OMEGA HEALTHCARE INVESTORS INC
Form 424B5
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Registration Statement No. 333-117655

The information in this preliminary prospectus supplement and accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUPPLEMENT Subject to Completion December 6, 2004

(To Prospectus Dated August 27, 2004)

3,500,000 Shares

Common Stock

We are offering for sale 3,500,000 shares of our common stock to be sold in this offering. We will receive all of the net proceeds from the sale of such common stock.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol "OHI." On December 3, 2004, the last reported sale price of our common stock on the NYSE was $12.27 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page S-10 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses	$	$

The underwriters may also purchase up to an additional 525,000 shares of common stock from us at the public offering price, less underwriting discounts and commissions payable by us, to cover over-allotments, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be $, and the total proceeds, before expenses, to us will be $.

The underwriters are offering the shares of our common stock as set forth under "Underwriting." Delivery of the shares of common stock will be made on or about December , 2004.

Sole Book-Running Manager

UBS Investment Bank

Co-Managers

Banc of America Securities LLC

Deutsche Bank Securities

Legg Mason Wood Walker
Incorporated

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide information different from that contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. Neither the delivery of this prospectus supplement nor the sale of shares of common stock means that information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is correct after the date of this prospectus supplement. These documents do not constitute an offer to sell or solicitation of any offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.

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This prospectus supplement includes market share, industry data and forecasts that we obtained from the United States Census Bureau and the Centers for Medicare and Medicaid Services, or CMS. In this prospectus supplement, we refer to additional information regarding market data obtained from internal sources, market research, publicly available information and industry publications. Although we believe the information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

In this prospectus supplement, the terms "Omega," "we," "company," "us," and "our" refer to Omega Healthcare Investors, Inc. and its subsidiaries, unless otherwise expressly stated or the context otherwise requires.

Unless otherwise stated in this prospectus supplement, we have assumed throughout this prospectus supplement that the underwriters' over-allotment option is not exercised.

Prospectus supplement summary

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information that you should consider before making an investment decision. You should read carefully this entire prospectus supplement and accompanying prospectus, including the "Risk factors," the financial data and related notes, and the reports incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision.

OUR COMPANY

We are a self-administered real estate investment trust, or REIT, investing in income-producing healthcare facilities, principally long-term care facilities located in the United States. We provide lease or mortgage financing to qualified operators of skilled nursing facilities and, to a lesser extent, assisted living and acute care facilities. We have historically financed investments through borrowings under our revolving credit facilities, private placements or public offerings of debt and equity securities, the assumption of secured indebtedness, or a combination of these methods.

Our portfolio of investments at September 30, 2004 consisted of 208 healthcare facilities, located in 29 states and operated by 39 third-party operators. This portfolio was made up of:

> 157 long-term healthcare facilities and two rehabilitation hospitals owned and leased to third parties;

> fixed rate mortgages on 46 long-term healthcare facilities; and

> three long-term healthcare facilities that were recovered from customers and closed.

As of September 30, 2004, our gross investments in healthcare facilities, net of impairments, totaled $843.3 million. In addition, we also held miscellaneous investments of approximately $34.4 million, consisting primarily of secured loans to third-party operators of our facilities.

For the nine months ended September 30, 2004, we generated operating revenue of $66.2 million, net income of $4.3 million, and a deficit of $32.5 million of funds from operations, or FFO. FFO is not a financial measure recognized under generally accepted accounting principles in the

United States of America, or GAAP, and, therefore, should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. For more information with respect to FFO and a reconciliation of FFO to GAAP net income, see footnote 1 in the section entitled "Summary Historical Financial Information."

