

OMEGA HEALTHCARE INVESTORS INC
Form DEF 14A
January 25, 2002

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by Registrant /x/
Filed by a Party other than the Registrant //

Check the appropriate box:

- // Preliminary Proxy Statement
- // **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- /x/ Definitive Proxy Statement
- // Definitive Additional Materials
- // Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

OMEGA HEALTHCARE INVESTORS, INC.

(Name of Registrant as Specified in Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- /x/ No fee required.
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- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093
(410) 561-5726

January 25, 2002

To Our Stockholders:

On October 30, 2001, we announced a plan to raise \$50 million in new equity capital from our current stockholders. The purpose of such offering is to satisfy the conditions to the modification of our revolving credit facilities and to enhance our ability to repay approximately \$98 million in debt maturing during the first half of 2002. We reached agreements with the bank groups under both our credit facilities on December 21, 2001. These agreements, which become effective upon the closing of these transactions, will modify and/or waive certain financial covenants with which we were not in compliance. We expect to use the proceeds from the offering to repay a portion of the maturing debt and for working capital and other general corporate purposes. We need you, as stockholders, to approve certain matters relating to these transactions, as further described in these proxy materials. A copy of the prospectus describing these transactions has been sent separately to stockholders of record as of January 22, 2002. The essential components of these transactions are as follows:

Rights Offering. We are conducting a rights offering pursuant to which holders of our common stock will have the opportunity to purchase their pro rata percentage of additional shares of our common stock in an aggregate amount equal to \$26.4 million. The enclosed proxy solicitation materials relate solely to the special meeting of stockholders to be held on February 18, 2002. The prospectus and subscription materials relating to our rights offering have been sent separately to stockholders of record as of January 22, 2002. **To exercise your rights, you must follow the procedures set forth in the separate prospectus and subscription materials.**

Explorer's Investment Commitment. Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offering, Explorer has agreed to purchase \$23.6 million of our stock in a private placement concurrent with the closing of the rights offering, at the same price per common share as in this rights offering. The amount that Explorer has committed to invest in the private placement represents its pro rata portion, with respect to shares of our Series C preferred stock and common stock it holds, of the \$50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of \$50 million in gross proceeds upon the

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completion of the rights offering and the private placement to Explorer. The shares to be issued to Explorer are not registered as a part of the rights offering and will be restricted securities under the Securities Act of 1933. We are seeking your approval to issue shares of common stock to Explorer because Explorer is an affiliate of ours and the rules of the New York Stock Exchange require that stockholders approve any sale of this amount of voting capital stock to an affiliate and issuance of securities that may result in a change of control of the company. If stockholders have not approved the sale of common stock to Explorer at the time we close the rights offering and Explorer's investment, we will sell Explorer shares of non-voting Series D preferred stock in lieu of our common stock. The Series D preferred stock will automatically convert into common stock upon receipt of stockholder approval or the waiver by the New York Stock Exchange of its stockholder approval requirement.

Amendment of Agreements with Explorer. As a condition to Explorer's investment, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company.

These amendments will be effective as of the closing of Explorer's new investment. The effect of these amendments is generally to remove those provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our stock and from taking certain actions without the prior approval of our Board of Directors. The proposed amendment to the terms of our Series C preferred stock also requires stockholder approval. The Explorer agreements and the negotiated changes are described in more detail under "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 and "Modifications to Agreements with Explorer" on page 30 of the accompanying Proxy Statement.

These transactions were referred to a special committee comprised solely of directors who are not affiliated with Explorer. This special committee unanimously recommended the proposed transactions to the Board of Directors. The Board believes these transactions are the best alternative available to address our current capital needs. Our Board of Directors also received a written opinion from Shattuck Hammond Partners LLC, an independent financial advisor, that as of October 29, 2001, the date of their opinion, the financial terms of the investment agreement with Explorer, taken as a whole, are fair to us from a financial point of view.

I urge you to vote **FOR** the issuance of shares of common stock to Explorer and **FOR** the amendment to the terms of the Series C preferred stock. Details of the proposed investment and other important information are described in the attached Proxy Statement and the separate prospectus. Please read these documents carefully.

Thank you for your continuing support. I assure you that, through these challenging times, our directors, officers and employees have been devoted to serving the best interests of our company and you, its stockholders.

Very truly yours,

C. TAYLOR PICKETT
Chief Executive Officer

YOUR VOTE IS IMPORTANT. Please sign, date and mail the proxy card promptly in the enclosed envelope whether or not you plan to attend the meeting or exercise your subscription rights. It is important that you return the proxy card promptly whether or not you plan to attend the meeting or exercise your subscription rights, so that your shares are properly voted.

If you hold shares through a broker, bank or other nominee (in "street name"), you may also have the ability to vote by telephone or the Internet in accordance with instructions that they will include with this mailing. In either event, we urge you to vote promptly.

These proxy materials relate solely to the solicitation of proxies in connection with the meeting of stockholders and are not an offer to sell Omega common stock or rights. The rights offering is made pursuant to the rights offering prospectus that has been sent separately to stockholders of record as of January 22, 2002. If you hold your shares in street name and do not receive a copy of the prospectus relating to the rights offering, you should contact your broker to obtain a copy. Stockholders can also obtain a copy of the prospectus by contacting Georgeson Shareholder Communications, Inc. at (800) 223-2064 or via the Internet at the web site maintained by the Securities and Exchange Commission at <http://www.sec.gov>.

OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093
(410) 561-5726

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

January 25, 2002

To Our Stockholders:

A Special Meeting of Stockholders of Omega Healthcare Investors, Inc. will be held at Holiday Inn Select, 2004 Greenspring Drive, Timonium, Maryland on Monday, February 18, 2002, at 10:00 a.m., for the following purposes:

1. To approve the issuance to Explorer Holdings, L.P. of shares of our common stock either in connection with Explorer's commitment to invest \$23.6 million plus an amount equal to the aggregate subscription price of any shares of common stock not purchased in the rights offering by other stockholders or upon the conversion of shares of Series D preferred stock issued to Explorer in lieu of common stock if we close Explorer's investment prior to receiving the stockholder approval sought pursuant to the proxy statement to issue common stock to Explorer, and any change of control that may result from such issuance.
2. To approve an amendment to our Articles of Incorporation amending the terms of our Articles Supplementary for the Series C Convertible Preferred Stock by removing the provisions prohibiting Explorer from voting in excess of 49.9% of our common stock, by changing the number and manner in which holders of our Series C and Series D preferred stock can appoint directors if we fail to pay dividends for a specified period of time, by providing that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock and by making certain other technical changes to reflect the possible issuance of the Series D preferred stock.

