

OMEGA HEALTHCARE INVESTORS INC  
Form 10-Q  
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OMEGA HEALTHCARE INVESTORS, INC.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

(Exact name of Registrant as specified in its charter)

Maryland

1-11316

38-3041398

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(Omega Healthcare Investors, Inc.) Delaware (OHI Healthcare Properties Limited Partnership) (State of incorporation or organization) 303 International Circle, Suite 200, Hunt Valley, MD 21030 (Address of principal executive offices)	(Omega Healthcare Investors, Inc.) 333-203447-11 (OHI Healthcare Properties Limited Partnership) (Commission file number)	(Omega Healthcare Investors, Inc.) 36-4796206 (OHI Healthcare Properties Limited Partnership) (IRS Employer Identification No.)
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(410) 427-1700  
(Telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

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

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

Omega Healthcare Investors, Inc.

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

OHI Healthcare Properties Limited Partnership

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



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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Omega Healthcare Investors, Inc.                      OHI Healthcare Properties Limited Partnership

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

Omega Healthcare Investors, Inc.    Yes    No    OHI Healthcare Properties Limited Partnership    Yes    No  
Indicate the number of shares outstanding of each of the issuers' classes of common stock as of October 31, 2018

Omega Healthcare Investors, Inc.  
Common Stock, \$.10 par value    200,696,539

OHI Healthcare Properties Limited Partnership  
N/A                                      No common stock outstanding  
(Class)                                      (Number of shares)

## EXPLANATORY NOTE

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

Omega is a self-administered real estate investment trust (“REIT”) under the Internal Revenue Code of 1986. Omega is structured as an umbrella partnership REIT (“UPREIT”) under which all of Omega's assets are owned directly or indirectly by, and all of Omega's operations are conducted directly or indirectly through, its operating partnership subsidiary, Omega OP.

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

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

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

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

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

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

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

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

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OMEGA HEALTHCARE INVESTORS, INC.

OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

FORM 10-Q

September 30, 2018

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## PART I – FINANCIAL INFORMATION

## Item 1 - Financial Statements

## OMEGA HEALTHCARE INVESTORS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Real estate properties		
Real estate investments	\$ 7,700,636	\$ 7,655,960
Less accumulated depreciation	(1,515,846)	(1,376,828)
Real estate investments – net	6,184,790	6,279,132
Investments in direct financing leases – net	163,467	364,965
Mortgage notes receivable – net	708,178	671,232
	7,056,435	7,315,329
Other investments – net	511,668	276,342
Investment in unconsolidated joint venture	32,159	36,516
Assets held for sale – net	17,826	86,699
Total investments	7,618,088	7,714,886
Cash and cash equivalents	9,768	85,937
Restricted cash	1,371	10,871
Accounts receivable – net	336,825	279,334
Goodwill	644,201	644,690
Other assets	31,711	37,587
Total assets	\$ 8,641,964	\$ 8,773,305
<b>LIABILITIES AND EQUITY</b>		
Revolving line of credit	\$ 360,000	\$ 290,000
Term loans – net	900,847	904,670
Secured borrowings – net	-	53,098

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Senior notes and other unsecured borrowings – net	3,327,393	3,324,390
Accrued expenses and other liabilities	253,560	295,142
Deferred income taxes	14,198	17,747
Total liabilities	4,855,998	4,885,047
Equity:		
Common stock \$.10 par value authorized – 350,000 shares, issued and outstanding – 200,693 shares as of September 30, 2018 and 198,309 as of December 31, 2017	20,069	19,831
Common stock – additional paid-in capital	5,012,544	4,936,302
Cumulative net earnings	2,068,295	1,839,356
Cumulative dividends paid	(3,606,181)	(3,210,248)
Accumulated other comprehensive loss	(32,382)	(30,150)
Total stockholders’ equity	3,462,345	3,555,091
Noncontrolling interest	323,621	333,167
Total equity	3,785,966	3,888,258
Total liabilities and equity	\$ 8,641,964	\$ 8,773,305

See notes to consolidated financial statements.

