at the historical exchange rate. Revenue and expense accounts are translated using an average exchange rate for the period.

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 and then the adjustments are included in AOCI.

**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 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 are amortized as a reduction of rental revenue over the non-cancellable lease term.

On a quarterly basis, 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 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 or existence of lease inducements, we generally provide an allowance for straight-line accounts receivable and/or the lease inducements when certain conditions or indicators of adverse collectability are present.

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

| | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| | (in thousands) | |
| Contractual receivables | $7,374 | $4,799 |
| Effective yield interest receivables | 8,485 | 6,232 |
| Straight-line receivables | 159,314 | 143,652 |

| | | |
|---|---|---|
| Lease inducements | 13,899 | 13,571 |
| Allowance | (35 ) | (78 ) |
| Accounts receivable – net | $189,037 | $168,176 |

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.

**Recent Accounting Pronouncements**

In 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. ASU 2014-09 is effective for the Company beginning January 1, 2018. We are continuing to evaluate this guidance; however, we do not expect its adoption to have a significant impact on our consolidated financial statements, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU 2014-09.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (“ASU 2015-02”), which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU 2015-02 is effective for us beginning January 1, 2016. We are continuing to evaluate this guidance; however, we do not expect its adoption to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. Upon adoption, we will apply the new guidance on a retrospective basis and adjust the balance sheet of each individual period presented to reflect the period-specific effects of applying the new guidance. This guidance is effective for us beginning January 1, 2016. We are continuing to evaluate this guidance; however, we do not expect its adoption to have a significant impact on our consolidated financial statements.

**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.

**Leased Property**

Our leased real estate properties, represented by 775 SNFs, 81 assisted living facilities (“ALFs”), 16 specialty facilities and one medical office building at June 30, 2015, 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.

*Acquisition of Care Homes in the United Kingdom in Q2 2015*

On May 1, 2015, we closed on a purchase/leaseback transaction (the "Care Homes Transaction") for 23 care homes located in the United Kingdom and operated by Healthcare Homes Holding Limited ("Healthcare Homes"). As part of the transaction, we acquired title to the 23 care homes with 1,018 registered beds and leased them back to Healthcare Homes pursuant to a 12-year master lease agreement with an initial annual cash yield of 7%, and annual escalators of 2.5%. The care homes, comparable to US ALFs, are located throughout the East Anglia region (north of London) of the United Kingdom. Healthcare Homes is headquartered in Colchester (Essex County), England. We recorded approximately $193.8 million of assets consisting of land ($20.7 million), building and site improvements ($152.1 million), furniture and fixtures ($5.3 million) and goodwill ($15.7 million). The Company's estimated fair values of the care homes' assets acquired and liabilities assumed at the date of acquisition are determined based on certain valuations and analyses that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed above, are subject to adjustment once the analyses are completed.

In 2015, the Company has incurred approximately $3.2 million in acquisition related costs associated with the Care Homes Transaction.

*Aviv Merger in Q2 2015*

On April 1, 2015, the Company closed the Aviv Merger, which was structured as a stock-for-stock merger. Under the terms of the Merger Agreement, each outstanding share of Aviv common stock was converted into 0.90 of a share of Omega common stock. In connection with the Aviv Merger, Omega issued approximately 43.7 million shares of common stock to former Aviv stockholders and holders of certain vested equity incentive awards of Aviv. As a result of the Aviv Merger, Omega acquired 342 facilities, two facilities subject to direct financing leases, one medical office building and three mortgages. The facilities are located in 31 states and are operated by 38 third-party operators. Omega also assumed certain outstanding equity awards and other debt and liabilities. Based on the closing price of Omega's common stock on April, 1, 2015, we estimate the fair value of the consideration exchanged or assumed to be approximately $3.8 billion. The Company's estimated fair values of Aviv's assets acquired and liabilities assumed on the Aviv Merger date are determined based on certain valuations and analyses that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed below, are subject to adjustment once the analyses are completed.