Your Board of Directors has fixed the close of business on January 24, 2002 as the record date for the determination of stockholders who are entitled to notice of and to vote at the Special Meeting or any adjournments thereof.

By order of the Board of Directors

CAROL A. ALBAUGH
Corporate Secretary

January 25, 2002
Ann Arbor, Michigan

Whether you are able to attend or not, we urge you to cast your vote promptly on the enclosed proxy card **FOR** each of the matters listed above, all as set forth in the attached Proxy Statement.

Please sign, date and return the enclosed proxy card promptly in the enclosed envelope. If you attend the Special Meeting, you may vote in person even if you have previously mailed a proxy card.

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OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093
(410) 561-5726

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

To be Held on February 18, 2002

The accompanying proxy is solicited by our Board of Directors to be voted at the Special Meeting of Stockholders to be held at Holiday Inn Select, 2004 Greenspring Drive, Timonium, Maryland on February 18, 2002, and any adjournments of the meeting. It is anticipated that this proxy material will be mailed on or about January 25, 2002 to our common stockholders of record on January 24, 2002.

A stockholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked by filing with our Secretary (i) a signed instrument revoking the proxy or (ii) a duly executed proxy bearing a later date. A proxy also may be revoked if the person executing the proxy is present at the meeting and elects to vote in person. If the proxy is not revoked, it will be voted by those named in the proxy.

Your vote will not affect your ability to exercise your rights received in the rights offering. Stockholders may vote to approve the issuance of shares of common stock to Explorer and still decline to exercise their subscription rights. Conversely, stockholders can vote against the issuance of shares to Explorer yet still exercise their subscription rights if the closing conditions to which the rights offering is subject are met.

VOTING SECURITIES

Our outstanding voting securities as of January 24, 2002, the record date, consisted of 19,999,065 shares of common stock, par value \$.10 per share and 1,048,420 shares of Series C convertible preferred stock. Each holder of record of common stock and Series C preferred stock as of the close of business on January 24, 2002 is entitled to notice of and to vote at the Special Meeting or any adjournments thereof. Each holder of shares of common stock is entitled to one vote per share on all matters properly brought before the Special Meeting. The holder of our Series C preferred stock will vote as a single class with holders of common stock on all matters properly brought before the Special Meeting on an as-converted basis, except as expressly required by law. The 1,048,420 shares of Series C preferred stock outstanding as of January 24, 2002 are convertible into 16,774,722 shares of common stock and accordingly an aggregate of 36,773,787 votes are entitled to be cast by the holders of common stock and Series C preferred stock at the meeting.

VOTING

The presence at the Special Meeting of shares representing a majority of the voting power associated with our issued and outstanding common stock and Series C preferred stock will be necessary to establish a quorum for the conduct of business at the Special Meeting. The proposal to issue shares of common stock to Explorer Holdings, L.P. in connection with its investment must be approved by the affirmative vote of a majority of the shares of our common stock and Series C preferred stock that are cast at the Special Meeting. The proposal to approve an amendment to our Articles of Incorporation to amend the terms of our Articles Supplementary for the Series C Convertible Preferred Stock must be approved by the affirmative vote of a majority of the shares of our issued and outstanding common stock and Series C preferred stock, voting together as a class, and two-thirds of the issued and outstanding shares of Series C preferred stock voting separately as a class.

As of the record date, our directors and executive officers beneficially owned 18,346,790 shares of our common stock (representing 49.9% of the votes entitled to be cast at the meeting), including 17,328,570 shares beneficially owned by directors as a result of their affiliation with Explorer. Excluding shares beneficially owned by Explorer, shares held by directors and executive officers of our company entitle them to exercise approximately 2.8% of the voting power of the shares entitled to vote at the special meeting on an as-converted basis. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of the proposal relating to the issuance of shares of common stock to Explorer and the proposal relating to the amendment to our Articles of Incorporation.

Brokers holding shares in "street name" may vote the shares only if the beneficial owner provides instructions on how to vote. Brokers will provide beneficial owners instructions on how to direct the brokers to vote the shares. Brokers holding shares for beneficial owners cannot vote on the actions proposed in this Proxy Statement without the beneficial owners' specific instructions. A so-called "broker non-vote" occurs when a broker, holding common stock as nominee, does not receive voting instructions from the beneficial owner. With respect to all matters submitted to stockholders for their consideration, abstentions will be included as shares cast on such proposals, whereas broker non-votes will not be included as part of the total number of votes cast on such proposals since shares represented by broker non-votes are not legally eligible to vote on any matter to which the non-vote relates. Thus, abstentions will have the same effect as votes against any given proposal. Broker non-votes will have no effect in determining whether the stockholders have approved the proposal to approve the issuance of shares of common stock to Explorer Holdings, L.P. because approval of such proposal is based on the number of shares that are actually voted. However, broker non-votes will have the same effect as a vote against the proposal to amend our Articles of Incorporation because approval of such proposal is based on the number of shares issued and outstanding. There are no rights of appraisal or similar dissenter's rights with respect to any matter to be acted upon pursuant to this Proxy Statement.

We urge stockholders to vote promptly either by signing, dating and returning the enclosed proxy card in the enclosed envelope, or for stockholders who own their shares in street name through a broker, in accordance with the telephone or Internet voting instructions your broker may include with this mailing.

PROPOSAL 1 APPROVAL OF THE ISSUANCE OF COMMON STOCK IN CONNECTION WITH EXPLORER HOLDINGS, L.P.'s INVESTMENT

Description of Rights Offering and Explorer's Investment

On October 30, 2001, we announced a plan to raise \$50 million in new equity capital from our current stockholders. The purpose of this plan is to satisfy the conditions to the modification of our revolving credit facilities and to enhance our ability to repay approximately \$98 million in debt maturing during the first half of 2002. We reached agreements with the bank groups under both our credit facilities on December 21, 2001. These agreements include modification and/or waivers to certain financial covenants with which we were not in compliance. The effectiveness of these agreements is conditioned on our raising an additional \$50 million of equity capital. We expect to use the proceeds from the rights offering to repay a portion of the maturing debt and for working capital and other general corporate purposes.

Our plan to raise \$50 million of new common equity consists of two components: a \$26.4 million rights offering to our common stockholders and a private placement of at least \$23.6 million to Explorer Holdings, L.P., our largest stockholder. The number of rights that each common stockholder will receive represents the stockholder's pro rata portion on an as-converted basis of the \$50 million we propose to raise, thereby allowing stockholders who fully participate in the rights offering the opportunity to avoid any dilution in their ownership interest.