OUR PROPERTY INVESTMENTS

We own a diversified portfolio of assets. The following table summarizes our property investments as of September 30, 2004:

Investment structure/operator	No. of beds	No. of facilities	Occupancy percentage[1]	Gross investment
				(In thousands)
Purchase/leaseback[2]				
Sun Healthcare Group, Inc.	3,561	33	85	$ 156,761
Advocat, Inc.	2,997	29	77	91,567
Seacrest Healthcare	950	7	86	55,020
Haven Healthcare	841	7	94	48,633
HQM of Floyd County, Inc.	643	6	90	37,218
Alden Management Services, Inc	868	4	57	31,727

Mark Ide Limited Liability Company	832	8	84	24,300
Harborside Healthcare Corporation	465	4	90	22,868
Alterra Healthcare Corporation	273	7	75	22,216
Senior Management	863	5	75	22,064
StoneGate Senior Care LP	664	6	86	21,781
CommuniCare Health Services	260	2	70	20,360
Claremont Health Care Holdings, Inc.	268	2	94	20,200
Infinia Properties of Arizona, LLC	378	4	61	18,375
USA Healthcare, Inc.	489	5	82	15,029
Conifer Care Communities, Inc.	195	3	88	14,365
Washington N&R, LLC	286	2	79	12,152
Peak Medical of Idaho, Inc.	224	2	69	10,500
Triad Health Management of Georgia II, LLC	304	2	99	10,000
The Ensign Group, Inc.	271	3	93	9,656
Lakeland Investors, LLC	300	1	63	8,522
Hickory Creek Healthcare Foundation, Inc.	138	2	89	7,250
American Senior Communities, LLC	78	2	86	6,195
Liberty Assisted Living Centers, LP	120	1	97	5,995
Emeritus Corporation	52	1	73	5,674
Longwood Management Corporation	185	2	92	5,425
Eldorado Care Center, Inc. & Magnolia Manor, Inc.	167	2	38	5,100
Nexion Management	131	1	96	4,603
LandCastle Diversified LLC	238	2	61	3,900
Generations Healthcare, Inc.	60	1	70	3,007
Carter Care Centers, Inc.	117	2	70	2,878
Parkview Esko of Paris, Inc./Lamar Healthcare, Inc.	102	1	74	2,540
	17,320	159	81	725,881
Closed facilities				
Closed Facilities		3		3,779
		3		3,779
Fixed rate mortgages[3]				

Mariner Health Care, Inc.	1,618	12	93	59,689
Essex Healthcare Corporation	633	6	76	13,961
Advocat, Inc.	423	4	84	12,687
Parthenon Healthcare, Inc.	300	2	76	10,803
Hickory Creek Healthcare Foundation, Inc.	667	15	79	9,997
Texas Health Enterprises/HEA Mgmt. Group, Inc	408	3	68	2,713
Evergreen Healthcare	191	2	67	1,858
Covenant Care Midwest, Inc.	150	1	61	1,572
Paris Nursing Home, Inc.	144	1	70	407
	4,534	46	82	113,687
Total	21,854	208	81	$ 843,347

(1) Represents the most recent data provided by our operators.

(2) Certain of our lease agreements contain purchase options that permit the lessees to purchase the underlying properties from us. Some of these purchase options could result in us receiving less than fair market value for such facility. As of the date of this prospectus supplement, leases applicable to approximately 11.6% of our total gross investments contain purchase options. The purchase options relating to 2.5% are currently exercisable, the purchase options relating to 1% are exercisable at specified times during the next four years, and the purchase options relating to 8.1% are exercisable in ten years.

(3) In general, many of our mortgages contain prepayment provisions that permit prepayment of the outstanding principal amounts thereunder. In particular, the mortgages with Mariner Health Care, Inc., or Mariner, permit full prepayment beginning on February 1, 2005 and ending July 31, 2005.

COMPETITIVE STRENGTHS

Geographically diverse property portfolio. Our portfolio of properties is broadly diversified by geographic location. We have healthcare facilities located in 29 states. Only one state comprised more than 10% of our rental and mortgage income in 2003. In addition, approximately 86% of our 2003 rental and mortgage income was derived from facilities in states that require state approval for development and expansion of healthcare facilities. We believe that such state approvals may limit competition for our operators and enhance the value of our properties.