The following table highlights the preliminary allocation of the assets acquired and liabilities assumed on April 1, 2015:

| | (in thousands) |
|---|---|
| Estimated fair value of assets acquired: | |
| Land and buildings | $3,125,660 |
| Investment in direct financing leases | 26,823 |
| Mortgages notes receivable | 31,278 |
| Other investments | 11,590 |
| Total investments | 3,195,351 |
| Goodwill | 526,807 |
| Accounts receivables and other assets | 15,127 |
| Cash acquired | 84,858 |
| Fair value of total assets acquired | $3,822,143 |
| | |
| Estimated fair value of liabilities assumed: | |
| Accrued expenses and other liabilities | $134,671 |
| Debt | 1,410,637 |
| Fair value of total liabilities assumed | 1,545,308 |
| | |
| Value of shares and OP units exchanged[(a)] | 2,276,835 |

| | |
|---|---|
| Fair value of consideration | $3,822,143 |

(a) Includes the fair value of stock compensation plans assumed.

In 2015, the Company has incurred approximately $48.5 million in acquisition related costs associated with the Aviv Merger.

*$6.8 Million New Investment in Q1 2015*

On January 28, 2015, we purchased one SNF from an unrelated third party for approximately $6.3 million in cash and leased it to an existing operator. The purchase and sale agreement includes a provision that requires us to make an additional payment of $0.5 million to the seller if certain financial metrics of the facility are achieved. We recorded the potential $0.5 million payment as part of the purchase price. The 93 bed SNF, located in Texas, was added to the operator's existing master lease with an initial annual cash yield of 9.5%. We recorded approximately $6.8 million consisting of land ($0.1 million), building and site improvements ($6.1 million), and furniture and fixtures ($0.6 million). We have not recorded goodwill in connection with this transaction.

*Pro Forma Acquisition Results*

The facilities acquired in 2015 and 2014 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect the impact of acquisitions from the first two quarters of 2015 and 2014 as if they occurred on January 1, 2014. For a list of the 2014 transactions, refer to Note 3 – Properties in our 2014 Form 10-K. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisitions have been made.

| | **Pro Forma Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | (in thousands, except per share amounts, unaudited) | | | |
| Pro Forma Revenues | $198,929 | $188,239 | $396,107 | $375,766 |
| Pro Forma Net income | $43,853 | $67,359 | $106,447 | $143,791 |
| Earnings per share – diluted: | | | | |
| Net income – as reported | $0.22 | $0.37 | $0.53 | $0.81 |
| Net income – pro forma | $0.23 | $0.37 | $0.65 | $0.79 |

**Asset Sales, Impairments and Other**

In the first quarter of 2015, we initiated plans to construct a new single facility with an existing operator that would consolidate and replace three existing facilities. As a result, we recorded a total of $6.0 million in impairment charges related to three Florida SNFs to reduce their net book values to their estimated sales price. During the second quarter of 2015, we recorded an impairment of $6.9 million for a facility in Tennessee that is expected to be closed in the third quarter. To estimate the fair value of the facilities, we utilized a market approach and Level 3 inputs.

In the second quarter of 2015, we sold four facilities for total cash proceeds of $26.6 million, generating a gain of approximately $8.8 million. Two of the facilities sold were the result of lessees exercising their purchase option.

**NOTE 3 – DIRECT FINANCING LEASES**

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in thousands) | |
| Minimum lease payments receivable | $4,291,061 | $4,244,067 |
| Estimated residual values | — | — |
| Less unearned income | (3,719,684) | (3,704,835) |
| Investments in direct financing leases | $571,377 | $539,232 |
| | | |
| Properties subject to direct financing leases | 58 | 56 |

*New Ark Investment Inc.*

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"), 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 lease agreements allow the tenant the right to purchase the facilities for a bargain purchase price plus closing costs at the end of the lease term. In addition, commencing in the 41st year of each lease, the tenant will have the right to prepay the remainder of its obligations thereunder for an amount equal to the sum of the unamortized portion of the original aggregate $529 million investment plus the net present value of the remaining payments under the lease and closing costs. In the event the tenant exercises either of these options, we have the right to purchase the properties for fair market value at the time.