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Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offering, Explorer has agreed to purchase \$23.6 million of our stock in a private placement concurrent with the closing of the rights offering, at the same price per common share as in this rights offering. The amount that Explorer has committed to invest in the private placement represents its pro rata portion, with respect to shares of our Series C preferred stock and common stock it holds, of the \$50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of \$50 million in gross proceeds upon the completion of the rights offering and the private placement to Explorer. The shares to be issued to Explorer are not registered as a part of the rights offering and will be restricted securities under the Securities Act of 1933.

Holders of our Series A and Series B preferred stock are not entitled to participate in the rights offering. If the issuance of common stock to Explorer has not been approved by our stockholders at the time of closing of the rights offering and Explorer's investment, Explorer will receive shares of a newly created series of non-voting convertible Series D preferred stock. If issued, the Series D preferred stock has terms substantially similar to Explorer's Series C preferred stock (except the Series D preferred stock would be non-voting) and will automatically convert into common stock upon receipt of stockholder approval or upon the waiver by the New York Stock Exchange of its stockholder approval requirement. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of this proposal.

The closing of both the rights offering and Explorer's investment will occur no later than ten business days following the expiration of the subscription period for the rights offering, and is subject to customary closing conditions. See "Conditions" on page 7 of this Proxy Statement.

Reasons for the Rights Offering

Our current financial challenges are the result of the continuation of the unprecedented financial difficulties in the long-term care industry. The introduction in 1998 of a new Medicare Prospective Payment System for the reimbursement of skilled nursing facilities, in lieu of the cost-based

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reimbursement system, was implemented with harsh and somewhat unexpected consequences for the long-term care industry. The prospective payment system significantly reduced payments to nursing home operators which forced many nursing home operators in America into financial distress. Ultimately, many of them, including our customers Allegheny Health Systems, Sun Healthcare Group, Frontier Group, Inc., Integrated Health Services, RainTree Healthcare Corp. and Mariner Post-Acute Network, Inc. were forced to seek bankruptcy protection in order to continue to deliver care to the nation's elderly.

The wave of bankruptcy filings by large nursing home operators seriously disrupted the long-term care industry to which we provide capital and virtually froze our access to capital sources in 2000. In response to these financial challenges, we completed a transaction with Explorer in July 2000 pursuant to which Explorer provided us with \$100.0 million in exchange for \$100.0 million of our Series C preferred stock. The proceeds of the initial Explorer investment were used to fund the repayment of debt that matured in July 2000, and the Company was subsequently able to repay \$48.4 million in indebtedness that matured in February 2001. However, our portfolio of investments continued to experience difficulties as we sought to restructure certain investments (such as Mariner) and as we recovered other properties which we have now reclassified as "owned and operated."

As a result of the continuing financial difficulties in the long-term care industry and the recording of the settlement of a lawsuit in June 2001, we were not in compliance with certain of the financial covenants contained in the loan agreements relating to our two credit facilities. These violations prevented us from drawing upon the remaining credit available under both credit facilities. The waiver of existing defaults and the modification of the terms of the credit facilities in a manner acceptable to both us and Explorer is a condition to the closing of the rights offering and Explorer's investment. We have entered into amendments to our credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe these amendments satisfy the closing conditions relating to our credit facilities. We have approximately \$98 million of indebtedness maturing in the first half of 2002. Although we suspended dividends on our common and preferred stock in February, 2001 in order to conserve cash to assist us in repaying this indebtedness, we cannot assure you that we will be successful in addressing these pending obligations unless we obtain additional cash from one or more sources.

In the face of the continuing financial difficulties plaguing the long-term care industry in general and our investment portfolio in particular, management explored a number of capital financing alternatives including discussions with Explorer to address our near-term liquidity challenges.

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Our Board of Directors asked a special committee, composed solely of directors who are unaffiliated with Explorer, to evaluate any proposals received from Explorer and make a recommendation to the full Board of Directors regarding what action, if any, our company should take with respect to such proposals. The special committee engaged Shattuck Hammond Partners LLC on October 15, 2001 as the committee's financial advisor to (i) review and analyze potential financing alternatives for our company as well as financing proposals we received; and (ii) if requested, render an opinion to the Board of Directors regarding the fairness from a financial point of view of a financing contemplated by us involving, among other things, an investment by Explorer, a 45.5% owner of our common stock on an as converted basis as of the date of the fairness opinion, and a rights offering to our stockholders other than Explorer. Prior to being engaged by us as the financial advisor to the special committee, Shattuck Hammond had no professional relationship with us nor Explorer.

Shattuck Hammond worked with our management team and counsel to the special committee to negotiate the terms of the proposed Explorer investment and finalize the documentation relating thereto. On October 23, 2001, Shattuck Hammond delivered its preliminary reports to the special committee and Board of Directors regarding Shattuck Hammond's evaluation of the terms of the proposed Explorer investment and an assessment of viable alternatives. On October 29, 2001, following a review of the definitive documentation pertaining to the proposed Explorer investment, Shattuck

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Hammond rendered its written opinion to our Board of Directors to the effect that the financial terms of the investment agreement, taken as a whole, are fair to us from a financial point of view. Shattuck Hammond's opinion relates solely to the fairness to Omega of the financial terms of the investment agreement, and does not address the fairness of either the investment agreement to unaffiliated stockholders or the subscription price in the rights offering. See "Opinion of Financial Advisor to the Special Committee of Independent Directors and the Board of Directors."

The Board of Directors unanimously approved the rights offering and Explorer's investment transactions. The process of evaluating Explorer's proposal compared with other potential capital alternatives and negotiating the terms of our agreement with Explorer, as described in this Proxy Statement, was deliberative and thoughtful. The special committee engaged in extensive deliberations to structure a transaction that meets our near-term liquidity needs while affording our existing stockholders an opportunity to participate in our future on the same terms on which Explorer may invest.

The rights offering affords our existing stockholders an opportunity to subscribe for the new shares of common stock, at the same price per common share as the Explorer private placement, and to maintain their proportionate interest in us. Some of the factors considered by our Board of Directors in deciding to proceed with the rights offering include:

- our need for capital;
- the alternative methods available to us for raising capital;
- the pro rata nature of a rights offering to our stockholders;
- the terms of the investment agreement with Explorer;
- the time period available in which to raise the needed capital and the uncertainty of closure associated with various alternative methods for raising capital;
- the market price of our common stock; and
- conditions of the capital markets in general.

In addition, since no underwriting or sales commission will be paid in respect of the shares purchased in the rights offering, we believe the rights offering will be a low-cost method of raising additional capital.