Large number of tenants. Our facilities are operated by 39 different public and private healthcare providers. Except for Sun Healthcare Group, Inc., or Sun, and Advocat, Inc., or Advocat, which together represent approximately 31% of our portfolio (by investment), no single tenant represents greater than 10% of our portfolio (by investment).

Significant number of long-term leases and mortgage loans. A large portion of our portfolio consists of long-term lease and mortgage agreements. Approximately 89% of our leases and mortgages have primary terms that expire in 2010 or later. Our leased real estate properties are leased under provisions of single facility leases or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of the master leases provide for minimum annual rentals that are subject to annual increases based upon increases in the Consumer Price Index or increases in revenues of the underlying properties, with certain limits.

Experienced management team. The top four members of our executive team average over 16 years of experience in the long-term healthcare industry. We believe that the long, accomplished tenure of our management team helps to distinguish us from our competitors in the long-term healthcare industry.

OUR STRATEGY

In making investments in properties, we generally have focused on established, creditworthy, middle-market healthcare operators that meet our standards for quality and experience of management. We have sought to diversify our investments in terms of geographic locations and operators. In evaluating potential investments, we consider such factors as:

> the quality and experience of management and the creditworthiness of the operator of the facility;

> the facility's historical and forecasted cash flow and its ability to meet operational needs, capital expenditure requirements and lease or debt service obligations, providing a competitive return on investment to us;

> the construction quality, condition and design of the facility;

> the geographic area of the facility;

> the tax, growth, regulatory and reimbursement environment of the jurisdiction in which the facility is located;

> the occupancy and demand for similar healthcare facilities in the same or nearby communities; and

> the payor mix of private, Medicare and Medicaid patients.

We prefer to invest in equity ownership of properties. Due to regulatory, tax or other considerations, we sometimes pursue alternative investment structures, including convertible participating and participating mortgages, that can achieve returns comparable to equity investments.

OUR INDUSTRY

We are a REIT that invests in income-producing healthcare facilities, principally long-term care facilities located in the United States. Within this long-term care industry, we focus specifically on the approximately $100 billion United States nursing home market by providing lease or mortgage financing to operators of skilled nursing facilities and, to a lesser extent, assisted living and acute care facilities. There are approximately 16,500 nursing homes with approximately 1.7 million total beds certified to provide Medicare and/or Medicaid services in the United States. The nursing home industry is highly fragmented. The ten largest for-profit chains combined control approximately 16% of the industry's beds, with the largest company operating just under 3% of the industry's beds.

The aging population and increased life expectancies are the primary growth drivers for long-term care facilities. According to the United States Census Bureau, in 2000, there were approximately 35 million Americans aged 65 or older, comprising approximately 12% of the total United States population. The number of Americans aged 65 or older is expected to climb to approximately 40.0 million by 2010 and to approximately 54.0 million by 2020. In addition to positive demographic trends, the demand for the services provided by operators of long-term care facilities is expected to increase substantially during the next decade due primarily to the impact of cost containment measures by government and private-pay sources resulting in higher acuity patients being transferred more quickly from hospitals to less expensive care settings such as skilled nursing facilities. National nursing home expenditures are expected to grow from $103.2 billion in 2002 to $184.8 billion in 2013, representing a 5.4% compounded annual growth rate. We believe that these trends will support a growing demand for the services provided by nursing and assisted living facility operators, which in turn will support a growing demand for our properties.

In recent years, Congress has enacted three significant laws that have dramatically altered payments to operators of skilled nursing facilities. Beginning with the passage of the Balanced Budget Act of 1997, or the Balanced Budget Act, payments for Medicare services were reduced and extensive changes in the Medicare and Medicaid programs were made. Congress twice passed legislation intended to mitigate temporarily the reduction in Medicare reimbursement rates for skilled nursing facilities caused by the Balanced Budget Act. These bills were the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999, or the Balanced Budget Refinement Act, and the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, or the Benefits Improvement and Protection Act. These acts implemented several temporary payment increases for services provided in skilled nursing facilities. Two of these temporary payment increases, a 20% increase for 15 resource utilization groups, or RUGS, and a 6.7% increase for 11 other RUGs, remain in effect. As of October 1, 2002, a 4% across-the-board increase in reimbursement rates for RUGs and a 16.7% increase in the nursing component provided for in these acts expired. The payment rates implemented in the final updates to the prospective payment system rules for skilled nursing facilities for federal fiscal years 2003 and 2004, however, have partially mitigated some of the negative effects of this expiration.

Furthermore, Medicaid programs, which are administered at the state level and are a significant source of revenues for our operators, are impacted by fluctuations in state budgets. The recent economic climate has had a detrimental effect on state revenues in most regions of the United States. Given that Medicaid outlays are a significant component of state budgets, we expect continuing cost containment pressures on Medicaid outlays for skilled nursing services in the states in which we maintain facilities.

In large part as a result of the 1997 changes in Medicare reimbursement of services provided by skilled nursing facilities and reimbursement cuts imposed under state Medicaid programs, a number of operators of our properties have encountered significant financial difficulties during the last several years. Some of these operators, including Sun, Integrated Health Services, or IHS, and Mariner filed for bankruptcy protection. Other operators were required to undertake significant restructuring efforts. We have restructured our arrangements with many of our operators by renegotiating lease and mortgage terms, re-leasing properties to new operators and closing and/or disposing of properties.

RECENT DEVELOPMENTS

Re-leasing activity

Alterra Healthcare. On October 1, 2004, we re-leased one assisted living facility formerly leased to Alterra Healthcare located in Ohio and representing 36 beds to a new operator under a single facility lease. This lease has a three-year term and an annual rent of $240,000.

Sun Healthcare Group, Inc. Effective November 1, 2004, we re-leased two skilled nursing facilities formerly leased by Sun and both located in California. The first, representing 59 beds, was re-leased to a new operator under a single facility lease with a ten-year term and an initial annual lease rate of approximately $200,000. The second, representing 98 beds, was also re-leased to a new operator under a single facility lease with a three and a half-year term and an initial annual lease rate of approximately $81,000.

New investments

American Health Care Centers, Inc. Effective October 12, 2004, we entered into a binding Put Agreement, or the Put, whereby we agreed to buy the stock and/or assets of 13 skilled nursing facilities in Ohio for a purchase price of approximately $79 million. The holder of the Put, American Health Care Centers, Inc., or American, and its affiliated companies paid us $1,000 for the Put and agreed to eliminate their right to prepay their current mortgage with us in the event the option is not exercised. American has 90 days from the effective date of the Put in which to exercise its option to sell the properties to us, and if the option is exercised, then the transaction is expected to close within 10 days. A portion of the purchase price equal to approximately $7 million was paid by Omega to American in 1997 to obtain a separate option to acquire the properties and will now be applied to the purchase price in the event the Put is exercised by American. The 13 properties are currently subject to a master lease with Essex Healthcare Corporation, or Essex. If the Put is exercised, we would expect the current lease with Essex to continue in effect.

The existing lease with Essex is scheduled to expire on November 30, 2010. In 2005, annual payments under the lease are expected to be approximately $7.9 million with annual increases thereafter.

We previously made a $14 million mortgage loan to American and its affiliates, encumbering six of the 13 properties. The $14 million mortgage loan will be deducted from the purchase price at closing, making our net investment of new capital approximately $58 million, after applying the $7 million purchase option price and the $14 million owing to us under the mortgage loan.

Guardian LTC Management, Inc. On November 2, 2004, we purchased 14 skilled nursing facilities and one assisted living facility from subsidiaries of Guardian LTC Management, Inc., or Guardian, for a total investment of $72.4 million. Thirteen of the facilities are located in Pennsylvania and two in Ohio. The 15 facilities were simultaneously leased back to the sellers, which are subsidiaries of Guardian, under a new master lease effective November 2, 2004. On December 3, 2004, we purchased one additional facility located in West Virginia from the sellers for an additional $7.7 million. The West Virginia facility is a combined skilled nursing facility and rehabilitation hospital. The West Virginia facility was added to the master lease on December 3, 2004.

Rent under the master lease is $8.2 million for the first lease year commencing November 2, 2004, with annual increases thereafter. The term of the master lease is ten years and runs through October 31, 2014, followed by four renewal options of five-years each. We also received a security deposit equivalent to three months rent.

CommuniCare Health Services, Inc. We closed a first mortgage loan on November 1, 2004, in the amount of $6.5 million on one skilled nursing facility in Cleveland, Ohio. The operator of the facility is an affiliate of CommuniCare Health Services, Inc., an existing Omega tenant. The term of the mortgage is ten years and carries an interest rate of 11%. We received a security deposit equivalent to three months interest.

7% Senior Notes due 2014

On March 22, 2004, we issued $200 million aggregate principal amount of 7% Senior Notes due 2014, or the initial notes, through a private placement to qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S promulgated under the Securities Act of 1933, as amended, or the Securities Act. We used proceeds from the offering of the initial notes to replace and terminate our previous $225 million senior secured credit facility and $50 million acquisition credit facility, or the prior credit facility. The initial notes, which are unsecured, bear an interest rate of 7%, payable semi-annually in arrears on April 1 and October 1 of each year. The initial notes mature on April 1, 2014. The initial notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis by our subsidiaries.

On November 8, 2004, we issued an additional $60 million aggregate principal amount of 7% Senior Notes due 2014, or the new notes, through a private placement to qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S promulgated under the Securities Act. The new notes, together with the initial notes, constitute part of a single class of securities. Immediately after giving effect to the issuance of the new notes, we had outstanding $260 million aggregate principal amount of our 7% Senior Notes due 2014.

Senior revolving credit facility

On March 22, 2004, we entered into an agreement with Banc of America Securities LLC, as lead arranger, Bank of America, N.A., as administrative agent and a lender, and a syndicate of other financial institutions as lenders, including UBS Loan Finance LLC and Deutsche Bank AG, to provide a $125 million senior secured four-year revolving credit facility, to which we refer in this prospectus supplement as our senior revolving credit facility. The borrowers under the senior revolving credit facility are certain of our subsidiaries that hold borrowing base properties. We guarantee the obligations of these subsidiaries under the senior revolving credit facility. On April 30, 2004, we exercised our right to increase the revolving commitments under the senior revolving credit facility by an additional $50 million to $175 million. On November 5, 2004, we amended the senior revolving credit facility to permit further increases of the revolving commitments under the senior revolving credit facility by an additional $125 million, up to $300 million in the future. On December 2, 2004, we exercised our right to increase the aggregate revolving committed amount under the senior revolving credit facility by $25 million to an aggregate of $200 million.

As of the date of this prospectus supplement, we have $60 million in borrowings outstanding under our senior revolving credit facility.

CORPORATE INFORMATION

We were incorporated in the State of Maryland on March 31, 1992. Our principal executive offices are located at 9690 Deereco Road, Suite 100, Timonium, Maryland 21093, and our telephone number is (410) 427-1700. Additional information regarding our company is set forth in the documents on file with the Securities and Exchange Commission, or SEC, and incorporated by reference in this prospectus supplement. See "Incorporation of certain information by reference" and "Where you can find more information."

The offering

Common stock we are offering	3,500,000 shares.
Common stock to be outstanding immediately after the offering	50,292,140 shares.
New York Stock Exchange symbol	OHI
Use of proceeds	We expect to use the net proceeds of this offering to repay approximately $40.3 million of indebtedness outstanding under our senior revolving credit facility.

	We may also use the net proceeds of this offering for working capital and general corporate purposes. See "Use of Proceeds."
Risk factors	This investment involves a high degree of risk. See the section entitled "Risk Factors" beginning on page S-10 of this prospectus supplement for a discussion of certain factors you should consider before deciding to invest in our common stock.

The number of shares of our common stock outstanding after this offering is based on approximately 46,792,140 shares outstanding as of November 30, 2004 and excludes:

> 557,368 shares of our common stock issuable upon exercise of options outstanding as of November 30, 2004 at a weighted average exercise price of $3.872 per share;

> 1,650,466 shares of our common stock available for issuance under our dividend reinvestment and common stock purchase plan as of November 30, 2004;

> 2,922,465 shares of our common stock available for future grant under our 2000 Stock Incentive Plan and our 2004 Stock Incentive Plan;

> 317,500 unvested shares of our restricted common stock; and

> 525,000 shares of our common stock that may be purchased by underwriters to cover over-allotments, if any.

Unless otherwise stated, all information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option.

Summary historical financial information

The following table sets forth summary consolidated financial data as of the dates and for the periods presented. The operating data and other financial data as of, and for each of the years during the three-year period ended, December 31, 2003, have been derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes incorporated by reference in this prospectus supplement. The operating data and other financial data as of and for each of the years ended December 31, 1999 and 2000 are derived from our audited consolidated financial statements. The operating data, other financial data and balance sheet data as of, and for the nine months ended, September 30, 2003 and September 30, 2004, have been derived from, and should be read in conjunction with, our unaudited consolidated financial statements for the fiscal quarter ended September 30, 2004 and the related notes incorporated by reference in this prospectus supplement and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim periods.

	Year ended December 31,					Nine months ended September 30,	
	1999	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
				(In thousands)			
Operating data:							
Revenues:							
Operations	$ 120,385	$ 98,325	$ 88,082	$ 90,699	$ 84,080	$ 63,147	$ 66,211
Nursing home operations	1,050	167,287	162,042	42,905	4,601	3,456	

	Year ended December 31,					Nine months ended September 30,	
Other					2,187	2,187	
Total revenues	121,435	265,612	250,124	133,604	90,868	68,790	66,211
Interest Expense	42,947	42,400	33,204	27,381	23,388	17,964	36,784
(Loss) income from continuing operations	18,966	(43,250)	(15,588)	(3,744)	23,341	16,475	4,772
Net (loss) income available to common	10,040	(66,485)	(36,651)	(34,761)	2,915	2,760	(49,021)
Other financial data:							
Depreciation and amortization	23,396	22,340	21,300	20,538	20,985	15,745	16,002
Funds from operations(1)	44,758	(53,209)	(12,591)	(16,985)	24,490	16,101	(32,528)

	As of September 30, 2004		
	Actual	Pro forma(2)	Pro forma, as adjusted(3)
		(In thousands)	
Balance sheet data:			
Cash	$ 3,303	$ 3,303	$ 3,303
Gross investments	877,746	964,346	964,346
Total assets	746,682	833,282	833,282
Total debt(4)	340,170	428,120	387,822
Stockholders' equity	384,432	384,432	424,730

(1) *We consider funds from operations, or FFO, to be a key measure of a REIT's performance which should be considered along with, but not as an alternative to, net income and cash flow as a measure of operating performance and liquidity. We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts, or NAREIT, and, consequently, FFO is defined as net income available to common stockholders, adjusted for the effects of asset dispositions and certain non-cash items, primarily depreciation and amortization. FFO available to common stockholders is the lower of funds from operations and funds from operations adjusted for the assumed conversion of our Series C cumulative preferred stock, or Series C preferred stock, for periods in*

which the Series C preferred stock was outstanding. We believe that FFO is an important supplemental measure of our operating performance. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time, while real estate values instead have historically risen or fallen with market conditions. The term FFO was designed by the real estate industry to address this issue. FFO herein is not necessarily comparable to FFO of other real estate investment trusts, or REITs, that do not use the same definition of implementation guidelines or interpret the standards differently from us.

We use FFO as one of several criteria to measure operating performance of our business. We further believe that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and between other REITs. We offer this measure to assist the users of our financial performance under GAAP and should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investor and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income. In February 2004, NAREIT informed its member companies that it was adopting the position of the SEC with respect to asset impairment charges and would no longer recommend that impairment *write-downs be excluded from FFO. In the table included below, we have applied this interpretation and have not excluded asset impairment charges in calculating our FFO. As a result, our FFO may not be comparable to similar measures reported in previous disclosures. According to NAREIT, there is inconsistency among NAREIT member companies as to the adoption of this interpretation of FFO. Therefore, a comparison of our FFO results to another company's FFO results may not be meaningful.*

The following table is a reconciliation of net income (loss) available to common to FFO:

	Year ended December 31,					Nine months ended September 30,	
	1999	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
				(In thousands)			
Net income (loss) available to common	$ 10,040	$ (66,485)	$ (36,651)	$ (34,761)	$ 2,915	$ 2,760	$ (49,021)
(Deduct gain) add back loss from real estate dispositions[(a)]	10,507	(9,989)	677	(2,548)	149	(2,778)	488
	20,547	(76,474)	(35,974)	(37,309)	3,064	(18)	(48,533)
Elimination of non-cash items included in net income (loss):							
Depreciation and amortization[(b)]	24,211	23,265	22,066	21,270	21,426	16,119	16,005
Adjustments of derivatives to fair market value			1,317	(946)			
FFO	$ 44,758	$ (53,209)	$ (12,591)	$ (16,985)	$ 24,490	$ 16,101	$ (32,528)

(a)

The add back of loss/deduction of gain from real estate dispositions includes the facilities classified as discontinued operations in our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. The nine months ended September 30, 2004 net loss add back includes a $0.5 million loss related to facilities classified as discontinued operations.

(b)

The add back of depreciation and amortization includes the facilities classified as discontinued operations in our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. The 1999, 2000, 2001, 2002 and 2003 and nine months ended September 30, 2003 and 2004 includes depreciation of $0.8 million, $0.9 million, $0.8 million, $0.7 million, $0.4 million, $0.4 million and $2,000, respectively, related to facilities classified as discontinued operations.

(2)

On a pro forma basis giving effect to the issuance in November 2004 of $60 million aggregate principal amount of additional 7% Senior Notes due 2014, including the related premium, the completion of new investments and borrowings under our senior revolving credit facility since October 1, 2004.

(3)

On a pro forma as adjusted basis giving effect to our sale of the common stock in this offering at an assumed offering price of $12.27 per share and the receipt of the estimated net proceeds of this sale, the assumed application of approximately $40.3 million of the net proceeds to repay a portion of our outstanding borrowings under our senior revolving credit facility, the issuance in November 2004 of $60 million aggregate principal amount of additional 7% Senior Notes due 2014, including the related premium, and the completion of new investments and borrowings under our senior revolving credit facility since October 1, 2004.

(4)

Total debt includes long-term debt and current maturities of long-term debt.

Risk factors

You should carefully consider the following risk factors, in addition to the other information contained in this prospectus supplement and the accompanying prospectus, before purchasing shares of our common stock. Investing in our common stock involves a high degree of risk. If any of the events described in the following risk factors occurs, our business, operating results and financial condition could be seriously harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of such events, and you may lose all or part of your investment.

RISKS RELATED TO THE OPERATORS OF OUR FACILITIES

Our financial position could be weakened if any of our major operators were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our facilities or make mortgage loans on economically favorable terms. These adverse developments could arise due to a number of factors, including those listed below.

Our recent efforts to restructure and stabilize our portfolio may not prove to be successful.

In large part as a result of the 1997 changes in Medicare reimbursement of services provided by skilled nursing facilities and reimbursement cuts imposed under state Medicaid programs, a number of operators of our properties have encountered significant financial difficulties during the last several years. In 1999, our investment portfolio consisted of 216 properties and our largest public operators (by investment) were Sun, IHS, Advocat and Mariner. Some of these operators, including Sun, IHS and Mariner, subsequently filed for bankruptcy protection. Other of our operators were required to undertake significant restructuring efforts. We have restructured our arrangements with many of our operators whereby we have renegotiated lease and mortgage terms, re-leased properties to new operators and have closed and/or disposed of properties. At September 30, 2004, our investment portfolio consisted of 208 propertie