The 56 facilities represent 5,623 licensed beds located in 12 states, predominantly in the southeastern United States. The 56 facilities are separated by region and divided amongst four cross-defaulted master leases. The four regions include the Southeast (39 facilities), the Northwest (7 facilities), Texas (9 facilities) and Indiana (1 facility).

Additionally, in 2014 we purchased 3 facilities and subsequently leased them to New Ark under a twelve-year master lease expiring in 2026. These leases are being accounted for as operating leases.

*Aviv Merger*

On April 1, 2015, the Company acquired two additional direct financing leases as a result of the Aviv Merger.

As of June 30, 2015, the following minimum rents are due under our direct financing leases for the next five years (in thousands):

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|
| $49,345 | $49,623 | $50,529 | $51,782 | $53,060 |

**NOTE 4 - MORTGAGE NOTES RECEIVABLE**

As of June 30, 2015, mortgage notes receivable relate to 23 fixed-rate mortgages on 58 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 eight states, operated by eight 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.

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.

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in thousands) | |
| Mortgage note due 2015; interest at 8.35% | $6,514 | $— |
| Mortgage note due 2015; interest at 6.50% | 763 | — |
| Two mortgage notes due 2018; interest at 11.00% | 13,652 | — |
| Mortgage note due 2018; interest at 12.00% | 1,028 | — |
| Mortgage note due 2020; interest at 8.00% | 3,974 | — |
| Mortgage note due 2021; interest at 10.00% | 1,090 | — |
| Mortgage note due 2021; interest at 10.51% | 3,194 | 1,326 |
| Four mortgage notes due 2022; interest at 12.00% | 7,460 | 7,395 |
| Mortgage note due 2023; interest at 9.00% | 5,468 | — |
| Mortgage note due 2023; interest at 11.00% | 69,928 | 69,928 |
| Mortgage note due 2024; interest at 9.64% | 112,500 | 112,500 |
| Two mortgage notes due 2029; interest at 10.00% | 417 | — |
| Mortgage note due 2029; including interest at 9.00% | 413,987 | 414,550 |
| Mortgage note due 2030; interest at 10.82% | 15,780 | 15,880 |
| Four mortgage notes due 2046; interest at 12.00% | 26,500 | 26,500 |
| Mortgage notes receivable, gross | 682,255 | 648,079 |
| Allowance for loss on mortgage notes receivable | — | — |
| Total mortgages — net | $682,255 | $648,079 |

The following is a brief overview of the new mortgages entered into or assumed in 2015 or significant changes to mortgages previously reported.

*Mortgage note due 2015*

On April 1, 2015 in connection with the Aviv Merger, we acquired a loan from Aviv with a fair value of approximately $6.5 million. The loan is with a new operator and is secured by a lien on a 79 bed SNF located in Tennessee and a 32 bed SNF located in Missouri. The loan bears interest at 8.35% per year and matures in 2015.

*Mortgage note due 2018*

On April 1, 2015 in connection with the Aviv Merger, we acquired a loan from Aviv with a fair value of approximately $12.6 million. The loan is with a new operator and is secured by a lien on a 100 bed SNF located in Ohio. The loan bears interest at 11% per year which increases by 2% per year and matures in 2018.

*Mortgage note due 2020*

On April 1, 2015 in connection with the Aviv Merger, we acquired a loan from Aviv with a fair value of approximately $4.0 million. The loan is with a new operator and is secured by a lien on a 32 bed SNF located in Missouri, a 49 bed SNF located in Missouri and a 79 bed SNF located in Tennessee. The loan bears interest at 8% per year and matures in 2020.

*Mortgage note due 2021*

In September 2014, we entered into a $3.5 million mortgage loan with an existing operator. The loan is secured by a lien on a 120 bed SNF located in Michigan. As of June 30, 2015 approximately $1.1 million has been drawn on the note. The loan bears an initial annual cash interest rate of 10.0% per year and increases by 0.25% per year. The mortgage loan is used to fund renovations and matures in 2021.

*Mortgage note due 2023*

On April 1, 2015 in connection with the Aviv Merger, we acquired a loan from Aviv with a fair value of approximately $5.5 million. The loan is with a new operator and is secured by a leasehold interest in a SNF located in Ohio. The loan bears interest at 9% per year and matures in 2023.