Summary of Key Terms of the New Explorer Investment

The following summary of the material terms of Explorer's investment is subject to, and qualified in its entirety by, the complete text of the investment agreement described below and the other material documents described in more detail under "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 and "Modifications to Agreements with Explorer" on page 30 of this Proxy Statement. Copies of the investment agreement and the other material agreements are attached as appendices to this Proxy Statement and are incorporated in this Proxy Statement by reference. You should read the full text of the Explorer agreements because those agreements, and not this Proxy Statement, are the legal documents that govern the additional investment by Explorer. In the event of any discrepancy between the

terms of the investment agreement and the following summary, the investment agreement will control.

Investment Agreement

Amount and Nature of Explorer Investment. Under the terms of the investment agreement, as amended by supplemental agreement dated January 15, 2002, Explorer has agreed to invest at least \$23.56 million, representing its pro rata portion on an as-converted basis of the \$50 million in new equity we are seeking to raise, based on Explorer's ownership of our Series C preferred stock and common stock. A copy of the investment agreement as modified by the supplemental agreement is

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attached as Appendix A to this Proxy Statement. Explorer has also committed to invest in the concurrent private placement an additional amount equal to the aggregate subscription price of the shares that are not subscribed for by other stockholders in this rights offering. Explorer has agreed to purchase its stock at the same price per share as is offered to our stockholders in the rights offering. Our Board of Directors has authorized the issuance and sale to Explorer of either newly issued shares of our Series D preferred stock, having the designations, voting powers, preferences and other rights as set forth in the Articles Supplementary to the Series D Convertible Preferred Stock, a copy of which is attached as Appendix B to this Proxy Statement, or, if we have the approval of our stockholders prior to the closing of Explorer's investment, our common stock, in each case having an aggregate value equal to the difference between \$50 million and the gross proceeds we receive from the rights offering. We anticipate the closing of Explorer's investment to occur no later than ten business days following the expiration of the subscription period for the rights offering.

Representations, Warranties and Indemnities. The investment agreement contains representations, warranties and indemnification provisions that we believe are customary for a transaction of this nature. In the investment agreement, Omega made representations and warranties about itself related to, among other things:

corporate existence, qualification to conduct business and corporate power;

ownership of subsidiaries;

capital structure;

corporate authority to enter into, and carry out the obligations under, the investment agreement and the agreements entered into in connection therewith, and the enforceability of such agreements;

our rights plan;

absence of a breach or conflict with its charter documents, bylaws or material agreements as a result of the transactions contemplated by the investment agreement;

filings with the SEC;

financial statements;

absence of undisclosed liabilities;

compliance with laws;

legal proceedings;

absence of specified changes or events since July 1, 2001;

tax matters;

environmental matters;

material contracts;

employee benefit plans; and

information supplied for use in this Proxy Statement and the registration statement related to the rights offering.

The representations and warranties survive the closing of Explorer's investment for two years. Subject to certain thresholds and caps, we have agreed to indemnify Explorer and its affiliates for all losses relating to a breach of our representations and warranties, and to indemnify Explorer and its affiliates for all losses relating to a breach of our agreements or any actual or threatened claim made by any third party relating to or in connection with the transactions contemplated by the investment agreement.

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We have also agreed to reimburse Explorer for its out-of-pocket costs and expenses in connection with the transactions contemplated by the investment agreement, not to exceed \$1 million.

Conditions. The closing of Explorer's investment is subject to conditions relating to modifications to our credit facilities and the absence of any governmental order or litigation that is likely to render it impossible or unlawful to complete the rights offering and/or Explorer's investment, or that could reasonably be expected to have a material adverse effect on our business, results of operations, or financial condition, or materially restrict the rights of Explorer under the documents relating to its investment.

On December 21, 2001, we reached agreements with the bank groups under both of our revolving credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe that these amendments will satisfy the closing conditions relating to our credit facilities. These agreements include modifications and/or waivers to the financial covenants with which we were not in compliance. In addition, certain other financial covenants will be either modified or eliminated going forward. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer. In the event such conditions are not satisfied, we will terminate the rights offering and the private placement to Explorer. While there currently exists no governmental order or litigation with respect to this offering, we cannot assure you that such governmental order or litigation will not arise prior to closing the rights offering. If a governmental order or litigation arises prior to the closing of the rights offering, we may not be able to complete the rights offering and/or the private placement to Explorer.

Termination. Explorer may terminate the investment agreement if the closing has not occurred by February 28, 2002.

Summary of Terms of Series D Preferred Stock

The terms of the Series D preferred stock are set forth in the Articles Supplementary for Series D Convertible Preferred Stock, a copy of which is attached as Appendix B to this Proxy Statement. The following description does not purport to be complete and is qualified in its entirety by reference to the Articles Supplementary. You should read the full text of the Series D Preferred Stock Articles Supplementary because that document, and not this Proxy Statement, is the legal document that contains the specific rights and preferences of the Series D preferred stock to be sold to Explorer. In the event of any discrepancy between the terms of the Series D Preferred Stock Articles Supplementary and the following summary, the Articles Supplementary will control.

General. Under our Articles of Incorporation, our Board of Directors is authorized without further stockholder action to provide for the issuance of up to an aggregate of 10,000,000 shares of our preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences as will be stated in the resolutions providing for the issuance of a series of such stock, adopted, at any time or from time to time, by our Board of Directors. The Series D Articles Supplementary authorize us to issue up to 1,000,000 shares of the Series D preferred stock. Whether or not we file the Series D Articles Supplementary with the Maryland State Department of Assessment and Taxation or issue any shares of Series D preferred stock will depend on whether our stockholders have approved the issuance of common stock upon conversion of the Series D preferred stock prior to the closing of Explorer's investment in our company.

Rank. The Series D preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank: (i) senior to our common stock and to all other equity securities that by their terms rank junior to the Series D preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company; (ii) on a parity

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with our outstanding Series A preferred stock, Series B preferred stock, Series C preferred stock and any other equity securities that may be issued by our company that have terms which specifically provide that such equity securities will rank on a parity with the Series D preferred stock; and (iii) junior to all of our existing and future indebtedness. Any of our Company's convertible debt securities will rank senior to the Series D preferred stock prior to conversion.

Dividend Rights. If approval of our stockholders to permit the conversion of Series D preferred stock into common stock is not received by February 28, 2002, holders of shares of the Series D preferred stock are entitled to receive dividends at the greater of:

10% per annum of the liquidation preference, as discussed below, per share; and

the amount per share declared or paid by us on our common stock based on the number of shares of common stock into which the shares of Series D preferred stock are then convertible.