## OMEGA HEALTHCARE INVESTORS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue				
Rental income	\$ 192,276	\$ 194,063	\$ 579,075	\$ 580,597
Income from direct financing leases	264	614	1,374	31,722
Mortgage interest income	18,396	16,920	51,809	49,173
Other investment income	10,259	7,245	27,883	21,437
Miscellaneous income	657	796	1,791	4,250
Total operating revenues	221,852	219,638	661,932	687,179
Expenses				
Depreciation and amortization	70,711	71,925	210,681	212,268
General and administrative	14,240	11,560	45,952	35,625
Acquisition costs	-	-	-	(22)
Impairment on real estate properties	22,868	17,837	26,685	35,610
Impairment on direct financing leases	-	194,659	15	197,968
(Recovery) provision for uncollectible accounts	(2,000)	11,899	6,363	13,667
Total operating expenses	105,819	307,880	289,696	495,116
Income (loss) before other income and expense	116,033	(88,242)	372,236	192,063
Other income (expense)				
Interest income and other - net	(1,214)	4	496	262
Interest expense	(47,764)	(47,383)	(143,857)	(140,509)
Interest – amortization of deferred financing costs	(2,238)	(2,228)	(6,723)	(7,273)
Interest – refinancing costs	-	-	-	(21,965)
Contractual settlement	-	-	-	10,412
Realized gain on foreign exchange	27	95	20	235
Total other expense	(51,189)	(49,512)	(150,064)	(158,838)
Income (loss) before (loss) gain on assets sold	64,844	(137,754)	222,172	33,225
(Loss) gain on assets sold – net	(5,361)	693	9,248	7,491
Income (loss) from continuing operations	59,483	(137,061)	231,420	40,716
Income tax expense	(804)	(999)	(2,185)	(2,690)
Income (loss) from unconsolidated joint venture	383	545	(254)	1,728
Net income (loss)	59,062	(137,515)	228,981	39,754

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Net (income) loss attributable to noncontrolling interest	(2,456)	5,837	(9,619)	(1,735)
Net income (loss) available to common stockholders	\$ 56,606	\$ (131,678)	\$ 219,362	\$ 38,019
Earnings per common share available to common stockholders:				
Basic:				
Net income (loss) available to common stockholders	\$ 0.28	\$ (0.67)	\$ 1.10	\$ 0.19
Diluted:				
Net income (loss)	\$ 0.28	\$ (0.67)	\$ 1.10	\$ 0.19
Weighted-average shares outstanding, basic	200,910	197,890	199,773	197,445
Weighted-average shares outstanding, diluted	210,437	206,662	208,905	206,502

See notes to consolidated financial statements.

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OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 59,062	\$ (137,515)	\$ 228,981	\$ 39,754
Other comprehensive (loss) income:				
Foreign currency translation	(3,518)	5,022	(9,802)	19,630
Cash flow hedges	1,196	2,351	7,472	198
Total other comprehensive (loss) income	(2,322)	7,373	(2,330)	19,828
Comprehensive income (loss)	56,740	(130,142)	226,651	59,582
Comprehensive (income) loss attributable to noncontrolling interest	(2,359)	5,524	(9,521)	(2,579)
Comprehensive income (loss) attributable to common stockholders	\$ 54,381	\$ (124,618)	\$ 217,130	\$ 57,003

See notes to consolidated financial statements.

## OMEGA HEALTHCARE INVESTORS, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited

(in thousands, except per share amounts)

	Common Stock Par Value	Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2017 (198,309 common shares & 8,772 Omega OP Units)	\$ 19,831	\$ 4,936,302	\$ 1,839,356	\$ (3,210,248)	\$ (30,150)	\$ 3,555,091	\$ 333,167	\$ 3,888,258
Cumulative effect of accounting change (see Note 1)	-	-	9,577	-	-	9,577	423	10,000
Balance at January 1, 2018 (198,309 common shares & 8,772 Omega OP Units)	19,831	4,936,302	1,848,933	(3,210,248)	(30,150)	3,564,668	333,590	3,898,258
Grant of restricted stock to company directors (38 shares at \$30.36 per share)	4	(4)	-	-	-	-	-	-
Stock-based compensation expense	-	12,107	-	-	-	12,107	-	12,107
Vesting/exercising of equity compensation plan, net of tax withholdings (89 shares)	9	(1,663)	-	-	-	(1,654)	-	(1,654)
	126	36,778	-	-	-	36,904	-	36,904

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Dividend reinvestment and stock purchase plan (1,257 shares at an average of \$29.36 per share)									
Deferred compensation directors (35 shares at \$30.42 per share)	3	191	-	-	-	194	-	194	
Equity Shelf Program (912 shares at \$29.82 per share, net of issuance costs)	91	27,111	-	-	-	27,202	-	27,202	
Common dividends declared (\$1.98 per share)	-	-	-	(395,933)	-	(395,933)	-	(395,933)	
Conversion of Omega OP Units to common stock (53 share at \$32.98 per share)	5	1,722	-	-	-	1,727	-	1,727	
Redemption of Omega OP Units (57 units at \$32.52 per share)	-	-	-	-	-	-	(1,845)	(1,845)	
Omega OP Units distributions	-	-	-	-	-	-	(17,645)	(17,645)	
Comprehensive income:									
Foreign currency translation	-	-	-	-	(9,390)	(9,390)	(412)	(9,802)	
Cash flow hedges	-	-	-	-	7,158	7,158	314	7,472	
Net income	-	-	219,362	-	-	219,362	9,619	228,981	
Total comprehensive income									226,651
Balance at September 30, 2018 (200,693 shares & 8,715 Omega OP Units)	\$ 20,069	\$ 5,012,544	\$ 2,068,295	\$ (3,606,181)	\$ (32,382)	\$ 3,462,345	\$ 323,621	\$ 3,785,960	

See notes to consolidated financial statements.





## OMEGA HEALTHCARE INVESTORS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 228,981	\$ 39,754
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	210,681	212,268
Impairment on real estate properties	31,860	35,610
Impairment on direct financing leases	15	197,968
Provision for uncollectible accounts	6,363	13,667
Interest - amortization of deferred financing costs	6,723	17,468
Accretion of direct financing leases	89	(6,139)
Stock-based compensation expense	12,107	11,350
Gain on assets sold – net	(9,248)	(7,491)
Amortization of acquired in-place leases - net	(7,518)	(9,101)
Effective yield receivable on mortgage notes	(889)	(1,558)
Interest paid-in-kind	(4,944)	-
Change in operating assets and liabilities – net:		
Contractual receivables	2,265	(35,418)
Straight-line rent receivables	(46,787)	(13,559)
Lease inducements	(32,315)	1,342
Other operating assets and liabilities	(48,918)	(28,893)
Net cash provided by operating activities	348,465	427,268
Cash flows from investing activities		
Acquisition of real estate	(52,744)	(345,268)
Net proceeds from sale of real estate investments	246,351	69,788
Investments in construction in progress	(98,760)	(69,409)
Investments in direct financing leases	-	(6,951)
Proceeds from sale of direct financing lease	16,947	33,074
Placement of mortgage loans	(62,185)	(29,324)
Collection of mortgage principal	25,612	1,058
Distributions from unconsolidated joint venture	4,407	10,966
Capital improvements to real estate investments	(24,425)	(25,293)
Receipts from insurance proceeds	6,911	-
Investments in other investments	(374,784)	(86,075)
Proceeds from other investments	162,118	45,045
Cash acquired	-	2,341
Net cash used in investing activities	(150,552)	(400,048)

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Cash flows from financing activities		
Proceeds from credit facility borrowings	1,003,000	1,487,000
Payments on credit facility borrowings	(933,000)	(1,312,000)
Receipts of other long-term borrowings	-	1,346,749
Payments of other long-term borrowings	(2,049)	(1,252,463)
Payments of financing related costs	(8)	(29,198)
Receipts from dividend reinvestment plan	36,904	30,136
Payments for exercised options and restricted stock	(1,654)	(2,120)
Net proceeds from issuance of common stock	27,202	22,196
Dividends paid	(395,738)	(373,424)
Redemption of Omega OP Units	(118)	(48)
Distributions to Omega OP Unit Holders	(17,645)	(16,819)
Net cash used in financing activities	(283,106)	(99,991)
Effect of foreign currency translation on cash, cash equivalents and restricted cash	(476)	409
Decrease in cash, cash equivalents and restricted cash	(85,669)	(72,362)
Cash, cash equivalents and restricted cash at beginning of period	96,808	107,276
Cash, cash equivalents and restricted cash at end of period	\$ 11,139	\$ 34,914
See notes to consolidated financial statements.		

## OHI HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Real estate properties		
Real estate investments	\$ 7,700,636	\$ 7,655,960
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Assets held for sale – net	17,826	86,699
Total investments	7,618,088	7,714,886
Cash and cash equivalents	9,768	85,937
Restricted cash	1,371	10,871
Accounts receivable – net	336,825	279,334
Goodwill	644,201	644,690
Other assets	31,711	37,587
Total assets	\$ 8,641,964	\$ 8,773,305

## LIABILITIES AND OWNERS' EQUITY