**NOTE 5 – OTHER INVESTMENTS**

A summary of our other investments is as follows:

| | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| | (in thousands) | |
| Other investment note due 2014 | $— | $ 1,640 |
| Other investment notes due 2015; interest at 9.50% | 341 | 891 |
| Other investment notes due 2015; interest at 10.00% | 5,439 | 5,439 |
| Other investment note due 2016; interest at 7.25% | 884 | — |
| Other investment note due 2016; interest at 10.00% | 32 | — |
| Other investment notes due 2017; interest at 10.00% | 23,363 | 24,800 |
| Other investment note due 2018; interest at 10.00% | 179 | — |
| Other investment note due 2020; interest at 7.50% | 4,707 | — |
| Other investment note due 2020; interest at 8.00% | 656 | — |
| Other investment note due 2021; interest at 7.00% | 78 | — |
| Other investment note due 2021; interest at 11.04% | 992 | 1,053 |
| Other investment note due 2022; interest at 10.77% | 2,022 | 2,110 |
| Other investment notes due 2022; interest at 11.04% | 3,881 | 4,062 |
| Other investment note due 2023; interest at 10.00% | 1,000 | 1,000 |
| Other investment notes due 2023; interest at 10.25% | 1,117 | — |
| Other investment notes due 2023; interest at 10.51% | 2,561 | 1,942 |
| Other investment notes due 2023; interest at 10.77% | 6,956 | 5,705 |
| Other investment notes due 2023; interest at 11.04% | 298 | 310 |
| Other investment note due 2030; interest at 6.66% | 28,449 | — |
| Notes receivable, gross | 82,955 | 48,952 |
| Allowance for loss on notes receivable | — | — |
| Total other investments | $82,955 | $ 48,952 |

The following is a brief overview of the new notes entered into or assumed in 2015 or significant changes to notes previously reported.

*Other Investment note due 2014*

The $2.5 million working capital note that we entered into in May 2013 at 6% interest rate with an existing operator was paid off in March 2015.

*Other Investment note due 2030*

On June 30, 2015, we entered into a $50.0 million revolving credit facility with a new operator. The note bears interest at 6.66% and matures in May 2030.

**NOTE 6 – ASSETS HELD FOR SALE**

| | Properties Held For Sale | |
|---|---|---|
| | Number of Properties | Net Book Value (in thousands) |
| December 31, 2014 [1] | 4 | $ 12,792 |
| Properties sold | — | — |
| Properties added | 1 | 4,085 |
| March 31, 2015 [2] | 5 | 16,877 |
| Properties sold | (2) | (6,973) |
| Properties added | 1 | 5,999 |
| June 30, 2015 [3] | 4 | $ 15,903 |

(1) Includes one parcel of land and three facilities.

(2) Includes one parcel of land and four facilities.

(3) Includes one parcel of land and three facilities.

In the first quarter of 2015, we reclassified one SNF in Alabama with a carrying value of approximately $4.1 million to assets held for sale. During the second quarter of 2015, the operator of the facility exercised their purchase option and purchased the facility for approximately $9.0 million.

In the second quarter of 2015, we reclassified one SNF in Pennsylvania with a carrying value of approximately $6.0 million to assets held for sale. See also, Note 2 Asset Sales, Impairments and Other.

**NOTE 7 – INTANGIBLES**

The following is a summary of our intangibles as of June 30, 2015 and December 31, 2014:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|

| | (in thousands) | |
|---|---|---|
| Assets: | | |
| Above market lease intangibles | $21,629 | $ 14,576 |
| In-place lease intangibles | 386 | — |
| Goodwill | 543,093 | — |
| Accumulated amortization | (13,010 ) | (12,166 ) |
| Net intangible assets | $552,098 | $ 2,410 |
| | | |
| Liabilities: | | |
| Below market lease intangibles | $83,321 | $ 57,054 |
| Accumulated amortization | (40,327 ) | (36,620 ) |
| Net intangible liabilities | $42,994 | $ 20,434 |

Above market lease intangibles and in-place lease intangibles, net of accumulated amortization, are included in other assets on our Consolidated Balance Sheets. Below market lease intangibles are included in accrued expenses and other liabilities on our Consolidated Balance Sheets. Goodwill was recorded in connection with the Aviv and Care Homes transactions and is shown as a separate line on our Consolidated Balance Sheets.