Dividends on each share of the Series D preferred stock will be cumulative commencing from the date of issuance unless the Series D preferred stock is converted into common stock prior to February 28, 2002, in which case there will be no adjustment or payment in respect of any accrued dividends. Dividends are payable in arrears for each dividend period ended July 31, October 31, January 31 and April 30 on or before the relevant dividend payment date, which will be the 15th day of August, November, February and May of each year. Any dividend payable on shares of the Series D preferred stock for any partial period will be prorated for the partial period based on the actual number of days elapsed commencing with and including the date of issuance of such shares through the end of the dividend period. Dividends will be payable at the election of the holders of a majority of the Series D preferred stock with respect to any period after June 30, 2002, and at the election of our Board of Directors with respect to any period on or prior to June 30, 2002, (i) by the issuance as of the relevant dividend payment date of additional shares of Series D preferred stock having an aggregate liquidation preference equal to the amount of such accrued dividends, or (ii) in cash. If dividends are paid in additional shares of Series D preferred stock, the number of authorized shares of Series D preferred stock will be deemed, without further action, to be increased by the number of shares so issued. Dividends on shares of Series D preferred stock will not be declared by our Board of Directors or paid or set apart for payment if the terms of any agreement to which we are a party, including any agreement relating to our indebtedness, prohibits the declaration or payment of dividends on the Series D preferred stock or provides that such declaration, payment or setting aside for payment would constitute a breach thereof or default thereunder; provided that in such case dividends on the Series D preferred stock will accrue. Dividends on the Series D preferred stock will also accrue whether or not we have earnings or other funds legally available for the payment of such dividends. Accrued but unpaid dividends on the Series D preferred stock will not bear interest. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series D preferred stock, other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series D preferred stock as to dividends and upon liquidation, for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series D preferred stock for all past dividend periods and the then current dividend period. When dividends are not paid in full upon the Series D preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock, all dividends declared upon the Series D preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock will be declared pro rata so that the amount of dividends declared per share of Series D preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share on the Series D preferred stock and such other series of preferred stock, which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend, bear to each other.

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Unless full cumulative dividends on the Series D preferred stock have been or contemporaneously are declared and paid in full or declared and a sum sufficient for the payment thereof is set apart for payment in full, no dividends, other than certain dividends payable in our capital stock, may be declared or paid upon our common stock, except for certain limited exceptions such as dividends paid for the purpose of preserving our qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. Any dividend payment made on shares of the Series D preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, each holder of shares of Series D preferred stock will, at the election of such holder, be entitled to be paid the liquidation preference out of our assets legally available for distribution to our stockholders before any distribution of assets is made to holders of common stock or any other class or series of our capital stock that ranks junior to the Series D preferred stock as to liquidation rights. After payment of the full amount of the liquidation preference, plus any accrued and unpaid dividends and interest thereon, if any, to which they are entitled, the holders of Series D preferred stock will have no right or claim to any of our remaining assets. The consolidation or merger of our company with or into any other corporation, trust or entity or of any other corporation with or into us in a manner that constitutes a change in control, or the sale, lease or conveyance of all or substantially all of

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our property or business will be deemed to constitute a liquidation, dissolution or winding up of our company. The liquidation preference for shares of Series D preferred stock is equal to the original issue price of the Series D preferred stock plus any accrued and unpaid dividends.

Redemption. The Series D preferred stock is not redeemable, subject, however, to certain restrictions on transfer and ownership, described in "Redemption and Business Combination Provisions" on page 10 of this Proxy Statement. In any event, the Series D preferred stock may not be redeemed without the consent of the holders thereof.

Voting Rights. Holders of Series D preferred stock will not have voting rights, except as set forth below. Whenever dividends on any shares of Series D preferred stock are in arrears for two or more dividend periods, the number of directors then constituting the Board of Directors will be increased by two if not already increased pursuant to a similar provision in the Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock, which will become effective upon stockholder approval as set forth in the description of the Series C preferred stock in "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 of this Proxy Statement. The holders of such shares of Series D preferred stock and the holders of Series C preferred stock upon which like voting rights have been conferred and are exercisable, voting together as a single class, will be entitled to vote as a single class to elect the additional preferred stock directors until such time as all dividends accumulated on such shares of Series D preferred stock and Series C preferred stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid, at which time the directors elected pursuant to this right are required to resign. In any vote to elect or remove such directors, each holder of shares of Series D preferred stock and Series C preferred stock will be entitled to one vote for each share held by such holder. So long as any shares of Series D preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series D preferred stock outstanding at the time (voting as a single class together with any other classes of preferred stock adversely affected in the same manner), amend, alter or repeal the provisions of our charter or the Series D Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series D preferred stock, including the creation of any series of preferred stock ranking senior to the Series D preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, but not including the creation or issuance of preferred stock ranking on a parity with the Series D preferred stock.

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Conversion. The holders of Series D preferred stock have the following conversion rights:

Automatic Conversion. Each share of Series D preferred stock will automatically convert into shares of our common stock upon the earlier of: (i) the date the holders of a majority of the shares of our common stock, giving effect to the conversion of the Series C preferred stock, present and entitled to vote at a duly convened meeting of our stockholders vote to approve the conversion of the Series D preferred stock into common stock and the issuance of common stock upon such conversion; and (ii) the date the New York Stock Exchange waives any requirement for stockholder approval of the conversion of the Series D preferred stock into common stock under its rules and policies.

Conversion Price. Subject to certain limitations on conversion set forth in the Series D Articles Supplementary, each share of Series D preferred stock will be converted into the number of shares of our common stock as is equal to the quotient obtained by dividing the original issue price for such share by the conversion price, as discussed below, in effect at the time of conversion. The conversion price will be adjusted to reflect the economic impact of a stock split, stock combination, certain dividends paid on common stock, the issuance of additional common stock at a price less than fair market value and similar events.

Redemption and Business Combination Provisions

If our Board of Directors is, at any time and in good faith, of the opinion that direct or indirect ownership of at least 9.9% or more of the voting shares of capital stock has or may become concentrated in the hands of one beneficial owner, our Board of Directors will have the power:

by lot or other means deemed equitable by it, to call for the purchase from any of our stockholders a number of voting shares sufficient, in the opinion of our Board of Directors, to maintain or bring the direct or indirect ownership of voting shares of capital stock of such beneficial owner to a level of no more than 9.9% of our outstanding voting shares of our capital stock, and

to refuse to transfer or issue voting shares of our capital stock to any person whose acquisition of such voting shares would, in the opinion of our Board of Directors, result in the direct or indirect ownership by that person of more than 9.9% of our outstanding voting shares of our capital stock.