For the three and six months ended June 30, 2015 and 2014, our net amortization related to these intangibles was $1.7 million, $1.3 million, $2.9 million and $2.6 million, respectively. The estimated net amortization related to these intangibles for the remainder of 2015 and the subsequent four full years is as follows: remainder of 2015 – $2.9 million; 2016 – $4.9 million; 2017 – $3.9 million; 2018 – $3.7 million; and 2019 – $3.9 million.

**NOTE 8 – CONCENTRATION OF RISK**

As of June 30, 2015, our portfolio of real estate investments consisted of 936 healthcare facilities, located in 41 states and operated by 84 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $7.8 billion at June 30, 2015, with approximately 99% of our real estate investments related to long-term care facilities. Our portfolio is made up of 775 SNFs, 81 ALFs, 16 specialty facilities, one medical office building, fixed rate mortgages on 56 SNFs and two ALFs, and five SNFs that are closed/held-for-sale. At June 30, 2015, we also held miscellaneous investments of approximately $83.0 million, consisting primarily of secured loans to third-party operators of our facilities.

The three states in which we had our highest concentration of investments were Ohio (10%), Texas (9%) and Florida (8%), at June 30, 2015.

**NOTE 9 – DIVIDENDS AND EQUITY**

On July 15, 2015, the Board of Directors declared a common stock dividend of $0.55 per share, increasing the quarterly common dividend rate by $0.01 per share over the prior quarter. The common stock dividend is payable on August 17, 2015 to common stockholders of record as of the close of business on July 31, 2015.

On April 15, 2015, the Board of Directors declared a prorated dividend of $0.18 per share of Omega's common stock in view of the recently closed Aviv Merger. The per share dividend amount payable by Omega represents dividends for April 2015, at a quarterly dividend rate of $0.54 per share of common stock, increasing the quarterly common dividend rate by $0.01 per share over the prior quarter. The $0.18 dividend was paid in cash on May 15, 2015 to stockholders of record as of the close of business on April 30, 2015.

On March 5, 2015, the Board of Directors declared a prorated dividend of $0.36 per share of Omega's common stock in view of the pending acquisition of Aviv, pursuant to the Aviv Merger. The per share dividend amount represented dividends for February and March 2015, at a quarterly dividend rate of $0.54 per share of common stock, increasing the quarterly common dividend rate by $0.01 per share over the prior quarter. The dividend was paid in cash on April 7, 2015 to stockholders of record as of the close of business on March 31, 2015.

On January 14, 2015, the Board of Directors declared a common stock dividend of $0.53 per share, increasing the quarterly common dividend rate by $0.01 per share over the prior quarter, which was paid February 16, 2015 to common stockholders of record on February 2, 2015.

*Increase of Authorized Omega Common Stock*

On March 27, 2015, we amended our charter to increase the number of authorized shares of Omega capital stock from 220 million to 370 million and the number of authorized shares of Omega common stock from 200 million to 350 million.

*10.925 Million Common Stock Offering*

On February 9, 2015, we completed an underwritten public offering of 10.925 million shares of our common stock at $42.00 per share before underwriting and other offering expenses. The Company's total net proceeds from the offering were approximately $440 million, after deducting underwriting discounts and commissions and other estimated offering expenses.

*Dividend Reinvestment and Common Stock Purchase Plan*

For the three-month period ended June 30, 2015, approximately 0.7 million shares of our common stock at an average price of $36.46 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for gross proceeds of approximately $24.7 million. For the six-month period ended June 30, 2015, approximately 0.8 million shares of our common stock at an average price of $37.07 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for gross proceeds of approximately $30.1 million.

See also, Note 2 Properties and Investments, for stock activity associated with the Aviv Merger.

**NOTE 10 – TAXES**

Since our inception, we have elected to be taxed as a real estate investment trust ("REIT") under the applicable provisions of the Internal Revenue Code (the "Code"). 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. On a quarterly and annual basis, we test our compliance within the REIT taxation rules to ensure that we are in compliance with the REIT rules. We review our distributions and projected distributions each year to ensure we have met and will meet the annual REIT distribution requirements. In 2014 and 2013, we distributed dividends in excess of our taxable income. In 2015, we expect to distribute dividends in excess of our taxable income.

As a result of our UPREIT Conversion, our Company and its subsidiaries may be subject to income or franchise taxes in certain states and municipalities. Also, as a result of our UPREIT Conversion, we created five subsidiary REITs that will be subject to all of the REIT qualification rules set forth in the Code.

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 also elected for four of our subsidiaries to be treated as TRSs. Three of our TRSs are subject to federal, state and local income taxes at the applicable corporate rates and the fourth is subject to foreign income taxes. As of June 30, 2015, one of our TRSs had a net operating loss carry-forward of approximately $1.0 million. The loss carry-forward is fully reserved with a valuation allowance as of June 30, 2015.

In connection with our acquisitions of Care Homes in May 2015, we acquired 10 legal entities consisting of 23 facilities. The tax basis in these legal entities acquired for United Kingdom taxes was approximately $82 million less than the purchase price. We recorded a preliminary initial deferred tax liability associated with the temporary tax basis difference of approximately $16 million.

During the second quarter of 2015, we recorded state and local income tax provision of approximately $0.4 million and provision for foreign income taxes of approximately $0.2 million.

**NOTE 11 – STOCK-BASED COMPENSATION**

The following is a summary of our stock-based compensation expense for the three- and six-month periods ended June 30, 2015 and 2014, respectively:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | (in thousands) | | | |
| Stock-based compensation expense | $2,873 | $2,285 | $ 4,483 | $ 4,548 |

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***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 employment or a change in control of the Company. Prior to vesting, ownership of the shares/units cannot be transferred. The 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.

The RSUs assumed from Aviv as part of the Aviv Merger were valued at the closing price of our stock on the date of the transaction. The portion of the vesting accruing prior to the acquisition was recorded as part of the purchase price consideration. The expense associated with the vesting that will occur after the date of the transaction will be recorded as stock compensation expense ratably over the remaining life of the RSUs.

We awarded the following RSUs to employees or assumed them in the Aviv Merger.

| **Grant Assumption Date** | **RSUs Granted** |
|---|---|
| 12 /31/2013 RSUs | 213,741 |
| 1 /1/2014 RSUs | 122,137 |
| 3 /31/2015 RSUs | 123,693 |
| 4 /1/2015 RSUs | 39,914 |
| 4 /1/2015 Assumed 2015 RSUs | 10,644 |
| 4 /1/2015 Assumed 2016 RSUs | 19,825 |
| 4 /1/2015 Assumed Multi-year RSUs | 7,799 |
| | 537,753 |

*December 31, 2013 RSUs* - These RSUs vest ratably over the three year period ended December 31, 2014, 2015 and 2016 respectively, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. In December 2014, 71,247 shares of restricted stock vested and were distributed to employees.

*January 1, 2014 RSUs* - These RSUs cliff vest on December 31, 2016 subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*March 31, 2015 RSUs* - These RSUs cliff vest on December 31, 2017 subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*April 1, 2015 RSUs* - These RSUs cliff vest on December 31, 2017 subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*April 1, 2015 Assumed 2015 RSUs* - These RSUs were assumed in the Aviv Merger and cliff vest on December 31, 2015 subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*April 1, 2015 Assumed 2016 RSUs* - These RSUs were assumed in the Aviv Merger and cliff vest on December 31, 2016 subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*April 1, 2015 Assumed Multi-year RSUs* - These RSUs were assumed in the Aviv Merger and vest ratably over the periods ended December 31, 2015, 2016 and 2017 respectively, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