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Further, any transfer of shares, options, warrants, or other securities convertible into voting shares that would create a beneficial owner of more than 9.9% of the outstanding voting shares will be deemed void ab initio and the intended transferee will be deemed never to have had an interest therein. Subject to the rights of the preferred stock described below, the purchase price for any voting shares of our capital stock so redeemed will be equal to the fair market value of the shares reflected in the closing sales prices for the shares, if then listed on a national securities exchange, or the average of the closing sales prices for the shares if then listed on more than one national securities exchange, or if the shares are not then listed on a national securities exchange, the latest bid quotation for the shares if then traded over-the-counter, on the last business day immediately preceding the day on which we send notices of such acquisitions, or, if no such closing sales prices or quotations are available, then the purchase price shall be equal to the net asset value of such stock as determined by our Board of Directors in accordance with the provisions of applicable law. The purchase price for shares of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock will be equal to the fair market value of the shares reflected in the closing sales price for the shares, if then listed on a national securities exchange, or if the shares are not then listed on a national securities exchange, the purchase price will, in the case of the Series A preferred stock and Series B preferred stock, be equal to the redemption price of such shares of Series A preferred stock and Series B preferred stock, respectively, and, in the case of the Series C preferred stock and Series D preferred

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stock, the purchase price will be equal to the liquidation preference of such shares of Series C preferred stock and Series D preferred stock, respectively. From and after the date fixed for purchase by our Board of Directors, the holder of any shares so called for purchase will cease to be entitled to distributions, voting rights and other benefits with respect to such shares, except the right to payment of the purchase price for the shares.

Our Articles of Incorporation require that, except in certain circumstances, business combinations between us and a beneficial holder of 10% or more of our outstanding voting stock, a related person, be approved by the affirmative vote of at least 80% of our outstanding voting shares. A "business combination" is defined in the Articles of Incorporation as:

any merger or consolidation of our company with or into a related person;

any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any "substantial part," as defined below, of our assets including, without limitation, any voting securities of a subsidiary to a related person;

any merger or consolidation of a related person with or into our company;

any sale, lease, exchange, transfer or other disposition of all or any substantial part of the assets of a related person to our company;

the issuance of any securities (other than by way of pro rata distribution to all stockholders) of our company to a related person; and

any agreement, contract or other arrangement providing for any of the transactions described in the definition of business combination.

The term "substantial part" is defined as more than 10% of the book value of our total assets as of the end of our most recent fiscal year ending prior to the time the determination is being made. The 80% voting requirement described above will not be applicable if (i) our Board of Directors has unanimously approved in advance the acquisition of our stock that caused a related person to become a related person or (ii) the business combination is solely between us and a wholly owned subsidiary. Our Board of Directors unanimously approved in advance Explorer's acquisition of our Series C preferred stock, which made Explorer a related person to us. Therefore, the 80% voting requirement is inapplicable to Explorer.

Under the terms of our Articles of Incorporation, our Board of Directors is classified into three classes. Each class of directors serves for a term of three years, with one class being elected each year. As of the date of this Proxy Statement, there are nine directors, with each class consisting of three directors.

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The foregoing provisions of our Articles of Incorporation and certain other matters may not be amended without the affirmative vote of at least 80% of our outstanding voting shares.

The foregoing provisions may have the effect of discouraging unilateral tender offers or other takeover proposals which certain stockholders might deem in their interests or in which they might receive a substantial premium. Our Board of Directors' authority to issue and establish the terms of currently authorized preferred stock, without stockholder approval, may also have the effect of discouraging takeover attempts. The provisions could also have the effect of insulating current management against the possibility of removal and could, by possibly reducing temporary fluctuations in market price caused by the accumulation of shares, deprive stockholders of opportunities to sell at a temporarily higher market price. However, our Board of Directors believes that inclusion of the business combination provisions in the Articles of Incorporation may help assure fair treatment of all stockholders and preserve our assets.

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The foregoing summary of certain provisions of the Articles of Incorporation relating to business combinations does not purport to be a complete summary of our Articles of Incorporation.

Dividends on Common Stock

In February 2001, we suspended payment of all dividends on all common stock and preferred stock. We do not know when or if we will resume dividend payments on our common stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our \$98 million of debt maturing in the first half of 2002 has been repaid, and in any event, all accrued and unpaid dividends on our Series A, B, C and D (if issued) preferred stock must be paid in full before dividends on our common stock can be resumed. Dividends on our Series A, B and C preferred stock currently outstanding accrue at \$20.1 million annually. As of December 30, 2001, we had \$19.9 million of accumulated and unpaid preferred dividends on our preferred stock. Notwithstanding the suspension of dividends, we have made sufficient distributions to satisfy the distribution requirements under the REIT rules of the Internal Revenue Code of 1986 to maintain our REIT status for 2000 and expect to satisfy the requirements under the REIT rules for 2001.

On March 30, 2001 our Board of Directors approved payment of the accrued Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 shares of Series C preferred stock to Explorer on April 2, 2001. Dividends paid in stock to a specific class of stockholders, such as our payment of our Series C preferred stock in April 2001, constitute dividends eligible for the 2001 dividends paid deduction. Additionally, and as specifically authorized by the Internal Revenue Code, dividends declared by September 15, 2002 and paid by December 31, 2002 may be elected to be treated as a distribution of 2001 taxable income.

Reason for Seeking Stockholder Approval

Our common stock trades on the New York Stock Exchange. The rules of the New York Stock Exchange require that a company whose securities are listed on the New York Stock Exchange receive stockholder approval before selling or issuing to an affiliate, such as Explorer, common stock or stock convertible into common stock that represents 1% or more of the issuing company's outstanding common stock. Because the number of shares of common stock which will be issued pursuant to the investment agreement will be more than 1% of Omega's outstanding common stock, we must obtain stockholder approval to issue shares of common stock to Explorer. The New York Stock Exchange rules also require stockholder approval prior to the issuance of any securities that may result in a change in control.

Vote Required for Approval of the Share Issuance Proposal

The share issuance proposal must be approved by the affirmative vote of a majority of all shares of common stock and Series C preferred stock present and voting at the Special Meeting. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of the proposal relating to the issuance of shares of common stock to Explorer.

Capitalization

The following table shows, as of September 30, 2001, our historical capitalization and our capitalization as adjusted for the rights offering and Explorer's investment, including the application of the proceeds, assuming net proceeds of \$48 million. For purposes of this table, we have assumed that all of the rights will be exercised in full by stockholders in the rights offering and that we will issue Series D preferred stock to Explorer at the closing of the rights offering. If stockholders approve

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Explorer's investment before the closing of the rights offering, Explorer will be issued a number of shares of common stock equal to the number of shares of common stock that would otherwise have been issuable upon conversion of the Series D preferred stock in lieu of the Series D preferred stock. To the extent stockholders do not exercise all of the rights, the amount of Series D preferred stock or common stock issued to Explorer will increase. For purposes of our capitalization as adjusted, we have assumed a subscription price of \$2.92 per share.

	Unaudited	
	Historical	As Adjusted
(In thousands)		
Debt:		
Revolving lines of credit	\$ 203,641	\$ 203,641
Other secured borrowings	18,595	18,595
Unsecured borrowings:		
6.95% Notes Due June 2002(1)	99,641	51,641
6.95% Notes Due August 2007	100,000	100,000
Other unsecured borrowings	4,160	4,160
Total Debt	426,037	378,037
Stockholders' Equity:		
Preferred Stock \$1.00 par value:		
Authorized 10,000 Shares		
Issued and Outstanding 2,300 shares Series A with an aggregate liquidation preference of \$57,500	57,500	57,500
Issued and Outstanding 2,000 shares Series B with an aggregate liquidation preference of \$50,000	50,000	50,000
Issued and Outstanding 1,048 shares Series C with an aggregate liquidation preference of \$104,842	104,842	104,842
Issued and Outstanding 228 shares Series D with an aggregate liquidation preference of \$22,808(2)		22,808
Common Stock \$.10 par value:		
Authorized 100,000 shares		
Issued and Outstanding 20,076(2)	2,008	
Issued and Outstanding 37,199(2)		3,720
Additional paid-in capital	438,384	461,864
Cumulative net earnings	171,272	171,272
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(202)
Accumulated other comprehensive income	(1,491)	(1,491)
Total Stockholders' Equity	456,659	504,659
Total Capitalization	\$ 882,696	\$ 882,696

(1)

For purposes of our capitalization, as adjusted, we have assumed that the net proceeds from the rights offering and the Explorer investment will be approximately \$48 million and that we used those proceeds to repay notes due June 2002. We have not determined the actual allocation of proceeds from this offering and the Explorer investment and management will have broad discretion in making that determination.

- (2) If none of the subscription rights are exercised by stockholders, 20,076,024 shares of common stock and 500,000 shares of Series D preferred stock with a liquidation preference of \$50 million will be outstanding following the closing of the rights offering and Explorer's investment as adjusted. Upon stockholder approval of the issuance of common stock to Explorer, all the outstanding Series D preferred stock will automatically be converted into 17,123,288 shares of common stock.

Opinion of Financial Advisor to the Special Committee of Independent Directors and the Board of Directors

Our Board of Directors asked a special committee, composed solely of directors who are unaffiliated with Explorer, to evaluate any proposals received from Explorer and make a recommendation to the full Board of Directors regarding what action, if any, our company should take with respect to such proposals. The special committee engaged Shattuck Hammond Partners LLC on October 15, 2001 as the committee's financial advisor to (i) review and analyze potential financing alternatives for our company as well as financing proposals we received; and (ii) if requested, render an opinion to the Board of Directors regarding the fairness from a financial point of view of a financing contemplated by us involving, among other things, an investment by Explorer, a 45.5% owner of our common stock on an as converted basis as of the date of the fairness opinion, and a rights offering to our stockholders other than Explorer. Prior to being engaged by us as the financial advisor to the special committee, Shattuck Hammond had no professional relationship with us nor Explorer.

The amount, terms and structure of the proposed financing were determined through a negotiated process between the special committee and Explorer and are set forth in an investment agreement dated as of October 29, 2001 between us and Explorer. Shattuck Hammond did not participate directly in the negotiation of the terms of the investment agreement. Pursuant to the investment agreement, among other things, Explorer commits to invest, subject to certain closing conditions being satisfied or waived, up to \$50 million in payment for our common stock or Series D preferred stock. The actual amount of Explorer's investment will be equal to the difference between \$50 million and the gross proceeds received by us through a rights offering to our common stockholders other than Explorer, defined as the "unsubscribed purchase amount." If all rights offered in the rights offering are exercised, it was Shattuck Hammond's understanding that the proportional ownership of our stock by stockholders other than Explorer and by Explorer on an as converted basis would, upon Explorer's payment of the unsubscribed purchase amount and the issuance to it of shares of our common stock, remain approximately the same as of the date of Shattuck Hammond's opinion.

It was also Shattuck Hammond's understanding that the subscription price per common share in the rights offering and the price per common share or the conversion price of the Series D preferred to be paid by Explorer would be the same. For purposes of their opinion Shattuck Hammond also assumed that the subscription price was \$2.92, the maximum price approved by our Board of Directors.

Shattuck Hammond rendered an oral opinion to the special committee and our Board of Directors on October 23, 2001, subject to review of definitive documentation that was in the process of being negotiated, and a written opinion addressed to the special committee and our Board of Directors on October 29, 2001, in each case to the effect that, as of such date and subject to the assumptions made, matters considered and the limitations set forth in its opinion, the financial terms of the investment agreement taken as a whole, defined as the "financial terms of the investment agreement" as described more fully in its opinion, are fair to us from a financial point of view. The full text of Shattuck Hammond's written opinion is attached as Appendix C to this Proxy Statement and is incorporated herein by reference. Shattuck Hammond's opinion sets forth the assumptions made, the matters considered and limits on the review undertaken by Shattuck Hammond in connection with its engagement. The following summary of Shattuck Hammond's opinion is qualified in its entirety by reference to the full text of such opinion. Shattuck Hammond's opinion is directed only to the fairness to us, from a financial point of view, of the financial terms of the investment agreement taken as a

whole and does not address any other aspect of the investment by Explorer or the rights offering or any other transaction to which Explorer and our company are parties. Shattuck Hammond's opinion was provided for the information and assistance of the special committee and the Board of Directors in connection with their consideration of the financing proposal put forward by Explorer and is not a recommendation of any action that the special committee, the Board of Directors or any of our stockholders should take.

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It was Shattuck Hammond's further understanding that the investment agreement included, among other things, the various financial terms that are specifically identified in Shattuck Hammond's fairness opinion set forth in Appendix C to this Proxy Statement.

In connection with preparing its opinion, Shattuck Hammond reviewed a variety of materials including those specifically identified in its fairness opinion set forth in Appendix C to this Proxy Statement and made such investigations as it deemed appropriate. Shattuck Hammond did not independently verify any of the information it obtained for the purposes of its opinion. Instead, Shattuck Hammond assumed the accuracy and completeness of all such information. Shattuck Hammond relied upon assurances by our management that all forward-looking information concerning us reflected the best currently available judgments and estimates of management as to our likely future financial performance and capital requirements. Shattuck Hammond assumed that the financing will be consummated in accordance with the terms of the investment agreement. Shattuck Hammond did not make an independent inspection, evaluation or appraisal of our assets or liabilities, nor did anyone furnish Shattuck Hammond with any such evaluation or appraisal. The Shattuck Hammond opinion is based on market, economic and other conditions as they existed and could be evaluated at the time their fairness opinion was rendered.

No limitations were imposed by the special committee, the Board of Directors or us on the scope of Shattuck Hammond's investigation or the procedures Shattuck Hammond followed in rendering its opinion. The terms of Shattuck Hammond's engagement, however, did not include soliciting interest in an investment transaction from investors, and Shattuck Hammond made no such solicitation.

In evaluating the fairness, from a financial point of view, of the financial terms of the investment agreement taken as a whole to us, Shattuck Hammond employed a variety of analyses and reviews which it believes were appropriate for preparing its opinion. The preparation of a fairness opinion involves various determinations of the most appropriate and relevant methods of financial analyses and review and the application of those methods to the particular circumstances. Therefore such an opinion is not necessarily susceptible to partial analysis or summary description. Shattuck Hammond believes that its analyses and reviews must be considered as a whole and that selection of portions of its analyses and reviews and of the factors considered by it, without considering all of the factors and analyses and reviews, would create a misleading view of the processes underlying its opinion. In arriving at its opinion, Shattuck Hammond did not attribute any particular weight to any particular analysis, review or factor considered by it, but rather made qualitative judgments about the significance and relevance of each analysis, review and factor.

In performing its analyses and reviews, Shattuck Hammond made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond our control. The analyses and reviews performed by Shattuck Hammond do not purport to be an appraisal and are not necessarily indicative of actual values or actual future results that might be achieved, all of which may be significantly more or less favorable than suggested by Shattuck Hammond's analyses and reviews.

In connection with its analyses and reviews, Shattuck Hammond utilized estimates and forecasts of our future operating results contained in or derived from projections developed and supplied by our management. Analyses based on forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than the forecasts. Such analyses are

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inherently subject to uncertainty, being based on numerous factors or events beyond our control, and are susceptible to interpretations and periodic revision based on actual experience and business and economic developments after the date they were prepared. Therefore, future results or actual values may be materially different from these forecasts or assumptions.

The following is a brief summary of material analyses and reviews performed by Shattuck Hammond in connection with the preparation of Shattuck Hammond's fairness opinion delivered to the special committee and our Board of Directors on October 29, 2001. The following analyses and reviews reflect substantially the same methodologies used by Shattuck Hammond in its preliminary oral presentation to the special committee and our Board of Directors on October 23, 2001, but updated and confirmed in writing to reflect financial information and market data that was available as of October 26, 2001 as well as a review of the definitive documentation executed in connection with the Explorer investment.

Alternative Financing Structures Review

General. Shattuck Hammond reviewed a number of financing alternatives to Explorer's investment including:

equity financing (secondary public offering, private investment into public equity, private placement);

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debt financing (subordinated debt, collateralized mortgage backed securitization, Health and Urban Development insured and senior unsecured); and

other financings (asset sales, sale or merger of our company).

Shattuck Hammond's review was based on a number of theoretical criteria including pricing, completion risk, timing, deleveraging of balance sheet, governance and approval requirements, fees and other factors. Based on its review and the criteria cited, Shattuck Hammond was of the view that no other financing alternative was clearly better than the Explorer investment. In this regard, Shattuck Hammond noted that, among other things:

Explorer did not require any additional due diligence;

Explorer and our company were willing to enter into agreements on terms that were substantially similar to the definitive documentation related to Explorer's investment in our Series C preferred stock;

the views of our management regarding the potential consequences if we did not reach an agreement with its banks for covenant waivers by mid December, 2001, including, without limitation, interest rate increases and other penalties and possible acceleration of its senior debt;

the requirement of our banks that there be an infusion of equity or other junior capital in connection with any covenant waivers and possible term extensions;

Explorer's commitment to purchase our common stock at a fixed price per share determined under the investment agreement irrespective of the actual price of our common stock at the time Explorer makes its investment;

the structure of the Explorer investment as an investment in our common stock or Series D preferred stock to convert into our common stock thereby eliminating the potential need to pay dividends or interest that other investments might require (assuming that Series D preferred stock is not issued or, if issued, is outstanding for only a short period of time);

an investment of equity would deleverage our balance sheet;

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the World Trade Center attack on September 11, 2001 negatively impacted the financing markets; and

a rights offering is "democratic" from the perspective that all stockholders can participate based on their proportional ownership.

Market Valuation of Omega Publicly-Traded Senior Unsecured Debt and Series A and B Preferred Stock. Shattuck Hammond noted that our senior unsecured debt and Series A and B preferred stock were trading at significant discounts to their respective par values. Moreover, Shattuck Hammond further noted that our unsecured debt has a below investment grade rating and that the Series A and B preferred stock have had their dividends suspended. Shattuck Hammond concluded that our below investment grade rating on our debt, dividend suspension on our preferred stock and relative trading values of such securities to their par amounts were indicative of the challenges we would face in attempting to complete an alternative financing to the Explorer investment.

Omega Senior Unsecured Debt

Price YTM

			S&P Rating
Omega 6.95%; 6/15/02	85	35.8%	CCC+
Omega 6.95%; 8/01/07	60	18.5%	CCC+

Series A and Series B Preferred (Actual Dollars)

	Liquidation Preference	Current Price as of 10/26/01	Discount to Liquidation Preference	Dividend Yield
Series A Preferred	\$ 25.00	\$ 14.51	58.0% NA	(1)
Series B Preferred	\$ 25.00	\$ 13.70	54.8% NA	(2)

(1) *Dividend suspended; accrues at rate of 9.250%.*

(2) *Dividend suspended; accrues at rate of 8.625%.*

Explorer Pro Forma Ownership Analysis. Shattuck Hammond noted that Explorer's current ownership of 45.5% of our voting capital stock and the ability to designate four out of nine Board seats (and approve an independent director) provided Explorer with significant control of our company. Based on the \$50 million financing and an assumed subscription price of \$2.92, depending on the number of our stockholders other than Explorer who exercise their rights, Explorer's ownership of our voting capital stock could exceed 50% on an as converted basis.