***Performance Restricted Stock Units and LTIP Units***

Performance restricted stock units ("PRSUs") and 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 awarded in January 2011, January 2013, December 2013, January 2014, and the LTIP Units awarded in March 2015 and April 2015 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 is convertible into one Omega OP Unit in Omega OP, subject to certain conditions). The vesting requirements are based on either the (i) total shareholders return ("TSR") of Omega or (ii) Omega's TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index ("Relative TSR"). 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. The dividends on the PRSUs accumulate and if vested are paid when the shares are distributed to the employee. 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 the following TSR PRSUs and LTIP Units to employees:

| **Name** | **Grant Date** | **PRSUs Granted** | **Performance Period (a)** |
|---|---|---|---|
| 2013 Multi-Year TSR | 1/1/2011 | 279,552 | 12/31/2011-12/31/2013 |
| 2014 Transition TSR | 12/31/2013 | 77,371 | 12/31/2013-12/31/2014 |
| 2015 Transition TSR | 12/31/2013 | 77,369 | 12/31/2013-12/31/2015 |
| 2016 Transition TSR | 12/31/2013 | 115,785 | 12/31/2013-12/31/2016 |
| 2016 TSR | 1/1/2014 | 154,584 | 1/1/2014-12/31/2016 |
| 2017 LTIP Units | 3/31/2015 | 154,716 | 1/1/2015-12/31/2017 |
| 2017 LTIP Units | 4/1/2015 | 54,151 | 1/1/2015-12/31/2017 |
| | | 913,528 | |

*(a) The performance period is the period indicated.*

*2013 Multi-Year TSR* - In January 2014, our Compensation Committee reviewed the performance and determined the performance targets were met at the "high" level. The 2013 Multi-Year TSR vested and were distributed 25% per quarter on the last day of each calendar quarter in 2014.

*2014 Transition TSR* - In January 2015, our Compensation Committee reviewed the performance and determined the performance targets were met at the “high” level and the shares were distributed in January 2015.

*2015 Transition TSR* - The number of 2015 Transition TSR PRSUs that are earned based on performance vest on December 31, 2015, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2016 Transition TSR* - The 2016 number of Transition TSR PRSUs that are earned based on performance vest on December 31, 2016, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2016 TSR* - The 2016 number of TSR PRSUs that are earned based on performance vest quarterly in 2017 in equal increments at the end of each quarter, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2017 LTIP Units* - The number of 2017 LTIP Units that are earned based on performance vest quarterly in 2018 in equal increments, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

The number of shares earned under the Relative TSR PRSUs depended generally on the level of achievement of Omega's TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index over the performance period indicated. We awarded the following Relative TSR PRSUs to employees:

| **Name** | **Grant Date** | **PRSUs Granted** | **Performance Period** |
|---|---|---|---|
| 2013 Relative TSR | 1/1/2011 | 93,183 | 12/31/2011-12/31/2013 |
| 2014 Transition Relative TSR | 12/31/2013 | 77,371 | 12/31/2013-12/31/2014 |
| 2015 Transition Relative TSR | 12/31/2013 | 77,368 | 12/31/2013-12/31/2015 |
| 2016 Transition Relative TSR | 12/31/2013 | 115,781 | 12/31/2013-12/31/2016 |
| 2016 Relative TSR | 1/1/2014 | 154,584 | 1/1/2014-12/31/2016 |
| 2017 Relative TSR | 3/31/2015 | 154,716 | 1/1/2015-12/31/2017 |
| 2017 Relative TSR | 4/1/2015 | 54,151 | 1/1/2015-12/31/2017 |
| | | 727,154 | |

*2013 Relative TSR* - In January 2014, our Compensation Committee reviewed the performance and determined the performance targets were met at the "high" level. The 2013 Relative TSR PRSUs vested and were distributed 25% per quarter on the last day of each calendar quarter in 2014.

*2014 Transition Relative TSR* - The 2014 Transition Relative TSR PRSUs vested on December 31, 2014. In January 2015, our Compensation Committee reviewed the performance and determined that 61,769 shares were earned. The shares were distributed in January 2015.

*2015 Transition Relative TSR* - The number of 2015 Transition Relative TSR PRSUs that are earned based on performance vest on December 31, 2015, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2016 Transition Relative TSR* - The number of 2016 Transition Relative TSR PRSUs that are earned based on performance vest on December 31, 2016, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2016 Relative TSR* - The number of 2016 Relative TSR PRSUs that are earned based on performance vest quarterly in 2017 in equal increments, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

*2017 Relative TSR* - The number of 2017 Relative TSR PRSUs that are earned based on performance vest quarterly in 2018 in equal increments, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

The following table summarizes our total unrecognized compensation cost as of June 30, 2015 associated with outstanding restricted stock, restricted stock units, 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)** | **Weighted Average Period of Expense Recognition (in months)** | **Unrecognized Compensation Cost (in millions)** |
|---|---|---|---|---|---|---|
| Restricted stock units | 2013 | 142,494 | $ 29.80 | $ 4.2 | 36 | $ 3.2 |
| 2015 Transition TSR | 2013 | 77,369 | 7.48 | 0.6 | 24 | 0.1 |
| 2016 Transition TSR | 2013 | 115,785 | 8.67 | 1.0 | 36 | 0.5 |
| 2015 Transition Relative TSR | 2013 | 77,368 | 13.06 | 1.0 | 24 | 0.3 |
| 2016 Transition Relative TSR | 2013 | 115,781 | 14.25 | 1.7 | 36 | 0.8 |
| Restricted stock units | 2014 | 122,137 | 29.80 | 3.6 | 36 | 1.8 |
| 2016 TSR | 2014 | 154,584 | 8.67 | 1.3 | 48 | 0.8 |
| 2016 Relative TSR | 2014 | 154,584 | 14.25 | 2.2 | 48 | 1.4 |
| 2017 Restricted stock units | 2015 | 123,693 | 40.57 | 5.0 | 33 | 4.6 |
| 2017 LTIP Units | 2015 | 154,716 | 14.66 | 2.3 | 45 | 2.1 |
| 2017 Relative TSR | 2015 | 154,716 | 22.50 | 3.5 | 45 | 3.2 |
| 2017 Restricted stock units | 2015 | 39,914 | 40.74 | 1.6 | 33 | 1.5 |
| 2017 LTIP Units | 2015 | 54,151 | 14.45 | 0.8 | 45 | 0.7 |
| 2017 Relative TSR | 2015 | 54,151 | 22.91 | 1.2 | 45 | 1.2 |
| Restricted stock units | 2015 | 10,644 | 12.36 | 0.1 | 9 | 0.1 |
| Restricted stock units | 2015 | 19,825 | 24.92 | 0.5 | 21 | 0.4 |
| Restricted stock units | 2015 | 7,799 | 35.08 | 0.3 | 33 | 0.2 |
| Total | | 1,579,711 | $ 19.63 | $ 30.9 | | $ 22.9 |

We used a Monte Carlo model to estimate the fair value for PRSUs and the LTIP Units granted to the employees.

**Director Restricted Stock Grants**

As of June 30, 2015, we had 23,649 shares of restricted stock outstanding to directors. The directors' restricted shares are scheduled to vest over the next three years. As of June 30, 2015, the unrecognized compensation cost associated with outstanding director restricted stock grants is approximately $0.4 million.

## NOTE 12 – BORROWING ACTIVITIES AND ARRANGEMENTS

**Secured and Unsecured Borrowings**

The following is a summary of our long-term borrowings:

| | **Maturity** | **Rate as of June 30, 2015** | | **June 30, 2015** | **December 31, 2014** |
|---|---|---|---|---|---|
| | | | | (in thousands) | |
| Secured borrowings: | | | | | |
| GE Term loan | 2019 | 4.00 | % | $180,000 | $— |
| HUD mortgages assumed June 2010[1] | 2040 - 2045 | — | | — | 126,319 |
| HUD mortgages assumed October 2011[1] | 2036 | 4.91 | % | 26,253 | 26,658 |
| HUD mortgages assumed December 2011[1] | 2044 | 3.06 | % | 56,815 | 57,416 |
| HUD mortgages assumed December 2012[1] | 2041 | — | | — | 41,061 |
| Total secured borrowings | | | | 263,068 | 251,454 |

Unsecured borrowings: