

AMERICAN AXLE & MANUFACTURING HOLDINGS INC

Form S-3ASR

July 12, 2011

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As filed with the Securities and Exchange Commission on July 12, 2011

Registration No.

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

**Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

American Axle & Manufacturing, Inc.

(Exact name of registrant as specified in its charter)

Delaware <i>(State or other jurisdiction of incorporation of organization)</i> <i>(Address including zip code, and telephone number, including area code, of registrant's principal executive offices)</i>	One Dauch Drive Detroit, Michigan 48211 (313) 758-2000	38-3138388 <i>(I.R.S. employer Identification No.)</i>
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American Axle & Manufacturing Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware <i>(State or other jurisdiction of incorporation or organization)</i> <i>(Address including zip code, and telephone number, including area code, of registrant's principal executive offices)</i>	One Dauch Drive Detroit, Michigan 48211 (313) 758-2000	38-3161171 <i>(I.R.S. employer Identification No.)</i>
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AAM International Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware <i>(State or other jurisdiction of incorporation or</i>	One Dauch Drive Detroit, Michigan 48211 (313) 758-2000	38-3439761 <i>(I.R.S. Employer Identification No.)</i>
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organization)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

AccuGear, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other
jurisdiction*

*of incorporation or
organization)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**One Dauch Drive
Detroit, Michigan 46818
(313) 758-2000**

26-3788013
*(I.R.S. Employer
Identification No.)*

Colfor Manufacturing, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other
jurisdiction*

*of incorporation or
organization)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**One Dauch Drive
Detroit, Michigan 48211
(313) 758-2000**

34-1834325
*(I.R.S. Employer
Identification No.)*

DieTronik, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other
jurisdiction*

*of incorporation or
organization)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**One Dauch Drive
Detroit, Michigan 48211
(313) 758-2000**

26-3005324
*(I.R.S. Employer
Identification No.)*

MSP Industries Corporation

(Exact name of registrant as specified in its charter)

Michigan

*(State or other
jurisdiction*

*of incorporation or
organization)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**One Dauch Drive
Detroit, Michigan 48211
(313) 758-2000**

38-2382767
*(I.R.S. Employer
Identification No.)*

Oxford Forge, Inc.

Exact name of registrant as specified in its charter)

Delaware

One Dauch

83-0500168

Drive

Detroit,

Michigan 48211

(313) 758-2000

*(I.R.S. Employer
Identification No.)*

*(State or other
jurisdiction
of incorporation or
organization)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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**Steven R. Keyes
American Axle & Manufacturing, Inc.
One Dauch Drive
Detroit, Michigan 48211
(313) 758-2000**

(Name, address, including zip code, and telephone number, including area code, of agent for service for the registrants)

Copies to:

**Lisa L. Jacobs, Esq.
Shearman & Sterling LLP
599 Lexington Avenue
New York, New York 10022
(212) 848-4000**

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Debt Securities, Guarantees(2), Warrants to Purchase Debt Securities, Preferred Stock, Common Stock, Warrants to Purchase Common Stock,	(1)	(1)	(1)(3)

- (1) An unspecified aggregate initial offering price or number of the securities of each identified class is being registered as may from time to time be offered at unspecified prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities. In accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended, the registrants are deferring payment of all of the registration fee and will pay the registration fee subsequently in advance or on a pay-as-you-go basis.
- (2) In accordance with Rule 457(n), no separate consideration will be received for the guarantees. AAM International Holdings, Inc., AccuGear, Inc., Colfor Manufacturing Inc., DieTronik, Inc., MSP Industries Corporation, Oxford Forge, Inc., and certain future subsidiaries may, jointly or severally, fully, irrevocably and unconditionally guarantee on an unsecured basis the debt securities of American Axle Manufacturing, Inc.
- (3) Pursuant to Rule 457(p), American Axle Manufacturing, Inc. and American Axle Manufacturing Holdings, Inc. previously paid registration fees for unsold securities in connection with Registration Statement No. 333-162550, filed on Form S-3 in December 2009 and declared effective. Details about the fees previously paid are set out below. Registration Statement No. 333-162550 is deregistered hereby.

The amount previously paid relating to unsold primary securities registered under Registration Statement No. 333-162550 was \$21,778.74, in connection with unsold primary securities in the amount of \$390,300,000.

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PROSPECTUS

**AMERICAN AXLE & MANUFACTURING, INC.
AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
AAM International Holdings, Inc.
AccuGear, Inc.
Colfor Manufacturing, Inc.
DieTronik, Inc.
MSP Industries Corporation
Oxford Forge, Inc.**

**Debt Securities
Guarantees
Warrants to Purchase Debt Securities
Warrants to Purchase Common Stock
Common Stock
Preferred Stock**

We will provide the specific terms of these securities in supplements or term sheets to this prospectus and whether an offer will be made by us, a selling security holder or both. You should read this prospectus, the prospectus supplements and term sheets carefully before you invest.

We will not use this prospectus to confirm sales of any securities unless it is attached to a prospectus supplement or a term sheet.

American Axle & Manufacturing Holdings, Inc.'s common stock is listed on the New York Stock Exchange under the symbol AXL.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PROSPECTUS IS JULY 12, 2011.

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You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement. No one has been authorized to provide you with different information.

The securities are not being offered in any jurisdiction where the offer is not permitted.

You should not assume that the information contained in or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of the documents.

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RISK FACTORS

Your investment in the securities involves certain risks. In consultation with your own financial and legal advisers, you should carefully consider whether an investment in the securities is suitable for you. The securities are not an appropriate investment for you if you do not understand the terms of the securities or financial matters generally. Risks relating to the securities will be set forth in the relevant prospectus supplement for the offering of such securities. In addition, certain factors that may adversely affect the business of AAM Inc. (as defined below) or Holdings (as defined below) are discussed in our periodic reports referred to in [Where You Can Find More Information](#), [below](#). For example, Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2010 contains a discussion of significant risks that could be relevant to an investment in the securities. You should not purchase the securities described in this prospectus unless you understand and know you can bear all of the investment risks involved.

WHERE YOU CAN FIND MORE INFORMATION

We are required to comply with the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, in accordance with those requirements, we file combined reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Unless the context otherwise requires, references in this prospectus to the company, we, our, and us shall mean collectively (i) American Axle & Manufacturing, Inc., or AAM Inc., a Delaware corporation, and its direct and indirect subsidiaries and (ii) American Axle & Manufacturing Holdings, Inc., or Holdings, a Delaware corporation and the direct parent corporation of AAM Inc.

You can call the SEC's toll-free number at 1-800-SEC-0330 for further information. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding companies like ours that file with the SEC electronically. The documents can be found by searching the EDGAR archives at the SEC's website or can be inspected and copied at the Public Reference Section of the SEC located at 100 F Street, NE, Washington, D.C. 20549. Our SEC filings and other information about us may also be obtained from our website at www.aam.com, although information on our website does not constitute a part of this prospectus. Material that we have filed may also be inspected at the library of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents that are considered part of this prospectus. Later information that we file will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (i) after the date of the filing of this registration statement and prior to effectiveness and (ii) until the offering of the particular securities covered by a prospectus supplement or term sheet has been completed. This prospectus is part of a registration statement filed with the SEC.

We are incorporating by reference into this prospectus the following documents filed with the SEC (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

Holdings' annual report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on February 9, 2010 (including information specifically incorporated by reference into the annual report on Form 10-K from Holdings' proxy statement on Schedule 14A filed with the SEC on March 21, 2011).

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Holdings quarterly report on Form 10-Q for the quarter ended March 31, 2011 filed with the SEC on April 29, 2011.

Holdings current reports on Form 8-K filed with the SEC on January 7, 2011, February 8, 2011 (excluding Item 2.02), May 4, 2011 and July 1, 2011.

The documents incorporated by reference in this prospectus are available from us upon request. We will provide a copy of any and all of the information that is incorporated by reference in this prospectus to any person, without charge, upon written or oral request. Requests for such copies should be directed to the following:

American Axle & Manufacturing Holdings, Inc.
Attention: Investor Relations
One Dauch Drive
Detroit, Michigan 48211-1198
Telephone Number: (313) 758-4814

Except as provided above, no other information, including, but not limited to, information on our websites is incorporated by reference in this prospectus.

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AMERICAN AXLE & MANUFACTURING

We are a Tier I supplier to the automotive industry. We manufacture, engineer, design and validate driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driving heads, crankshafts, transmission parts and metal-formed products.

We are the principal supplier of driveline components to General Motors Company (GM) for its rear-wheel drive light trucks and SUVs manufactured in North America, supplying substantially all of GM 's rear axle and front four-wheel drive and all-wheel drive axle requirements for these vehicle platforms.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by a Lifetime Program Contract (LPC). Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs or their respective derivatives, which typically run 6 to 10 years, and require us to remain competitive with respect to technology, design and quality.

We are also the principal supplier of driveline system products for the Chrysler Group LLC 's (Chrysler) heavy-duty Dodge Ram full-size pickup trucks and its derivatives. In addition to GM and Chrysler, we supply driveline systems and other related components to Volkswagen AG, Scania AB, PACCAR Inc., Harley-Davidson Inc., Deere & Company, Tata Motors, Mack Trucks Inc., Nissan Motor Co., Ltd., Ford Motor Company and other original equipment manufacturers and Tier I supplier companies.

USE OF PROCEEDS

Except as may be described otherwise in a prospectus supplement or term sheet, we will add the net proceeds from the sale of the securities under this prospectus to our general funds and will use them for working capital and other general corporate purposes, which may include, among other things, reducing or refinancing indebtedness or funding acquisitions.

PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may sell any combination of the following securities in one or more offerings:

debt securities (debt securities), which may be either senior (the senior securities) or subordinated (the subordinated securities), unsecured (unsecured debt securities) or secured (secured debt securities) guaranteed by Holdings and/or certain subsidiaries of AAM Inc. which may include AAM International Holdings, Inc., AccuGear, Inc., Colfor Manufacturing, Inc., DieTronik, Inc., MSP Industries Corporation and Oxford Forge, Inc. (collectively, the Subsidiary Guarantors, and, together with Holdings, the Guarantors);

warrants to purchase debt securities (debt warrants);

shares of the common stock of Holdings (common stock);

shares of Holdings preferred stock (preferred stock); or

warrants to purchase common stock of Holdings (common stock warrants, and the shares underlying such common stock warrants, the warrant shares).

The terms of the securities will be determined at the time of offering.

We will refer to the debt securities, debt warrants, common stock warrants, warrant shares, the guarantees of the debt securities, common stock and preferred stock, or any combination of those securities, proposed to be sold under this prospectus and the applicable prospectus supplement or term sheet as the offered securities. The

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offered securities, together with any debt securities, common stock and preferred stock issuable upon exercise of debt warrants, common stock warrants, warrant shares or conversion or exchange of other offered securities, as applicable, will be referred to as the securities.

You should rely only on the information contained or incorporated by reference in this prospectus or prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, prospectus supplement, or any documents incorporated by reference is accurate only as of the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since then.

PROSPECTUS SUPPLEMENT OR TERM SHEET

This prospectus provides you with a general description of the debt securities, warrants to purchase debt securities, common stock warrants, warrant shares, common stock and preferred stock we may offer. Each time we sell securities, we will provide a prospectus supplement or term sheet that will contain specific information about the terms of that offering and whether securities are being offered by us, a selling security holder or both. The prospectus supplement or term sheet may also add to, update or change information contained in this prospectus, and accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in the prospectus supplement or term sheet. You should read both this prospectus and any prospectus supplement or term sheet together with the additional information described under the heading **Where You Can Find More Information**.

The prospectus supplement or term sheet to be attached to the front of this prospectus will describe: the terms of the securities offered, any initial public offering price, the price paid to us for the securities, the net proceeds to us, the manner of distribution and any underwriting compensation and the other specific material terms related to the offering of these securities.

For more detail on the terms of the securities, you should read the exhibits filed with or incorporated by reference in our Registration Statement.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus, or any accompanying prospectus supplement and the documents incorporated herein or therein by reference are forward-looking in nature and relate to trends and events that may affect our future financial position and operating results.

Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and relate to trends and events that may affect our future financial position and operating results. The terms such as will, may, could, would, plan, believe, expect, anticipate, intend, project, and similar words of as statements in future tense, are intended to identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and may differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

global economic conditions;

our ability to comply with the definitive terms and conditions of various commercial and financing arrangements with GM;

reduced purchases of our products by GM, Chrysler or other customers;

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reduced demand for our customers' products (particularly light trucks and SUVs produced by GM and Chrysler);

availability of financing for working capital, capital expenditures, research and development (R&D) or other general corporate purposes, including our ability to comply with financial covenants;

our customers' and suppliers' availability of financing for working capital, capital expenditures, R&D or other general corporate purposes;

our ability to achieve cost reductions through ongoing restructuring actions;

our ability to achieve the level of cost reductions required to sustain global cost competitiveness;

our ability, our suppliers' ability and our customers' ability to avoid supply shortages as a result of recent events in Japan or otherwise;

our ability to maintain satisfactory labor relations and avoid future work stoppages;

our suppliers', our customers' and their suppliers' ability to maintain satisfactory labor relations and avoid work stoppages;

additional restructuring actions that may occur;

our ability to continue to implement improvements in our U.S. labor cost structure;

supply shortages or price increases in raw materials, utilities or other operating supplies;

our ability to consummate and integrate acquisitions and joint ventures;

our ability or our customers' and suppliers' ability to successfully launch new product programs on a timely basis;

our ability to realize the expected revenues from our new and incremental business backlog;

our ability to attract new customers and programs for new products;

our ability to develop and produce new products that reflect market demand;

lower-than-anticipated market acceptance of new or existing products;

our ability to respond to changes in technology, increased competition or pricing pressures;

price volatility in, or reduced availability of, fuel;

adverse changes in laws, government regulations or market conditions affecting our products or our customers' products (such as the Corporate Average Fuel Economy regulations);

risks inherent in our international operations (including adverse changes in the political stability, taxes and other law changes, potential disruption of production and supply, and currency rate fluctuations);

liabilities arising from warranty claims, product recall, product liability and legal proceedings to which we are or may become a party;

changes in liabilities arising from pension and other postretirement benefit obligations;

risks of noncompliance with environmental regulations or risks of environmental issues that could result in unforeseen costs at our facilities;

our ability to attract and retain key associates; and

other unanticipated events and conditions that may hinder our ability to compete.

It is not possible to foresee or identify all such factors and we make no commitment to update any forward-looking statement or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

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DESCRIPTION OF DEBT SECURITIES

We may issue debt securities in one or more distinct series. This section summarizes the material terms of the debt securities that are common to all series. Most of the financial terms and other specific material terms of any series of debt securities that we offer will be described in a prospectus supplement or term sheet to be attached to the front of this prospectus. Furthermore, since the terms of specific debt securities may differ from the general information we have provided below, you should rely on information in the prospectus supplement or term sheet that contradicts different information below.

As required by federal law for all bonds and debt securities of companies that are publicly offered, the debt securities are governed by a document called an indenture. An indenture is a contract between us and a financial institution acting as trustee on your behalf. Unless otherwise indicated in a prospectus supplement, the trustee will be U.S. Bank National Association. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under Events of Default. Second, the trustee performs certain administrative duties for us.

The term trustee refers to the senior trustee or the subordinated trustee, as appropriate. We will refer to the indenture that governs the debt securities as the Indenture. The Indenture is subject to and governed by the Trust Indenture Act of 1939, as amended (the TIA).

The following summary does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, all of the provisions of the debt securities and the Indenture. We urge you to read the Indenture and the form of the debt securities, which you may obtain from us upon request. As used in this description, all references to AAM Inc., our company, the issuer, we, us or our mean American Axle & Manufacturing, Inc., excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries, including the Subsidiary Guarantors, and all references to Holdings mean American Axle & Manufacturing Holdings, Inc., our parent corporation, excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries. Holdings has no material operations or assets other than its ownership of 100% of the issued and outstanding common stock of American Axle & Manufacturing, Inc., the issuer. The Subsidiary Guarantors are wholly-owned subsidiaries of American Axle & Manufacturing, Inc.

General

The debt securities will be AAM Inc.'s obligations which may be secured or unsecured. The senior unsecured securities will rank equally with all of our other unsecured and unsubordinated indebtedness and will be guaranteed by Holdings and/or any Subsidiary Guarantors, if applicable. The Holdings guarantee and any Subsidiary guarantees will rank equally with all of their other unsecured and unsubordinated indebtedness. Terms of secured debt securities and the related Holdings guarantee and any Subsidiary guarantees will be more fully described in a prospectus supplement. The subordinated securities will be subordinated in right of payment to the prior payment in full of AAM Inc.'s senior indebtedness as more fully described in a prospectus supplement or term sheet. The subordinated debt securities will be guaranteed on a subordinated basis by Holdings, and, if applicable, the Subsidiary Guarantors, as more fully described in a prospectus supplement or term sheet.

The Indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement or term sheet, including the guarantee by Holdings and any Subsidiary guarantees (offered debt securities) and any debt securities issuable upon the exercise of debt warrants or upon conversion or exchange of other offered securities (underlying debt securities), as well as other unsecured debt securities, may be issued under the Indenture in

one or more series.

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You should read the prospectus supplement or term sheet for the material terms of the offered debt securities and any underlying debt securities, including the following:

The title of the debt securities and whether the debt securities will be senior securities or subordinated securities.

The total principal amount of the debt securities and any limit on the total principal amount of debt securities of the series.

If not the principal amount of the debt securities, the portion of the principal amount payable upon acceleration of the maturity of the debt securities or how this portion will be determined.

The date or dates, or how the date or dates will be determined or extended, when the principal of the debt securities will be payable.

The interest rate or rates, which may be fixed or variable, that the debt securities will bear, if any, or how the rate or rates will be determined, the date or dates from which any interest will accrue or how the date or dates will be determined, the interest payment dates, any record dates for these payments and the basis upon which interest will be calculated if other than that of a 360-day year of twelve 30-day months.

Any optional redemption provisions.

Whether debt securities are secured and the terms of such security interests.

Whether debt securities are not to be guaranteed by Holdings and any modifications to such guarantee.

Whether debt securities are guaranteed by any Subsidiary Guarantors and any deletions from, modifications to, or additions to such guarantees, Events of Default or covenants with respect to such guarantees.

Any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities.

If other than registered debt securities, the form in which we will issue the debt securities; whether we will have the option of issuing debt securities in certificated form; whether we will have the option of issuing certificated debt securities in bearer form if we issue the securities outside the United States to non-U.S. persons; any restrictions on the offer, sale or delivery of bearer securities and the terms, if any, upon which bearer securities of the series may be exchanged for registered securities of the series and vice versa (if permitted by applicable laws and regulations).

If other than U.S. dollars, the currency or currencies in which the debt securities are denominated and/or payable.

Whether the amount of payments of principal, premium or interest, if any, on the debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined.

The place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities.

If other than denominations of \$1,000 or any integral multiple in the case of registered securities issued in certificated form and \$5,000 in the case of bearer securities, the denominations in which the offered debt securities will be issued.

The applicability of the provisions of Article Fourteen of the Indenture described under defeasance and any provisions in modification of, in addition to or in lieu of any of these provisions.

Whether and under what circumstances we will pay additional amounts, as contemplated by Section 1011 of the Indenture, in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option).

Whether the securities are subordinated and the terms of such subordination.

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Any provisions granting special rights to the holders of the debt securities upon the occurrence of specified events.

Any changes or additions to the Events of Default or covenants contained in the Indenture.

Whether the debt securities will be convertible into or exchangeable for any other securities and the applicable terms and conditions.

Any other material terms of the debt securities and guarantees.

For purposes of this prospectus, any reference to the payment of principal or premium or interest, if any, on the debt securities will include additional amounts if required by the terms of the debt securities.

The Indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the Indenture, when a single trustee is acting for all debt securities issued under the Indenture, are called the *indenture securities*. The Indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See *Resignation of Trustee* below. At a time when two or more trustees are acting under the Indenture, each with respect to only certain series, the term *indenture securities* means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the Indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the Indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The Indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement or term sheet for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Unless otherwise specified in the applicable prospectus supplement or term sheet, the debt securities will be denominated in U.S. dollars and all payments on the debt securities will be made in U.S. dollars.

Payment of the purchase price of the debt securities must be made in immediately available funds.

As used in this prospectus, *Business Day* means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; *provided, however*, that, with respect to foreign currency debt securities, the day is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center (as defined below) of the country issuing the specified currency (or, if the specified currency is the euro, the day is also a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System is operating, which we refer to as a *TARGET Business Day*); and *provided further* that, with respect to debt securities as to which LIBOR is an applicable interest rate basis, the day is also a

London Business Day.

London Business Day means a day on which commercial banks are open for business (including dealings in the designated LIBOR Currency) in London.

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Principal Financial Center means (i) the capital city of the country issuing the specified currency or (ii) the capital city of the country to which the designated LIBOR Currency relates, as applicable, except that the term *Principal Financial Center* means the following cities in the case of the following currencies:

Currency	Principal Financial Center
U.S. dollars	The City of New York
Australian dollars	Sydney
Canadian dollars	Toronto
New Zealand dollars	Auckland
South African rand	Johannesburg
Swiss francs	Zurich

and in the event the LIBOR Currency is the euro, the *Principal Financial Center* is London.

The authorized denominations of debt securities denominated in U.S. dollars will be integral multiples of \$1,000. The authorized denominations of foreign currency debt securities will be set forth in the applicable prospectus supplement or term sheet.

Optional Redemption, Repayment and Repurchase

If specified in a prospectus supplement or term sheet, we may redeem the debt securities at our option, in whole at any time or in part from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the debt securities to be redeemed and (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the debt securities to be redeemed (not including any portion of those payments of interest accrued to the date of redemption) from the redemption date to the maturity date of the debt securities being redeemed, in each case discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate plus the rate specified in a prospectus supplement or term sheet, plus, in each case, accrued and unpaid interest on the debt securities to the date of redemption.

Adjusted Treasury Rate means, with respect to any date of redemption, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that date of redemption.

Comparable Treasury Issue means, with respect to a redemption date, (1) the average of five Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Quotation Agent obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

Comparable Treasury Price means, with respect to any date of redemption, (1) the average of the Reference Treasury Dealer Quotations for the date of redemption, after excluding the highest and lowest Reference Treasury Dealer Quotations or (2) if the Quotation Agent obtains fewer than four Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

Quotation Agent means the underwriter, or another Reference Treasury Dealer appointed by us.

Reference Treasury Dealer will be specified in the prospectus supplement or term sheet.

Reference Treasury Dealer Quotations means, with respect to each reference treasury dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

We will mail notice of any redemption at least 30 days, but not more than 60 days, before the date of redemption to each holder of the debt securities to be redeemed. If less than all of the debt securities are to be redeemed at any time, the trustee will select debt securities to be redeemed on a pro rata basis or by any other method the trustee deems fair and appropriate. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the debt securities or portions thereof called for redemption.

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Regardless of anything in this prospectus to the contrary, if a debt security is an OID Note (as defined below) (other than an Indexed Note), the amount payable in the event of redemption or repayment prior to its stated maturity will be the amortized face amount on the redemption or repayment date, as the case may be. The amortized face amount of an OID Note will be equal to (i) the issue price specified in the applicable prospectus supplement or term sheet plus (ii) that portion of the difference between the issue price and the principal amount of the OID Note that has accrued at the yield to maturity described in the prospectus supplement or term sheet (computed in accordance with generally accepted U.S. bond yield computation principles) by the redemption or repayment date. However, in no case will the amortized face amount of an OID Note exceed its principal amount.

We may at any time purchase debt securities at any price in the open market or otherwise. We may hold, resell or surrender for cancellation any debt securities that we purchase.

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement or term sheet will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement or term sheet.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we will issue them in book-entry form only. Debt securities issued in book-entry form will be represented by global securities. We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement or term sheet will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement or term sheet will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

Book-Entry Holders. We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement or term sheet. This means debt securities will be represented by one or more global securities registered in the name of a depository that will hold them on behalf of financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depository or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the Indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository will then pass along the payments it receives to its participants, which, in turn, will pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders of the debt securities.

Street Name Holders. In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in street name. Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen

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by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders. Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend the Indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the Indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, the prospectus supplement or term sheet whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders. If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

how it handles securities payments and notices,

whether it imposes fees or charges,

how it would handle a request for the holders' consent, if ever required,

whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities,

how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests, and

if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Interest and Interest Rates

General

Each debt security will begin to accrue interest from the date it is originally issued. The related prospectus supplement or term sheet will specify each debt security as a Fixed Rate Note, a Floating Rate Note, an Amortizing Note or an Indexed Note and describe the method of determining the interest rate, including any spread and/or spread multiplier. For an Indexed Note, the related prospectus supplement or term sheet also will describe the method for the calculation and payment of principal and interest. The prospectus supplement or term sheet for a Floating Rate Note or Indexed Note may also specify a maximum and a minimum interest rate.

A debt security may be issued as a Fixed Rate Note or a Floating Rate Note or as a Note that combines fixed and floating rate terms.

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Interest rates offered with respect to debt securities may differ depending upon, among other things, the aggregate principal amount of debt securities purchased in any single transaction. Debt securities with similar variable terms but different interest rates, as well as debt securities with different variable terms, may be offered concurrently to different investors. Interest rates or formulas and other terms of debt securities are subject to change from time to time, but no such change will affect any debt security already issued or as to which an offer to purchase has been accepted.

Interest on the debt securities denominated in U.S. dollars will be paid by check mailed on an Interest Payment Date (as defined below) other than a Maturity Date (as defined below) to the persons entitled thereto to the addresses of such holders as they appear in the security register or, at our option, by wire transfer to a bank account maintained by the holder. The principal of, premium, if any, and interest on debt securities denominated in U.S. dollars, together with interest accrued and unpaid thereon, due on the Maturity Date will be paid in immediately available funds upon surrender of such debt securities at the corporate trust office of the trustee in The City of New York, or, at our option, by wire transfer of immediately available funds to an account with a bank designated at least 15 calendar days prior to the Maturity Date by the applicable registered holder, provided the particular bank has appropriate facilities to receive these payments and the particular debt security is presented and surrendered at the office or agency maintained by us for this purpose in the Borough of Manhattan, The City of New York, in time for the trustee to make these payments in accordance with its normal procedures.

Fixed Rate Notes

The prospectus supplement or term sheet for Fixed Rate Notes will describe a fixed interest rate payable semiannually in arrears on the dates specified in such term sheet or prospectus supplement (each, with respect to Fixed Rate Notes, an Interest Payment Date). Interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months. If the stated maturity date, any redemption date or any repayment date (together referred to as the Maturity Date) or an Interest Payment Date for any Fixed Rate Note is not a Business Day, principal of, premium, if any, and interest on that Note will be paid on the next Business Day, and no interest will accrue from and after the Maturity Date or Interest Payment Date. Interest on Fixed Rate Notes will be paid to holders of record as of each Regular Record Date. A Regular Record Date will be the fifteenth day (whether or not a Business Day) next preceding the applicable Interest Payment Date.

Each interest payment on a Fixed Rate Note will include interest accrued from, and including, the issue date or the last Interest Payment Date, as the case may be, to but excluding the applicable Interest Payment Date or the Maturity Date, as the case may be.

Original Issue Discount Notes

We may issue original issue discount debt securities (including zero coupon debt securities) (OID Notes), which are debt securities issued at a discount from the principal amount payable on the Maturity Date. There may not be any periodic interest payments on OID Notes. For OID Notes, interest normally accrues during the life of the OID Note and is paid on the Maturity Date. Upon a redemption, repayment or acceleration of the maturity of an OID Note, the amount payable will be determined as set forth under Optional Redemption, Repayment and Repurchase. This amount normally is less than the amount payable on the stated maturity date.

Amortizing Notes

We may issue amortizing debt securities, which are Fixed Rate Notes for which combined principal and interest payments are made in installments over the life of each debt securities (Amortizing Notes). Payments on Amortizing Notes are applied first to interest due and then to the reduction of the unpaid principal amount. The related prospectus supplement or term sheet for an Amortizing Note will include a table setting forth repayment information.

Floating Rate Notes

Each Floating Rate Note will have an interest rate basis or formula. That basis or formula may be based on:

the CD Rate;

the Commercial Paper Rate;

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LIBOR;

EURIBOR;

the Federal Funds Rate;

the Prime Rate;

the Treasury Rate;

the CMT Rate;

the Eleventh District Cost of Funds Rate; or

another negotiated interest rate basis or formula.

The prospectus supplement or term sheet will also indicate any spread and/or spread multiplier, which would be applied to the interest rate formula to determine the interest rate. Any Floating Rate Note may have a maximum or minimum interest rate limitation. In addition to any maximum interest rate limitation, the interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law for general application.

We will appoint a calculation agent to calculate interest rates on the Floating Rate Notes. Unless we identify a different party in the prospectus supplement or term sheet, the paying agent will be the calculation agent for each Note.

Unless otherwise specified in a prospectus supplement or term sheet, the Calculation Date, if applicable, relating to an Interest Determination Date (as described below under Date Interest Rate is Determined) will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day, or (ii) the Business Day immediately preceding the relevant Interest Payment Date or the Maturity Date, as the case may be.

Upon the request of the beneficial holder of any Floating Rate Note, the calculation agent will provide the interest rate then in effect and, if different, when available, the interest rate that will become effective on the next Interest Reset Date for the Floating Rate Note.

Change of Interest Rate. The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semiannually, annually or on some other specified basis (each, an Interest Reset Date). The Interest Reset Date will be:

for Notes with interest that resets daily, each Business Day;

for Notes (other than Treasury Rate Notes) with interest that resets weekly, Wednesday of each week;

for Treasury Rate Notes with interest that resets weekly, Tuesday of each week;

for Notes with interest that resets monthly, the third Wednesday of each month;

for Notes with interest that resets quarterly, the third Wednesday of March, June, September and December of each year;

for Notes with interest that resets semiannually, the third Wednesday of each of the two months of each year indicated in the applicable prospectus supplement or term sheet; and

for Notes with interest that resets annually, the third Wednesday of the month of each year indicated in the applicable prospectus supplement or term sheet.

The related prospectus supplement or term sheet will describe the initial interest rate or interest rate formula on each Note. That rate is effective until the following Interest Reset Date. Thereafter, the interest rate will be the rate determined on each Interest Determination Date. Each time a new interest rate is determined, it becomes effective on the following Interest Reset Date. If any Interest Reset Date is not a Business Day, then the Interest Reset Date is postponed to the next Business Day, except, in the case of LIBOR and EURIBOR Notes, if the next Business Day is in the next calendar month, the Interest Reset Date is the immediately preceding Business Day.

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Date Interest Rate Is Determined. The Interest Determination Date for all CD and CMT Rate Notes is the second Business Day before the Interest Reset Date and for all LIBOR Notes will be the second London Business Day immediately preceding the applicable Interest Reset Date (unless the LIBOR Currency is Sterling, in which case the Interest Determination Date will be the Interest Reset Date).

The Interest Determination Date for Treasury Rate Notes will be the day of the week in which the Interest Reset Date falls on which Treasury bills of the Index Maturity are normally auctioned. Treasury bills are usually sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on Tuesday. Sometimes, the auction is held on the preceding Friday. If an auction is held on the preceding Friday, that day will be the Interest Determination Date relating to the Interest Reset Date occurring in the next week.

The Interest Determination Date for all Commercial Paper, Federal Funds and Prime Rate Notes will be the first Business Day preceding the Interest Reset Date.

The Interest Determination Date for EURIBOR Notes will be the second TARGET Business Day immediately preceding the applicable Interest Reset Date.

The Interest Determination Date for an Eleventh District Cost of Funds Rate Note is the last Business Day of the month immediately preceding the applicable Interest Reset Date in which the Federal Home Loan Bank of San Francisco published the applicable rate.

The Interest Determination Date relating to a Floating Rate Note with an interest rate that is determined by reference to two or more interest rate bases will be the most recent Business Day which is at least two Business Days before the applicable Interest Reset Date for each interest rate for the applicable Floating Rate Note on which each interest rate basis is determinable.

Payment of Interest. Interest is paid as follows:

for Notes with interest that resets daily, weekly or monthly, on the third Wednesday of each month;

for Notes with interest payable quarterly, on the third Wednesday of March, June, September, and December of each year;

for Notes with interest payable semiannually, on the third Wednesday of each of the two months specified in the applicable prospectus supplement or term sheet;

for Notes with interest payable annually, on the third Wednesday of the month specified in the applicable prospectus supplement or term sheet (each of the above, with respect to Floating Rate Notes, an Interest Payment Date); and

at maturity, redemption or repayment.

Each interest payment on a Floating Rate Note will include interest accrued from, and including, the issue date or the last Interest Payment Date, as the case may be, to but excluding the applicable Interest Payment Date or the Maturity Date, as the case may be.

Interest on a Floating Rate Note will be payable beginning on the first Interest Payment Date after its issue date to holders of record at the close of business on each Regular Record Date, which is the fifteenth day (whether or not a Business Day) next preceding the applicable Interest Payment Date, unless the issue date falls after a Regular Record

Date and on or prior to the related Interest Payment Date, in which case payment will be made to holders of record at the close of business on the Regular Record Date next preceding the second Interest Payment Date following the issue date. If an Interest Payment Date (but not the Maturity Date) is not a Business Day, then the Interest Payment Date will be postponed to the next Business Day, except in the case of LIBOR and EURIBOR Notes, if the next Business Day is in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of any Floating Rate Note is not a Business Day, principal of, premium, if any, and interest on that Note will be paid on the next Business Day, and no interest will accrue from and after the Maturity Date.

Accrued interest on a Floating Rate Note is calculated by multiplying the principal amount of a Note by an accrued interest factor. The accrued interest factor is the sum of the interest factors calculated for each day in the

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period for which accrued interest is being calculated. The interest factor for each day is computed by dividing the interest rate in effect on that day by (1) the actual number of days in the year, in the case of Treasury Rate Notes or CMT Rate Notes, or (2) 360, in the case of other Floating Rate Notes. The interest factor for Floating Rate Notes for which the interest rate is calculated with reference to two or more interest rate bases will be calculated in each period in the same manner as if only one of the applicable interest rate bases applied. All percentages resulting from any calculation are rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward. For example, 9.876545% (or .09876545) will be rounded to 9.87655% (or .0987655). Dollar amounts used in the calculation are rounded to the nearest cent (with one-half cent being rounded upward).

CD Rate Notes. The CD Rate for any Interest Determination Date is the rate on that date for negotiable U.S. dollar certificates of deposit having the Index Maturity described in the related prospectus supplement or term sheet, as published in H.15(519) prior to 3:00 P.M., New York City time, on the Calculation Date, for that Interest Determination Date under the heading CDs (secondary market). The Index Maturity is the period to maturity of the instrument or obligation with respect to which the related interest rate basis or formula will be calculated.

The following procedures will be followed if the CD Rate cannot be determined as described above:

If the above rate is not published in H.15(519) by 3:00 P.M., New York City time, on the Calculation Date, the CD Rate will be the rate on that Interest Determination Date for negotiable United States dollar certificates of deposit of the Index Maturity described in the prospectus supplement or term sheet as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption CDs (secondary market).

If that rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the Calculation Date, then the calculation agent will determine the CD Rate to be the average of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, quoted by three leading nonbank dealers of negotiable U.S. dollar certificates of deposit in New York City (which may include an agent or its affiliates) for negotiable U.S. dollar certificates of deposit of major United States money-center banks with a remaining maturity closest to the Index Maturity in an amount that is representative for a single transaction in the market at that time described in the prospectus supplement or term sheet. The calculation agent will select the three dealers referred to above.

If fewer than three dealers are quoting as mentioned above, the CD Rate will remain the CD Rate then in effect on that Interest Determination Date.

H.15(519) means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H.15(519), available through the web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

Commercial Paper Rate Notes. The Commercial Paper Rate for any Interest Determination Date is the Money Market Yield of the rate on that date for commercial paper having the Index Maturity described in the related prospectus supplement or term sheet, as published in H.15(519) prior to 3:00 P.M., New York City time, on the Calculation Date for that Interest Determination Date under the heading Commercial Paper Nonfinancial.

The following procedures will be followed if the Commercial Paper Rate cannot be determined as described above:

If the above rate is not published in H.15(519) by 3:00 P.M., New York City time, on the Calculation Date, the Commercial Paper Rate will be the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the Index Maturity described in the prospectus supplement or term sheet, as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption Commercial Paper Nonfinancial.

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If that rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the Calculation Date, then the calculation agent will determine the Commercial Paper Rate to be the Money Market Yield of the average of the offered rates of three leading dealers of U.S. dollar commercial paper in New York City (which may include an agent or its affiliates) as of 11:00 A.M., New York City time, on that Interest Determination Date for commercial paper having the Index Maturity described in the prospectus supplement or term sheet placed for an industrial issuer whose bond rating is Aa, or the equivalent, from a nationally recognized statistical rating organization. The calculation agent will select the three dealers referred to above.

If fewer than three dealers selected by the calculation agent are quoting as mentioned above, the Commercial Paper Rate will remain the Commercial Paper Rate then in effect on that Interest Determination Date.

Money Market Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D}{360 - (D \times M)} \times 100$$

where *D* refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and *M* refers to the actual number of days in the reset period for which interest is being calculated.

LIBOR Notes. The LIBOR for any Interest Determination Date is the rate for deposits in the LIBOR Currency having the Index Maturity specified in such pricing supplement or term sheet as such rate is displayed on Reuters (or any successor service) on page LIBOR01 (or any other page as may replace such page on such service for the purpose of displaying the London interbank rates of major banks for the designated LIBOR Currency) (Reuters Page LIBOR01) as of 11:00 A.M., London time, on such LIBOR Interest Determination Date.

The following procedure will be followed if LIBOR cannot be determined as described above:

The calculation agent shall request the principal London offices of each of four major reference banks (which may include affiliates of the agents) in the London interbank market, as selected by the calculation agent to provide the calculation agent with its offered quotation for deposits in the designated LIBOR Currency for the period of the Index Maturity specified in the applicable pricing supplement or term sheet, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such LIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in the designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such LIBOR Interest Determination Date will be the arithmetic mean calculated by the calculation agent of such quotations. If fewer than two such quotations are so provided, then LIBOR on such LIBOR Interest Determination Date will be the arithmetic mean calculated by the calculation agent of the rates quoted at approximately 11:00 a.m., in the applicable Principal Financial Center (as described above), on such LIBOR Interest Determination Date by three major banks (which may include affiliates of the agents) in such Principal Financial Center selected by the calculation agent for loans in the designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable pricing supplement or term sheet and in a principal amount that is representative for a single transaction in the designated LIBOR Currency in such market at such time; *provided, however*, that if the banks so selected by the calculation agent are not quoting as mentioned in this sentence, LIBOR determined as of such LIBOR Interest Determination Date shall be LIBOR in effect on such LIBOR Interest Determination Date.

LIBOR Currency means the currency specified in the applicable prospectus supplement or term sheet as to which LIBOR shall be calculated or, if no such currency is specified in the applicable prospectus supplement or term sheet, U.S. dollars.

EURIBOR Notes. The *EURIBOR* for any Interest Determination Date is the offered rate for deposits in euro having the Index Maturity specified in the applicable pricing supplement or term sheet, beginning on the

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second TARGET Business Day after such EURIBOR Interest Determination Date, as that rate appears on Reuters Page EURIBOR 01 as of 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date.

The following procedure will be followed if EURIBOR cannot be determined as described above:

EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal euro-zone office of each of four major banks in that market selected by the calculation agent: euro deposits having such EURIBOR Index Maturity, beginning on such EURIBOR Interest Reset Date, and in a representative amount. The calculation agent will request that the principal euro-zone office of each of these banks provide a quotation of its rate. If at least two quotations are provided, EURIBOR for such EURIBOR Interest Determination Date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, EURIBOR for such EURIBOR Interest Determination Date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that Interest Determination Date, by three major banks in the euro-zone selected by the calculation agent: loans of euro having such EURIBOR Index Maturity, beginning on such EURIBOR Interest Reset Date, and in an amount that is representative of a single transaction in euro in that market at the time.

If fewer than three banks selected by the calculation agent are quoting as described above, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Federal Funds Rate Notes. The Federal Funds Rate will be calculated by reference to either the Federal Funds (Effective) Rate, the Federal Funds Open Rate or the Federal Funds Target Rate, as specified in the applicable pricing supplement or term sheet. The Federal Funds Rate is the rate determined by the calculation agent, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate (a Federal Funds Rate Interest Determination Date), in accordance with the following provisions:

If Federal Funds (Effective) Rate is the specified Federal Funds Rate in the applicable pricing supplement or term sheet, the Federal Funds Rate as of the applicable Federal Funds Rate Interest Determination Date shall be the rate with respect to such date for United States dollar federal funds as published in H.15(519) opposite the caption Federal funds (effective), as such rate is displayed on Reuters on page FEDFUNDS1 (or any other page as may replace such page on such service) (Reuters Page FEDFUNDS1) under the heading EFFECT, or, if such rate is not so published by 3:00 P.M., New York City time, on the calculation date, the rate with respect to such Federal Funds Rate Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption Federal funds (effective).

The following procedure will be followed if Federal Funds (Effective) Rate is the specified Federal Funds Rate in the applicable pricing supplement or term sheet and such Federal Funds Rate cannot be determined as described above. The Federal Funds Rate with respect to such Federal Funds Rate Interest Determination Date shall be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the agents or their affiliates) selected by the calculation agent, prior to 9:00 A.M., New York City time, on the Business Day following such Federal

Funds Rate Interest Determination Date; *provided, however*, that if the brokers so selected by the calculation agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Federal Funds Rate Interest Determination Date will be the Federal Funds Rate in effect on such Federal Funds Rate Interest Determination Date.

If Federal Funds Open Rate is the specified Federal Funds Rate in the applicable pricing supplement or term sheet, the Federal Funds Rate as of the applicable Federal Funds Rate Interest Determination Date shall be the rate on such date under the heading Federal Funds for the relevant Index Maturity and opposite the

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caption *Open* as such rate is displayed on Reuters on page 5 (or any other page as may replace such page on such service) (*Reuters Page 5*), or, if such rate does not appear on Reuters Page 5 by 3:00 P.M., New York City time, on the calculation date, the Federal Funds Rate for the Federal Funds Rate Interest Determination Date will be the rate for that day displayed on FFPREBON Index page on Bloomberg L.P. (*Bloomberg*), which is the Fed Funds Opening Rate as reported by Prebon Yamane (or a successor) on Bloomberg.

The following procedure will be followed if *Federal Funds Open Rate* is the specified Federal Funds Rate in the applicable pricing supplement or term sheet and such Federal Funds Rate cannot be determined as described above. The Federal Funds Rate on such Federal Funds Rate Interest Determination Date shall be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in New York City (which may include the agents or their affiliates) selected by the calculation agent prior to 9:00 A.M., New York City time, on such Federal Funds Rate Interest Determination Date; *provided, however*, that if the brokers so selected by the calculation agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Federal Funds Rate Interest Determination Date will be the Federal Funds Rate in effect on such Federal Funds Rate Interest Determination Date.

If Federal Funds Target Rate is the specified Federal Funds Rate in the applicable pricing supplement or term sheet, the Federal Funds Rate as of the applicable Federal Funds Rate Interest Determination Date shall be the rate on such date as displayed on the FDTR Index page on Bloomberg. If such rate does not appear on the FDTR Index page on Bloomberg by 3:00 P.M., New York City time, on the calculation date, the Federal Funds Rate for such Federal Funds Rate Interest Determination Date will be the rate for that day appearing on Reuters Page USFFTARGET= (or any other page as may replace such page on such service) (*Reuters Page USFFTARGET=*).

The following procedure will be followed if *Federal Funds Target Rate* is the specified Federal Funds Rate in the applicable pricing supplement or term sheet and such Federal Funds Rate cannot be determined as described above. The Federal Funds Rate on such Federal Funds Rate Interest Determination Date shall be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in New York City (which may include the agents or their affiliates) selected by the calculation agent prior to 9:00 A.M., New York City time, on such Federal Funds Rate Interest Determination Date.

Prime Rate Notes. The *Prime Rate* for any Interest Determination Date is the rate on that date, as published in H.15(519) by 3:00 P.M., New York City time, on the Calculation Date for that Interest Determination Date under the heading *Bank Prime Loan* or, if not published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption *Bank Prime Loan*.

The following procedures will be followed if the Prime Rate cannot be determined as described above:

If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the Calculation Date, then the calculation agent will determine the Prime Rate to be the average of the rates of interest publicly announced by each bank that appears on the Reuters Screen designated as *US PRIME 1 Page* as that bank's prime rate or base lending rate in effect as of 11:00 A.M., New York City time on that Interest Determination Date.

If fewer than four rates appear on the Reuters Page US PRIME 1 on the Interest Determination Date, then the Prime Rate will be the average of the prime rates or base lending rates quoted (on the basis of the actual number of days in the year divided by a 360-day year) as of the close of business on the Interest Determination Date by three major banks, which may include an agent or its affiliates, in the City of New York selected by the calculation agent.

If the banks selected by the calculation agent are not quoting as mentioned above, the Prime Rate will remain the Prime Rate then in effect on the Interest Determination Date.

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Reuters Page US PRIME 1 means the display on Reuters (or any successor service) on the US PRIME 1 Page (or such other page as may replace the US PRIME 1 Page on such service) for the purpose of displaying prime rates or base lending rates of major United States banks.

Treasury Rate Notes. The Treasury Rate for any Interest Determination Date is the rate from the auction of direct obligations of the United States (Treasury bills) having the Index Maturity specified in such pricing supplement or term sheet under the caption INVEST RATE on the display on Reuters page USAUCTION10 (or any other page as may replace such page on such service) or page USAUCTION11 (or any other page as may replace such page on such service) or, if not so published at 3:00 P.M., New York City time, on the related calculation date, the bond equivalent yield (as defined below) of the rate for such treasury bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption U.S. Government Securities/Treasury Bills/Auction High. If such rate is not so published in the related H.15 Daily Update or another recognized source by 3:00 P.M., New York City time, on the related calculation date, the Treasury Rate on such Treasury Rate Interest Determination Date shall be the bond equivalent yield of the auction rate of such Treasury bills as announced by the United States Department of the Treasury. In the event that such auction rate is not so announced by the United States Department of the Treasury on such calculation date, or if no such auction is held, then the Treasury Rate on such Treasury Rate Interest Determination Date shall be the bond equivalent yield of the rate on such Treasury Rate Interest Determination Date of Treasury bills having the Index Maturity specified in the applicable pricing supplement or term sheet as published in H.15(519) under the caption U.S. government securities/treasury bills/secondary market or, if not yet published by 3:00 P.M., New York City time, on the related calculation date, the rate on such Treasury Rate Interest Determination Date of such treasury bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption U.S. government securities/treasury bills (secondary market). If such rate is not yet published in the H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the related calculation date, then the Treasury Rate on such Treasury Rate Interest Determination Date shall be calculated by the calculation agent and shall be the bond equivalent yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on such Treasury Rate Interest Determination Date, of the three leading primary United States government securities dealers (which may include the agents or their affiliates) selected by the calculation agent, for the issue of Treasury bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement or term sheet; *provided, however*, that if the dealers so selected by the calculation agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Treasury Rate Interest Determination Date will be the Treasury Rate in effect on such Treasury Rate Interest Determination Date.

bond equivalent yield means a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{bond equivalent yield} = \frac{D}{360 - (D \cdot M)} \cdot 100$$

where *D* refers to the applicable per annum rate for Treasury bills quoted on a bank discount basis and expressed as a decimal, *N* refers to the number of days in the year, either 365 or 366, as the case may be, and *M* refers to the actual number of days in the interest reset period for which interest is being calculated.

CMT Rate Notes. The CMT Rate for any Interest Determination Date is as follows:

If Reuters Page FRBCMT is the specified CMT Reuters Page in the applicable pricing supplement or term sheet, the CMT Rate on the CMT Rate Interest Determination Date shall be a percentage equal to the yield for

United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement or term sheet as set forth in H.15(519) under the caption Treasury constant maturities, as such yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace such page on such service) (Reuters Page FRBCMT) for such CMT Rate Interest Determination Date.

If such rate does not appear on Reuters Page FRBCMT, the CMT Rate on such CMT Rate Interest Determination Date shall be a percentage equal to the yield for United States Treasury securities at constant

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maturity having the Index Maturity specified in the applicable pricing supplement or term sheet and for such CMT Rate Interest Determination Date as set forth in H.15(519) under the caption Treasury constant maturities.

If such rate does not appear in H.15(519), the CMT Rate on such CMT Rate Interest Determination Date shall be the rate for the period of the Index Maturity specified in the applicable pricing supplement or term sheet as may then be published by either the Federal Reserve Board or the United States Department of the Treasury that the calculation agent determines to be comparable to the rate that would otherwise have been published in H.15(519).

If the Federal Reserve Board or the United States Department of the Treasury does not publish a yield on United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement or term sheet for such CMT Rate Interest Determination Date, the CMT Rate on such CMT Rate Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date of three leading primary United States government securities dealers in New York City (which may include the agents or their affiliates) (each, a reference dealer) selected by the calculation agent from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest) for United States Treasury securities with an original maturity equal to the Index Maturity specified in the applicable pricing supplement or term sheet, a remaining term to maturity no more than one year shorter than such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time. If fewer than three prices are provided as requested, the CMT Rate on such CMT Rate Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date of three reference dealers selected by the calculation agent from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest) for United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement or term sheet, a remaining term to maturity closest to such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time. If two such United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement or term sheet have remaining terms to maturity equally close to such Index Maturity, the quotes for the treasury security with the shorter original term to maturity will be used. If fewer than five but more than two such prices are provided as requested, the CMT Rate on such CMT Rate Interest Determination Date shall be calculated by the calculation agent and shall be based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotations shall be eliminated; *provided, however*, that if fewer than three such prices are provided as requested, the CMT Rate determined as of such CMT Rate Interest Determination Date shall be the CMT Rate in effect on such CMT Rate Interest Determination Date.

If Reuters Page FEDCMT is the specified CMT Reuters Page in the applicable pricing supplement or term sheet, the CMT Rate on the CMT Rate Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable pricing supplement or term sheet, average yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement or term sheet as set forth in H.15(519) opposite the caption Treasury Constant Maturities, as such yield is displayed on Reuters on page FEDCMT (or any other page as may replace such page on such service) (Reuters Page FEDCMT) for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such CMT Rate Interest Determination Date falls.

If such rate does not appear on Reuters Page FEDCMT, the CMT Rate on such CMT Rate Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable pricing supplement or term sheet, average yield for United States Treasury securities at constant maturity

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having the Index Maturity specified in the applicable pricing supplement or term sheet for the week or month, as applicable, preceding such CMT Rate Interest Determination Date as set forth in H.15(519) opposite the caption Treasury Constant Maturities.

If such rate does not appear in H.15(519), the CMT Rate on such CMT Rate Interest Determination Date shall be the one-week or one-month, as specified in the applicable pricing supplement or term sheet, average yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement or term sheet as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such CMT Rate Interest Determination Date falls.

If the Federal Reserve Bank of New York does not publish a one-week or one-month, as specified in the applicable pricing supplement or term sheet, average yield on United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement or term sheet for the applicable week or month, the CMT Rate on such CMT Rate Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date of three reference dealers selected by the calculation agent from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest) for United States Treasury securities with an original maturity equal to the Index Maturity specified in the applicable pricing supplement or term sheet, a remaining term to maturity of no more than one year shorter than such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time. If fewer than five but more than two such prices are provided as requested, the CMT Rate on such CMT Rate Interest Determination Date shall be the rate on the CMT Rate Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotation shall be eliminated. If fewer than three prices are provided as requested, the CMT Rate on such CMT Rate Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date of three reference dealers selected by the calculation agent from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest) for United States Treasury securities with an original maturity longer than the Index Maturity specified in the applicable pricing supplement or term sheet, a remaining term to maturity closest to such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time. If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement or term sheet have remaining terms to maturity equally close to such Index Maturity, the quotes for the Treasury security with the shorter original term to maturity will be used. If fewer than five but more than two such prices are provided as requested, the CMT Rate on such CMT Rate Interest Determination Date shall be the rate on the CMT Rate Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations shall be eliminated; *provided, however,* that if fewer than three such prices are provided as requested, the CMT Rate determined as of such CMT Rate Determination Date shall be the CMT Rate in effect on such CMT Rate Interest Determination Date.

Eleventh District Cost of Funds Rate Notes. The Eleventh District Cost of Funds Rate for any Interest Determination Date is the rate equal to the monthly weighted average cost of funds for the calendar month preceding the Interest Determination Date as displayed on Reuters Page COFI/ARMS (or any other page as may replace that specified page

on that service) as of 11:00 A.M., San Francisco time, on the Calculation Date for that Interest Determination Date under the caption 11th District.

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The following procedures will be used if the Eleventh District Cost of Funds Rate cannot be determined as described above:

If the rate is not displayed on the relevant page as of 11:00 A.M., San Francisco time, on the Calculation Date, then the Eleventh District Cost of Funds Rate will be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District, as announced by the Federal Home Loan Bank of San Francisco, as the cost of funds for the calendar month preceding the date of announcement.

If no announcement was made relating to the calendar month preceding the Interest Determination Date, the Eleventh District Cost of Funds Rate will remain the Eleventh District Cost of Funds Rate then in effect on the Interest Determination Date.

Indexed Notes

We may issue debt securities for which the amount of interest or principal that you will receive will not be known on your date of purchase. Interest or principal payments for these types of debt securities, which we call Indexed Notes, are determined by reference to securities, financial or non-financial indices, currencies, commodities, interest rates, or a composite or baskets of any or all of the above. Examples of indexed items that may be used include a published stock index, the common stock price of a publicly traded company, the value of the U.S. dollar versus the Japanese yen, or the price of a barrel of West Texas intermediate crude oil.

If you purchase an Indexed Note, you may receive a principal amount at maturity that is greater than or less than the Note's face amount, and an interest rate that is greater than or less than the interest rate that you would have earned if you had instead purchased a conventional debt security issued by us at the same time with the same maturity. The amount of interest and principal that you will receive will depend on the structure of the Indexed Note and the level of the specified indexed item throughout the term of the Indexed Note and at maturity. Specific information pertaining to the method of determining the interest payments and the principal amount will be described in the prospectus supplement or term sheet, as well as additional risk factors unique to the Indexed Note, certain historical information for the specified indexed item and certain additional United States federal tax considerations.

Renewable Notes

We may issue Renewable Notes ("Renewable Notes") which are debt securities that will automatically renew at their stated maturity date unless the holder of a Renewable Note elects to terminate the automatic extension feature by giving notice in the manner described in the related prospectus supplement or term sheet.

The holder of a Renewable Note must give notice of termination at least 15 but not more than 30 days prior to a Renewal Date. The holder of a Renewable Note may terminate the automatic extension for less than all of its Renewable Notes only if the terms of the Renewable Note specifically permit partial termination. An election to terminate the automatic extension of any portion of the Renewable Note is not revocable and will be binding on the holder of the Renewable Note. If the holder elects to terminate the automatic extension of the maturity of the Note, the holder will become entitled to the principal and interest accrued up to the Renewal Date. The related prospectus supplement or term sheet will identify a stated maturity date beyond which the Maturity Date cannot be renewed.

If a Renewable Note is represented by a Global Security, DTC or its nominee will be the holder of the Note and therefore will be the only entity that can exercise a right to terminate the automatic extension of a Note. In order to ensure that DTC or its nominee will exercise a right to terminate the automatic extension provisions of a particular Renewable Note, the beneficial owner of the Note must instruct the broker or other DTC participant through which it holds an interest in the Note to notify DTC of its desire to terminate the automatic extension of the Note. Different

firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other participant through which it holds an interest in a Note to ascertain the cut-off time by which an instruction must be given for delivery of timely notice to DTC or its nominee.

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Extendible Notes

We may issue Notes whose stated Maturity Date may be extended at our option (an Extendible Note) for one or more whole-year periods (each, an Extension Period), up to but not beyond a stated maturity date described in the related prospectus supplement or term sheet (but not to exceed 30 years from the date of issue).

We may exercise our option to extend the Extendible Note by notifying the applicable trustee (or any duly appointed paying agent) at least 45 but not more than 60 days prior to the then effective Maturity Date. If we elect to extend the Extendible Note, the trustee (or paying agent) will mail (at least 40 days prior to the Maturity Date) to the registered holder of the Extendible Note a notice (an Extension Notice) informing the holder of our election, the new Maturity Date and any updated terms. Upon the mailing of the Extension Notice, the maturity of that Extendible Note will be extended automatically as set forth in the Extension Notice.

However, we may, not later than 20 days prior to the Maturity Date of an Extendible Note (or, if that date is not a Business Day, prior to the next Business Day), at our option, establish a higher interest rate, in the case of a Fixed Rate Note, or a higher spread and/or spread multiplier, in the case of a Floating Rate Note, for the Extension Period by mailing or causing the applicable trustee (or paying agent) to mail notice of such higher interest rate or higher spread and/or spread multiplier to the holder of the Note. The notice will be irrevocable.

If we elect to extend the maturity of an Extendible Note, the holder of the Note will have the option to instead elect repayment of the Note by us on the then effective Maturity Date. In order for an Extendible Note to be so repaid on the Maturity Date, we must receive, at least 15 days but not more than 30 days prior to the Maturity Date:

- (1) the Extendible Note with the form Option to Elect Repayment on the reverse of the Note duly completed; or
- (2) a facsimile transmission, telex or letter from a member of a national securities exchange or the Financial Industry Regulatory Authority (the FINRA) or a commercial bank or trust company in the United States setting forth the name of the holder of the Extendible Note, the principal amount of the Note, the principal amount of the Note to be repaid, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the Note be repaid, together with the duly completed form entitled Option to Elect Repayment on the reverse of the Note, will be received by the applicable trustee (or paying agent) not later than the fifth Business Day after the date of the facsimile transmission, telex or letter; *provided, however*; that the facsimile transmission, telex or letter will only be effective if the Note and form duly completed are received by the applicable trustee (or paying agent) by that fifth Business Day. The option may be exercised by the holder of an Extendible Note for less than the aggregate principal amount of the Note then outstanding if the principal amount of the Note remaining outstanding after repayment is an authorized denomination.

If an Extendible Note is represented by a Global Security, DTC or its nominee will be the holder of that Note and therefore will be the only entity that can exercise a right to repayment. To ensure that DTC or its nominee timely exercises a right to repayment with respect to a particular Extendible Note, the beneficial owner of that Note must instruct the broker or other participant through which it holds an interest in the Note to notify DTC of its desire to exercise a right of repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other participant through which it holds an interest in an Extendible Note to determine the cut-off time by which an instruction must be given for timely notice to be delivered to DTC or its nominee.

Global Securities

What Is a Global Security? As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement or term

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sheet, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under Special Situations when a Global Security Will Be Terminated. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that has an account with the depository. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities. As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depository, as well as general laws relating to securities transfers. The depository that holds the global security will be considered the holder of the debt securities representedM: black 2px solid">

Adjusted FFO Portion of Bonus

Subjective Portion of Bonus

Additional Cash Bonus

Total Cash Bonus

C. Taylor Pickett	\$331,563	\$331,562	\$--	\$663,125
Daniel J. Booth	\$122,438	\$122,437	\$--	\$244,875
Robert O. Stephenson	\$78,810	\$78,810	\$--	\$157,620
R. Lee Crabill	\$76,020	\$60,820	\$--	\$136,840
Michael D. Ritz	\$30,625	\$30,625	\$40,000	\$101,250

We accrue estimated bonuses for our executive officers throughout the year service is performed relating to such bonuses, and thus bonuses are expensed in the year they are earned, assuming they are approved by our Board of Directors. Each officer must include his bonus in his taxable income in the year during which he receives it, which is generally in the year following the year it is earned. We withhold appropriate tax withholdings from the bonus amounts awarded.

Stock Incentives

2004 Awards.

In 2004, we entered into restricted stock agreements with four executive officers under the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. A total of 317,500 shares of restricted stock were granted, which equated to

approximately \$3.3 million of deferred compensation. The shares vest thirty-three and one-third percent (33 ⅓ %) on each of January 1, 2005, January 1, 2006 and January 1, 2007 so long as the executive officer remains employed on the vesting date, with vesting accelerating upon a qualifying termination of employment, upon the occurrence of a change of control (as defined in the restricted stock agreements), death or disability. In addition, we also entered into performance restricted stock unit agreements with our four executive officers. A total of 317,500 performance restricted stock units were granted under the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. The performance restricted stock units were fully vested as December 31, 2006 following our attaining \$0.30 per share of common stock per fiscal quarter in “Adjusted Funds from Operations” (as defined in the performance restricted stock unit agreement) for two (2) consecutive quarters. Dividend equivalents (plus an interest factor based on our company’s cost of borrowing) accrued on unvested shares and were paid, according to the terms of the stock grant, because the performance restricted stock units vested. Dividend equivalents on vested performance restricted stock units are paid currently. Pursuant to the terms of the performance restricted stock unit agreements, each of the executive officers did not receive the vested shares attributable to the performance restricted stock units until January 1, 2008.

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2007 Awards.

Following its spring 2007 review of executive compensation and the analyses provided by Schronbaum, the Committee determined to utilize three types of executive incentives: (1) restricted stock awards for retention purposes and to encourage meaningful stock ownership, (2) performance restricted stock units (“PRSUs”) based on annualized performance to motivate and reward short-term performance, and (3) performance restricted stock units based on cumulative performance through December 31, 2010 to motivate and reward long-term performance. The amounts of these awards are shown in the Grants of Plan-Based Awards table below. As more thoroughly described below, the PRSUs are designed to align executive compensation with the interests of stockholders by tying vesting to achievement to an 11% Total Shareholder Return hurdle rate.

2007 Restricted Stock Awards.

On May 7, 2007 we granted restricted stock awards to each of our executive officers. Each restricted stock award vests one-seventh on December 31, 2007 and two-sevenths on each of December 31, 2008, December 31, 2009, and December 31, 2010, subject to continued employment on the vesting date. In addition, all restricted stock vests upon the officer’s death, disability, termination of employment by us without cause (as defined in the employment agreement), or if the officer voluntarily quits for good reason (as defined in the employment agreement). Dividends are paid currently on unvested and vested shares. If unvested shares are forfeited, dividends that are paid after the date of the forfeiture are not paid on these shares.

2007 Performance Restricted Stock Unit Awards.

On May 7, 2007, we also awarded two types of performance restricted stock units (“PRSUs”) to our executive officers. The two types of PRSU awards differ in the manner in which each award vests, as described below in greater detail.

- **Vesting for both types of Awards Based on Total Shareholder Return.** One-half of the total number of PRSUs granted to each executive officer are subject to ratable annual vesting one-third per year based on achievement of “Total Shareholder Return” (as described below) of 11% annualized through the applicable vesting date. The other half vests 100% at the end of three years based on achievement of Total Shareholder Returns of 11% annualized through the end of the three-year period. Total Shareholder Return is determined by reference to the total aggregate increase in the stock price per share over the applicable performance period plus dividends per share paid during the performance period. In calculating Total Shareholder Return, the beginning of the performance period stock value will be based on the twenty day trailing average closing price prior to May 7, 2007, and the end of the performance period stock value will normally be based on the twenty day trailing average closing price as of the last day of the performance period.
 - **Mechanics of Annual PRSU Vesting.** The PRSUs with annual vesting vest at the rate of one-third on each of December 31, 2008, December 31, 2009, and December 31, 2010, but only if the Company has achieved a Total Shareholder Return on an annualized basis of at least 11%, compounded as of each December 31, for the period commencing on May 7, 2007 and ending on the applicable vesting date. The officer may catch-up on vesting that does not occur in a given year because of a missed hurdle if an 11% annualized cumulative Total Shareholder Return is achieved from May 7, 2007 through December 31, 2010.
 - **Mechanics of Three Year PRSU Vesting.** The Company must achieve Total Shareholder Return of 11% per year compounded in the same manner as described above for the PRSUs with annual vesting over the period from May 7, 2007 through December 31, 2010 for the PRSUs to vest.
 - **Termination of Employment.** In the event of the officer’s death, disability, termination of employment by the Company without cause, or voluntary resignation for good reason, the performance period for measuring Total

Shareholder Return will end. If the Company has achieved a Total Shareholder Return of 11% per year compounded annually from May 7, 2007 through the date the performance period is so ended, all the unforfeited PRSUs will then vest. If the Total Shareholder Return goal has not been satisfied as of such date the PRSUs will be forfeited.

- Change of Control. If a change of control occurs before December 31, 2010, then the performance period for determining whether the Total Shareholder Return hurdle of 11%, annualized, has been achieved will end on the change in control date. The officer must be employed on the applicable vesting date for each type of PRSU award set forth above to vest. If the Company's stock is bought for cash in the change in control, the PRSUs will be converted to a cash obligation, which will grow by the annual dividend yield of the Company for the last four quarters as of the date of the change in control until the date the shares attributable to vested PRSUs are distributable.

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- Dividend Equivalents. Dividend equivalents based on dividends paid to shareholders during the applicable performance period accrue on unvested and vested PRSUs. Unpaid dividend equivalents accrue interest at a quarterly rate of interest equal to the Company's average borrowing rate for the preceding quarter. Accrued dividend equivalents plus interest are paid to the officer at the date the shares attributable to vested PRSUs are distributable.
- Distribution of Shares. Shares attributable to vested PRSU's are distributable upon the earliest of January 2, 2011, the officer's death or disability, or termination of the officer's employment by that Company without cause or resignation by the officer for good reason. However, the distribution of shares attributable to PRSUs with annual vesting will be delayed for six months after any termination of the officer's employment by the Company without cause or his resignation for good reason to the extent required to comply with 409A of the Internal Revenue Code.

General.

We account for all stock and option awards in accordance with Statement of Financial Accounting Standards No. 123R ("FAS 123R"). Executive officers recognize taxable income from stock option awards when a vested option is exercised. We generally receive a corresponding tax deduction for compensation expense in the year of exercise. The amount included in the executive officer's wages and the amount we may deduct is equal to the most recent closing common stock price on the date the stock options are exercised less the exercise price multiplied by the number of stock options exercised. We do not pay or reimburse any executive officer for any taxes due upon exercise of a stock option or upon vesting of an award.

Retirement Savings Opportunities

All employees may participate in our 401(k) Retirement Savings Plan (the "401(k) Plan"). We provide this plan to help our employees save some amount of their cash compensation for retirement in a tax efficient manner. Under the 401(k) Plan, employees are eligible to make contributions, and we, at our discretion, may match contributions and make a profit sharing contribution. We do not provide an option for our employees to invest in our stock in the 401(k) plan.

Health and Welfare Benefits

We provide a competitive benefits package to all full-time employees which includes health and welfare benefits, such as medical, dental, disability insurance, and life insurance benefits. The plans under which these benefits are offered do not discriminate in scope, terms or operation in favor of officers and directors and are available to all salaried employees. We have no structured executive perquisite benefits (e.g., club memberships or company vehicles) for any executive officer, including the named executive officers, and we currently do not provide supplemental pensions to our employees, including the named executive officers.

Tax Deductibility of Executive Compensation

The SEC requires that this report comment upon our policy with respect to Section 162(m) of the Internal Revenue Code. Section 162(m) disallows a federal income tax deduction for compensation over \$1.0 million to any of the named executive officers unless the compensation is paid pursuant to a plan that is performance-related, non-discretionary and has been approved by our stockholders. We did not pay any compensation during 2007 that would be subject to Section 162(m). We believe that, because we qualify as a REIT under the Internal Revenue Code and therefore are not subject to federal income taxes on our income to the extent distributed, the payment of compensation that does not satisfy the requirements of Section 162(m) will not generally affect our net income, although to the extent that compensation does not qualify for deduction under Section 162(m), a larger portion of stockholder distributions may be subject to federal income taxation as dividend income rather than return of capital. We do not believe that Section 162(m) will materially affect the taxability of stockholder distributions, although no

assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, Section 162(m) does not directly govern the Compensation Committee's compensation policy and practices. However, we are seeking stockholder approval of an amendment to our 2004 Stock Incentive Plan in order to facilitate the ability of the Company to structure and award performance-based compensation that will qualify for federal income tax deduction under Section 162(m). See Proposal 3 below.

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COMPENSATION COMMITTEE REPORT

The Committee reviewed and discussed the CD&A with management, and based on this review and discussion, the Committee recommended to the Board of Directors that the CD&A be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2007.

Compensation Committee of the Board of Directors

Thomas F. Franke
Harold J. Kloosterman
Bernard J. Korman
Edward Lowenthal

Stephen D. Plavin

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Summary Compensation Table

The following table summarizes the compensation of our “named executive officers” for the years ended December 31, 2007 and 2006. Our named executive officers are our Chief Executive Officer, our Chief Financial Officer, and the three other most highly compensated executive officers. With respect to stock awards, compensation in the table below includes not only compensation earned for services in the years indicated, but also compensation earned for services in prior years but recognized as an expense for financial reporting purposes in the years indicated.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings		All Other Compen- sation (\$)	Total (\$)
							(H)	(I)		
(A)	(B)	(C)	(1) (D)	(2) (E)	(F)	(G)	(H)	(I)	(J)	
C. Taylor Pickett Chief Executive Officer	2007	\$530,500	\$663,125	\$ 525,112	\$ --	\$ --	\$ --	\$ 6,750	\$1,725,487	
	2006	\$515,000	\$463,500	\$1,756,675	\$ --	\$ --	\$ --	\$30,711	\$2,765,886	
Robert O. Stephenson Chief Financial Officer	2007	\$262,700	\$157,620	\$ 217,088	\$ --	\$ --	\$ --	\$ 6,750	\$ 644,158	
	2006	\$255,000	\$114,750	\$ 843,204	\$ --	\$ --	\$ --	\$18,172	\$1,231,126	
Daniel J. Booth Chief Operating Officer	2007	\$326,500	\$244,875	\$ 314,534	\$ --	\$ --	\$ --	\$ 6,750	\$ 892,659	
	2006	\$317,000	\$158,500	\$1,054,005	\$ --	\$ --	\$ --	\$21,066	\$1,550,571	
R. Lee Crabill Senior Vice-President of Operations	2007	\$253,400	\$136,840	\$ 193,831	\$ --	\$ --	\$ --	\$ 6,750	\$ 590,821	
	2006	\$246,000	\$123,000	\$ 808,071	\$ --	\$ --	\$ --	\$17,691	\$1,194,762	
Michael D. Ritz (4) (5) Chief Accounting Officer	2007	\$145,833	\$111,250	\$ 70,048	\$ --	\$ --	\$ --	\$ 5,346	\$ 332,477	
	2006	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	

(1) Bonuses are reported in the year earned, whether or not paid before year end.

(2) Represents the dollar amount expensed for the years indicated with respect to restricted stock and performance restricted stock unit awards for financial reporting purposes in accordance with FAS 123R. These amounts reflect the Company’s accounting expense for these awards in the year indicated, and do not correspond to actual value reorganized by the officers. For further information regarding the valuation of stock awards, see Note 13 to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2007.

Amounts shown for 2007 reflect dollar amount expense in 2007 with respect to restricted stock awards and performance restricted stock units granted in May 2007. Amounts shown for 2006 reflect dollar amount expensed in 2006 with respect to (i) restricted stock awards and (ii) performance restricted stock units awarded in 2004 and earned in 2006 because we attained \$0.30 per share of common stock per fiscal quarter in “Adjusted Funds from Operations,” which target was previously set in 2004 by the Committee.

(3) All other compensation includes the following amounts over \$10,000:

Name	Year	Interest on Dividends on Stock Awards	401(k) Matching Contribution
C. Taylor Pickett	2007		\$ 6,750
	2006	-- 24,111	\$ 6,600
Robert O. Stephenson	2007		\$ 6,750
	2006	-- 11,572	\$ 6,600
Daniel J. Booth	2007		\$ 6,750
	2006	-- 14,466	\$ 6,600
R. Lee Crabill	2007		\$ 6,750
	2006	-- 11,091	\$ 6,600
Michael Ritz	2007		\$ 5,346
	2006	-- --	\$ --

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(4) Mr. Ritz began employment with the Company on February 28, 2007.

(5) Mr. Ritz's bonus number includes a \$10,000 sign-on bonus.

GRANTS OF PLAN-BASED AWARDS IN 2007

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date of Stock Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
C. Taylor	5/7/07							114,394(A)			\$1,951,562
Pickett	5/7/07					49,026(B)					\$ 411,328
	5/7/07					49,026(C)					\$ 302,490
Robert O. Stephenson	5/7/07							47,292(A)			\$ 806,802
	5/7/07					20,268(B)					\$ 170,049
	5/7/07					20,268(C)					\$ 125,054
Daniel J. Booth	5/7/07							68,520(A)			\$1,168,951
	5/7/07					29,366(B)					\$ 246,381
	5/7/07					29,366(C)					\$ 181,188
R. Lee	5/7/07							42,225(A)			\$ 720,359
Crabill	5/7/07					18,097(B)					\$ 151,834
	5/7/07					18,097(C)					\$ 111,658
Michael	5/7/07							14,477(A)			\$246,978
D. Ritz	5/7/07					7,239(B)					\$ 60,735
	5/7/07					7,239(C)					\$ 44,665

Notes:

(A) Restricted stock awards vesting one-seventh on December 31, 2007 and two-sevenths on each of December 31, 2008, December 31, 2009, and December 31, 2010, subject to continued employment on the vesting date. In addition, all restricted stock vests upon the officer's death, disability, termination of employment by us without cause (as defined in the employment agreement), or if the officer voluntarily quits for good reason (as defined in the employment agreement). Dividends are paid currently on unvested and vested shares. If unvested shares are forfeited, dividends that are paid after the date of the forfeiture are not paid on these shares.

(B) PRSUs vesting one-third on each of December 31, 2008, 2009 and 2010 subject to achieving Total Shareholder Return of at least 11% annualized from the date of grant through the vesting date. See "2007 Performance Restricted Stock Unit Awards" under "Compensation Discussion and Analysis" above for further information.

(C) PRSUs vesting December 31, 2010 subject to achieving cumulative Total Shareholder Return of at least 11% annualized from the date of grant through the vesting date. See "2007 Performance Restricted Stock Unit Awards"

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under “Compensation Discussion and Analysis” above for further information.

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Outstanding Equity Awards at Fiscal Year End for 2007

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value	Number of Shares or Units	Equity Incentive Plan Awards: Number of Shares or Units	Equity Incentive Plan Awards: Market Value
(A)	(B)	(C)	(D)	(E)	(F)	(G)(1)	(H)(2)	(I)	(J)
C. Taylor								98,052	\$ 1,573,735
Pickett								49,026	\$ 786,867
								49,026	\$ 786,867
Robert O. Stephenson								40,536	\$ 650,603
								20,268	\$ 325,301
								20,268	\$ 325,301
Daniel J. Booth								58,731	\$ 942,633
								29,366	\$ 471,324
								29,366	\$ 471,324
R. Lee Crabill								36,193	\$ 580,898
								18,097	\$ 290,457
								18,097	\$ 290,457
Michael D. Ritz								12,408	\$ 199,148
								7,239	\$ 116,186
								7,239	\$ 116,186

(1) These balances exclude performance restricted stock units that vested as of December 31, 2006 but will be distributed on January 1, 2008. The performance criteria for the receipt of these units were met in 2006. Messrs. Pickett, Stephenson, Booth and Crabill were awarded 125,000, 60,000, 75,000 and 57,500 of these performance restricted stock units, respectively.

(2) The market value is based on the closing price of our common stock on December 31, 2007 of \$16.05.

Option Exercises and Stock Vested for 2007

Option Awards

Stock Awards

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
(A)	(B)	(1) (C)	(D)	(2) (E)
C. Taylor Pickett	--	\$ --	16,342	\$ 262,289
Robert O. Stephenson	--	\$ --	6,756	\$ 108,434
Daniel J. Booth	--	\$ --	9,789	\$ 157,113
R. Lee Crabill	--	\$ --	6,032	\$ 96,814
Michael D. Ritz	--	\$ --	2,068	\$ 33,191

(1) This amount represents the gain to the employee based on the market price of underlying shares at the date of exercise less the exercise price.

(2) The market value is based on the closing price of our common stocks on December 31, 2007 of \$16.05.

Compensation and Severance Agreements

C. Taylor Pickett Employment Agreement

We entered into an employment agreement with C. Taylor Pickett, dated as of September 1, 2004, to be our Chief Executive Officer. We amended the agreement with the consent of Mr. Pickett, effective May 7, 2007. The amendment extended the term of the agreement set to expire on December 31, 2007 for an additional three-year-period until December 2010.

Mr. Pickett's current base salary is \$549,500 per year, subject to increase by us and his employment provides that he will be eligible for an annual bonus of up to 100% of his base salary based on criteria determined by the Compensation Committee of our Board of Directors. However, in a separate letter, we provided that, for 2007, his percentage bonus opportunity was up to 125% of his base salary.

If we terminate Mr. Pickett's employment without "cause" or if he resigns for "good reason," we will pay him severance equal to three times the sum of his then current annual base salary plus his average annual bonus over the last three completed calendar years, which amount will be paid in installments over the 36-month-period following his termination. "Cause" is defined in the employment agreement to include events such as willful refusal to perform duties, willful misconduct in performance of duties, unauthorized disclosure of confidential company information, or fraud or dishonesty against us. "Good reason" is defined in the employment agreement to include events such as our material breach of the employment agreement or our relocation of Mr. Pickett's employment to more than 50 miles away without his consent.

Mr. Pickett is required to execute a release of claims against us as a condition to the payment of severance benefits. Severance is not paid if the term of the employment agreement expires. If Mr. Pickett dies during the term of the employment agreement, his estate is entitled to a prorated bonus for the year of his death.

Mr. Pickett is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. During the period of employment and for one year thereafter, Mr. Pickett is obligated not to provide within the states where Omega owns property as of May 7, 2007, managerial services or management consulting services to a "competing business." Competing business is defined to include a list of named competitors and any other business with the primary purpose of leasing assets to healthcare operators or financing ownership or operation of senior, retirement or healthcare - related real estate. In addition, during the period of employment and for one year thereafter, Mr. Pickett agrees not to solicit clients or customers with whom he had material contact or to solicit our management level employees. If the term of the employment agreement expires at December 31, 2010 and as a result no severance is paid, then these provisions also expire at December 31, 2010.

Daniel J. Booth Employment Agreement

We entered into an employment agreement with Daniel J. Booth, dated as of September 1, 2004, to be our Chief Operating Officer. We amended the agreement with the consent of Mr. Booth, effective May 7, 2007. The amendment extended the term of the agreement set to expire on December 31, 2007 for an additional three-year-period until December 31, 2010.

Mr. Booth's current base salary is \$338,500 per year, subject to increase by us and his employment agreement provides that he will be eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the Compensation Committee of our Board of Directors. However, in a separate letter, we provided that, for 2007, his percentage bonus opportunity was up to 75% of his base salary.

If we terminate Mr. Booth's employment without "cause" or if he resigns for "good reason," we will pay him severance equal to two times the sum of his then current annual base salary plus his average annual bonus over the last three completed calendar years, which amount will be paid in installments over the 24-month-period following his termination. "Cause" is defined in the employment agreement to include events such as willful refusal to perform duties, willful misconduct in performance of duties, unauthorized disclosure of confidential company information, or fraud or dishonesty against us. "Good reason" is defined in the employment agreement to include events such as our material breach of the employment agreement or our relocation of Mr. Booth's employment to more than 50 miles away without his consent.

Mr. Booth is required to execute a release of claims against us as a condition to the payment of severance benefits. Severance is not paid if the term of the employment agreement expires. If Mr. Booth dies during the term of the employment agreement, his estate is entitled to a prorated bonus for the year of his death.

Mr. Booth is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. During the period of employment and for one year thereafter, Mr. Booth is obligated not to provide within the states where Omega owns property as of May 7, 2007, managerial services or management consulting services to a "competing business." Competing business is defined to include a list of named competitors and any other business with the primary purpose of leasing assets to healthcare operators or financing ownership or operation of senior, retirement or healthcare - related real estate. In addition, during the period of employment and for one year thereafter, Mr. Booth agrees not to solicit clients or customers with whom he had material contact or to solicit our management level employees. If the term of the employment agreement expires at December 31, 2010 and as a result no severance is paid, then these provisions also expire at December 31, 2010.

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Robert O. Stephenson Employment Agreement

We entered into an employment agreement with Robert O. Stephenson, dated as of September 1, 2004, to be our Chief Financial Officer. We amended the agreement with the consent of Mr. Stephenson, effective May 7, 2007. The amendment extended the term of the agreement set to expire on December 31, 2007 for an additional three-year-period until December 31, 2010.

Mr. Stephenson's current base salary is \$272,000 per year, subject to increase by us and his employment agreement provides that he will be eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the Compensation Committee of our Board of Directors. However, in a separate letter, we provided that, for 2007, his percentage bonus opportunity was up to 60% of his base salary.

If we terminate Mr. Stephenson's employment without "cause" or if he resigns for "good reason," we will pay him severance equal to one and one-half times the sum of his then current annual base salary plus his average annual bonus over the last three completed calendar years, which amount will be paid in installments over the 18-month-period following his termination. "Cause" is defined in the employment agreement to include events such as willful refusal to perform duties, willful misconduct in performance of duties, unauthorized disclosure of confidential company information, or fraud or dishonesty against us. "Good reason" is defined in the employment agreement to include events such as our material breach of the employment agreement or our relocation of Mr. Stephenson's employment to more than 50 miles away without his consent.

Mr. Stephenson is required to execute a release of claims against us as a condition to the payment of severance benefits. Severance is not paid if the term of the employment agreement expires. If Mr. Stephenson dies during the term of the employment agreement, his estate is entitled to a prorated bonus for the year of his death.

Mr. Stephenson is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. During the period of employment and for one year thereafter, Mr. Stephenson is obligated not to provide within the states where Omega owns property as of May 7, 2007, managerial services or management consulting services to a "competing business." Competing business is defined to include a list of named competitors and any other business with the primary purpose of leasing assets to healthcare operators or financing ownership or operation of senior, retirement or healthcare related - real estate. In addition, during the period of employment and for one year thereafter, Mr. Stephenson agrees not to solicit clients or customers with whom he had material contact or to solicit our management level employees. If the term of the employment agreement expires at December 31, 2010 and as a result no severance is paid, then these provisions also expire at December 31, 2010.

R. Lee Crabill, Jr. Employment Agreement

We entered into an employment agreement with R. Lee Crabill, dated as of September 1, 2004, to be our Senior Vice President of Operations. We amended the agreement with the consent of Mr. Crabill, effective May 7, 2007. Then amendment extended the term of the agreement set to expire on December 31, 2007, for an additional three-year-period until December 31, 2010.

Mr. Crabill's current base salary is \$262,500 per year, subject to increase by us and his employment agreement provides that he will be eligible for an annual bonus of up to 50% of his base salary based on criteria determined by the Compensation Committee of our Board of Directors. However, in a separate letter, we provided that, for 2007, his percentage bonus opportunity was up to 60% of his base salary.

If we terminate Mr. Crabill's employment without "cause" or if he resigns for "good reason," we will pay him severance equal to one and one-half times the sum of his then current annual base salary plus his average annual bonus over the last three completed calendar years, which amount will be paid in installments over the 18-month-period following his

termination. "Cause" is defined in the employment agreement to include events such as willful refusal to perform duties, willful misconduct in performance of duties, unauthorized disclosure of confidential company information, or fraud or dishonesty against us. "Good reason" is defined in the employment agreement to include events such as our material breach of the employment agreement or our relocation of Mr. Crabil's employment to more than 50 miles away without his consent.

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Mr. Crabill is required to execute a release of claims against us as a condition to the payment of severance benefits. Severance is not paid if the term of the employment agreement expires. If Mr. Crabill dies during the term of the employment agreement, his estate is entitled to a prorated bonus for the year of his death.

Mr. Crabill is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. During the period of employment and for one year thereafter, Mr. Crabill is obligated not to provide within the states where Omega owns property as of May 7, 2007, managerial services or management consulting services to a “competing business.” Competing business is defined to include a list of named competitors and any other business with the primary purpose of leasing assets to healthcare operators or financing ownership or operation of senior, retirement or healthcare - related real estate. In addition, during the period of employment and for one year thereafter, Mr. Crabill agrees not to solicit clients or customers with whom he had material contact or to solicit our management level employees. If the term of the employment agreement expires at December 31, 2010 and as a result no severance is paid, then these provisions also expire at December 31, 2010.

Michael Ritz Employment Agreement

We entered into an employment agreement with Michael Ritz, dated as of May 7, 2007, to be our Chief Accounting Officer. The term of the agreement expires on December 31, 2010.

Mr. Ritz’ current base salary is \$181,500 per year, subject to increase by us, and his employment agreement provides that he will be eligible for an annual bonus of up to 35% of his base salary based on criteria determined by the Compensation Committee of our Board of Directors plus, for 2007 only, a guaranteed bonus of \$40,000, subject to his continued employment on the date the bonus is paid.

If we terminate Mr. Ritz’ employment without “cause” or if he resigns for “good reason,” we will pay him severance equal to one times the sum of his then current annual base salary plus his average annual bonus over the last three completed calendar years, which amount will be paid in installments over the 12-month-period following his termination. “Cause” is defined in the employment agreement to include events such as willful refusal to perform duties, willful misconduct in performance of duties, unauthorized disclosure of confidential company information, or fraud or dishonesty against us. “Good reason” is defined in the employment agreement to include events such as our material breach of the employment agreement or our relocation of Mr. Ritz’ employment to more than 50 miles away without his consent.

Mr. Ritz is required to execute a release of claims against us as a condition to the payment of severance benefits. Severance is not paid if the term of the employment agreement expires. If Mr. Ritz dies during the term of the employment agreement, his estate is entitled to a prorated bonus for the year of his death.

Mr. Ritz is restricted from using any of our confidential information during his employment and for two years thereafter or from using any trade secrets during his employment and for as long thereafter as permitted by applicable law. During the period of employment and for one year thereafter, Mr. Ritz is obligated not to provide, within the states where Omega owns property as of May 7, 2007, managerial services or management consulting services to a “competing business.” Competing business is defined to include a list of named competitors and any other business with the primary purpose of leasing assets to healthcare operators or financing ownership or operation of senior, retirement or healthcare-related real estate. In addition, during the period of employment and for one year thereafter, Mr. Ritz agrees not to solicit clients or customers with whom he had material contact or to solicit our management level employees. If the term of the employment agreement expires at December 31, 2010 and as a result no severance is paid, then these provisions also expire at December 31, 2010.

Potential Payments Upon Termination or Change of Control

The table below illustrates the incremental compensation that would have been payable in the event of termination events identified below, as if they had occurred as of December 31, 2007.

In general, the occurrence of a change of control does not increase benefits that would otherwise be payable upon termination without cause or resignation for good reason. If a change of control occurs before the end of a performance period under the outstanding PRSUs, then the performance period for the applicable PRSU will end on the change in control date. However, the PRSUs only vest if the officer is employed at the original vesting date, or the officer is terminated for cause or resigns for good reason. For a description of the vesting of restricted stock and PRSUs, see "Stock Incentives" on page 13 above. For a description of circumstances constituting "cause" and "good reason", see the discussion of each officer's employment agreement above.

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	Involuntary Without Cause or Voluntary for Good Reason	Death or Disability
C. Taylor Pickett:		
Severance	\$ 3,273,125	\$ --
Accelerated Vesting of Restricted Stock(1)	\$ 1,573,735	\$ 1,573,735
Accelerated Vesting of PRSUs(2)	\$ --	\$ --
Total Value of Payments:	\$ 4,846,860	\$ 1,573,735
Robert O. Stephenson:		
Severance	\$ 611,485	\$ --
Accelerated Vesting of Restricted Stock(1)	\$ 650,603	\$ 650,603
Accelerated Vesting of PRSUs(2)	\$ --	\$ --
Total Value of Payments:	\$ 1,262,088	\$ 650,603
Daniel J. Booth:		
Severance	\$ 1,050,250	\$ --
Accelerated Vesting of Restricted Stock(1)	\$ 942,633	\$ 942,633
Accelerated Vesting of PRSUs(2)	\$ --	\$ --
Total Value of Payments:	\$ 1,992,883	\$ 942,633
R. Lee Crabill:		
Severance	\$ 569,270	\$ --
Accelerated Vesting of Restricted Stock(1)	\$ 580,898	\$ 580,898
Accelerated Vesting of PRSUs(2)	\$ --	\$ --
Total Value of Payments:	\$ 1,150,168	\$ 580,898
Michael Ritz:		
Severance	\$ 276,250	\$ --
Accelerated Vesting of Restricted Stock(1)	\$ 199,148	\$ 199,148
Accelerated Vesting of PRSUs(2)	\$ --	\$ --
Total Value of Payments:	\$ 475,398	\$ 199,148

(1) Based on closing stock price as of December 31, 2007.

(2) Based on Total Shareholder Return through December 31, 2007 and closing stock price as of such date.

Compensation of Directors

Name	Fees earned or paid in cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
(A)	(B)	(1) (C)	(D)	(E)	(F)	(G)	(H)
Thomas F. Franke	\$ 71,000	\$ 41,641	\$ --	\$ --	\$ --	\$ --	\$ 112,641
Harold J. Kloosterman	\$ 84,000	\$ 41,641	\$ --	\$ --	\$ --	\$ --	\$ 125,641
Bernard J. Korman	\$ 96,500	\$ 63,231	\$ --	\$ --	\$ --	\$ --	\$ 159,731
Edward Lowenthal	\$ 67,000	\$ 41,641	\$ --	\$ --	\$ --	\$ --	\$ 108,641
Stephen D. Plavin	\$ 83,500	\$ 41,641	\$ --	\$ --	\$ --	\$ --	\$ 125,141

(1) Dollar amount expended during fiscal year.

(2) Grants of plan-based awards table for 2007

Name	Grant Date	Shares Awarded	Value Awarded
Franke	1/12/2007	1,500	26,295
	2/15/2007	332	6,248
	5/15/2007	377	6,243
	8/15/2007	447	6,254
	11/15/2007	387	\$ 6,258
Kloosterman	1/12/2007	1,500	26,295
	2/15/2007	332	6,248
	5/15/2007	377	6,243
	8/15/2007	447	6,254
	11/15/2007	387	\$ 6,258
Korman	1/12/2007	2,500	43,825
	2/15/2007	332	6,248
	5/15/2007	377	6,243
	8/15/2007	447	6,254
	11/15/2007	387	\$ 6,258

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Lowenthal	1/12/2007	1,500	26,295
	2/15/2007	332	6,248
	5/15/2007	377	6,243
	8/15/2007	447	6,254
	11/15/2007	387 \$	6,258
Plavin	1/12/2007	1,500	26,295
	2/15/2007	332	6,248
	5/15/2007	377	6,243
	8/15/2007	447	6,254
	11/15/2007	387 \$	6,258

2007 Standard Compensation Arrangement for Directors. For the year ended December 31, 2006, our standard compensation arrangement for our Board of Directors provided that each non-employee director would receive a cash payment equal to \$25,000 per year, payable in quarterly installments of \$6,250. Each non-employee director also is entitled to receive a quarterly grant of shares of common stock equal to the number of shares determined by dividing the sum of \$5,000 by the fair market value of the common stock on the date of each quarterly grant, currently set at February 15, May 15, August 15, and November 15. At the director's option, the quarterly cash payment of director's fees may be paid in shares of common stock. In addition, each non-employee director is entitled to receive fees equal to \$1,500 per meeting for attendance at each regularly scheduled meeting of the Board of Directors. For each teleconference or called special meeting of the Board of Directors, each non-employee director received \$1,500 for meeting. In 2006, the Chairman of the Board received an annual payment of \$25,000 for being Chairman and each Committee Chair received an annual payment of \$5,000. In addition, we reimbursed the directors for travel expenses incurred in connection with their duties as directors. Employee directors received no compensation for service as directors.

Under our standard compensation arrangement of directors, each non-employee director of our company receives options with respect to 10,000 shares at the date the plan was adopted or upon their initial election as a director. Our standard compensation arrangement for directors also provides that each non-employee director is awarded an additional option grant with respect to 1,000 restricted shares on January 1 of each year they serve as a director. All grants have been and will be at an exercise price equal to 100% of the fair market value of our common stock on the date of the grant. Non-employee director options and restricted stock vest ratably over a three-year period beginning the date of grant.

2007 Standard Compensation Arrangement for Directors. Effective January 1, 2007, our standard compensation arrangement for directors provided that each non-employee director is entitled to receive (i) a cash payment of \$25,000, payable in quarterly installments of \$6,250, (ii) a quarterly grant of shares of common stock equal to the number of shares determined by dividing the sum of \$6,250 by the fair market value of the common stock on the date of each quarterly grant, currently set at February 15, May 15, August 15, and November 15, and (iii) restricted stock with respect to 1,500 shares on January 1 of each year they serve as a director (except that the chairman of the board will be awarded 2,500 restricted shares on January 1 of each year he serves as Chairman). In addition, the Chairman of the Board receives an additional annual payment of \$25,000, the Chairman of the Audit Committee will receive an additional \$15,000, the Chairman of the Compensation Committee will receive an additional \$10,000 and all other committee chairmen will receive \$7,000.

We also pay each non-employee director fees equal to \$1,500 per meeting for attendance at each regularly scheduled meeting of the Board of Directors. For each teleconference or called special meeting of the Board of Directors, each non-employee director receives \$1,500 per meeting. In addition, each new non-employee director of our company will be awarded options with respect to 10,000 shares upon his or her initial election as a director.

All stock grants will be at an exercise price equal to 100% of the fair market value of our common stock on the date of the grant. Non-employee director options and restricted stock vest ratably over a three-year period beginning the date of grant. In addition, we reimburse the directors for travel expenses incurred in connection with their duties as directors. Employee directors receive no compensation for service as directors.

Compensation Committee Interlocks and Insider Participation

Thomas F. Franke, Harold J. Kloosterman, Bernard J. Korman, Edward Lowenthal and Stephen D. Plavin were members of the Compensation Committee for the year ended December 31, 2007 and during such period, there were no Compensation Committee interlocks or insider participation in compensation decisions.

AUDIT COMMITTEE MATTERS

The Audit Committee's purpose is to oversee the accounting and financial reporting processes of our company, the audits of our financial statements, the qualifications of the public accounting firm engaged as our independent auditor to prepare and issue an audit report on our financial statements and the related internal control over financial reporting, and the performance of our independent auditors. The Audit Committee has the sole authority and responsibility to select, determine the compensation of, evaluate and, when appropriate, replace our company's independent auditors. The Audit Committee's function is more fully described in its revised charter, which the Board of Directors adopted on January 16, 2007, and is available on our website at www.omegahealthcare.com. The Board of Directors reviews the Audit Committee Charter annually.

The Audit Committee has three independent directors, and the Board of Directors has determined that each Audit Committee member is independent under the standards of director independence established under our corporate governance policies and the New York Stock Exchange listing requirements and is also "independent" for purposes of

Section 10A(m)(3) of the Securities Exchange Act of 1934. In addition, the Board of Directors has determined that Stephen Plavin is an “audit committee financial expert,” as defined by SEC rules.

Management is responsible for the preparation, presentation, and integrity of our financial statements, accounting and financial reporting principles, internal control over financial reporting, and procedures designed to ensure compliance with accounting standards, applicable laws, and regulations. Our company’s independent auditor, Ernst & Young LLP, is responsible for auditing and expressing opinions on the conformity of our company’s consolidated financial statements with accounting principles generally accepted in the United States, and the effectiveness of our company’s internal control over financial reporting based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

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Audit Committee Report

The Audit Committee, with respect to the audit of Omega's 2007 audited consolidated financial statements, reports as follows:

- 1) The Audit Committee has reviewed and discussed our 2007 audited consolidated financial statements with Omega's management;
- 2) The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and SEC Regulation S-X, Rule 2-07, which include, among other items, matters related to the conduct of the audit of Omega's consolidated financial statements, and the PCAOB Auditing Standard No. 5, ("An Audit of Internal Control Over Financial Reporting that is integrated with an Audit of Financial Statements");
- 3) The Audit Committee has received written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, "Independence Discussion with Audit Committees," (which relates to the auditor's independence from Omega and its related entities) and has discussed with Ernst & Young LLP its independence from Omega;
 - 4) Based on reviews and discussions of Omega's 2007 audited consolidated financial statements with management and discussions with Ernst & Young LLP, the Audit Committee recommended to the Board of Directors that Omega's 2007 audited consolidated financial statements be included in our company's Annual Report on Form 10-K;
- 5) The Audit Committee has policies and procedures that require the pre-approval by the Audit Committee of all fees paid to, and all service performed by, our company's independent auditor. At the beginning of each year, the Audit Committee approves the proposed services, including the nature, type and scope of service contemplated and the related fees, to be rendered by the firm during the year. In addition, Audit Committee pre-approval is also required for those engagements that may arise during the course of the year that are outside the scope of the initial services and fees approved by the Audit Committee. For each category of proposed service, the independent accounting firm is required to confirm that the provision of such services does not impair its independence. Pursuant to the Sarbanes-Oxley Act of 2002, the fees and services provided as noted in the table below were authorized and approved by the Audit Committee in compliance with the pre-approval policies and procedures described herein; and
- 6) The Committee has also reviewed the services provided by Ernst & Young LLP discussed below and has considered whether provision of such services is compatible with maintaining auditor independence.

Audit Committee of the Board of Directors

Stephen D. Plavin
Harold J. Kloosterman
Edward Lowenthal

RELATIONSHIP WITH INDEPENDENT AUDITORS

Independent Auditors

Ernst & Young LLP audited our financial statements for each of the years ended December 31, 2007, 2006 and 2005. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions from stockholders at the Annual Meeting. Approval of our independent auditors is not a matter required to be submitted to stockholders; however, the Board considers the selection of the independent auditor to be an important matter of stockholder concern and is submitting the selection of Ernst & Young LLP for ratification by stockholders as a matter of good corporate practice.

Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of our company's annual financial statements for the fiscal years 2007 and 2006 and fees billed for other services rendered by Ernst & Young LLP during those periods, all of which were pre-approved by the Audit Committee.

	Year Ended December 31,	
	2007	2006
Audit Fees	\$ 793,000	\$ 1,475,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	6,000	6,000
Total	\$ 799,000	\$ 1,481,000

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered to our company for the audit of our company's annual financial statements for fiscal years 2007 and 2006, the audit of the effectiveness of our company's internal control over financial reporting related to Section 404 of the Sarbanes-Oxley Act of 2002 for fiscal years 2007 and 2006, the reviews of the financial statements included in our company's Forms 10-Q for fiscal years 2007 and 2006, and services relating to securities and other filings with the SEC, including comfort letters and consents, were approximately \$793,000 and \$1,475,000, respectively. Audit fees in 2006 also included approximately \$800,000 of fees billed by Ernst & Young LLP related to the restatement of our Form 10-K for the three-year period ended December 31, 2005 and Forms 10-Q for the periods ended March 31, 2006 and June 30, 2006.

Audit Related Fees

Ernst & Young LLP was not engaged to perform services for our company relating to due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, or consultation concerning financial accounting and reporting standards for fiscal years 2007 and 2006.

Tax Fees

Ernst & Young LLP was not engaged to perform services to our company relating to tax compliance, tax planning and tax advice for fiscal years 2007 and 2006, respectively.

All Other Fees

The aggregate fees billed by Ernst & Young LLP for professional services to our company rendered other than as stated under the captions “Audit Fees,” “Audit-Related Fees” and “Tax Fees” above for fiscal years 2007 and 2006 were approximately \$6,000 and \$6,000, respectively.

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Determination of Auditor Independence

The Audit Committee considered the provision of non-audit services by our independent auditor and has determined that the provision of such services was consistent with maintaining the independence of Ernst & Young LLP.

Audit Committee's Pre-Approval Policies

The Audit Committee's current practice is to pre-approve all audit services and all permitted non-audit services to be provided to our company by our independent auditor; provided, however pre-approval requirements for non-audit services are not required if all such services: (1) do not aggregate to more than five percent of total revenues paid by us to our accountant in the fiscal year when services are provided; (2) were not recognized as non-audit services at the time of the engagement; and (3) are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee.

PROPOSAL 2 — PROPOSAL TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITOR FOR THE FISCAL YEAR 2008

The Audit Committee has selected Ernst & Young LLP as our company's independent auditor for the current fiscal year, and the Board of Directors is asking stockholders to ratify that selection. Although current law, rules, and regulations, as well as the charter of the Audit Committee, require our company's independent auditor to be engaged, retained, and supervised by the Audit Committee, the Board of Directors considers the selection of the independent auditor to be an important matter of stockholder concern and is submitting the selection of Ernst & Young LLP for ratification by stockholders as a matter of good corporate governance. However, if the stockholders do not ratify the selection, the Board of Directors and the Audit Committee will reconsider whether or not to retain Ernst & Young LLP but may retain such independent auditors. Even if the selection is ratified, the Board of Directors and the Audit Committee in their discretion may change the appointment at any time during the year if they determine that such a change would be in the best interest of us and our stockholders.

Information concerning the services Ernst & Young provided to us can be found beginning on page 27. The affirmative vote of holders of a majority of all votes cast on the matter is required to ratify the selection of Ernst & Young LLP as our company's independent auditor for the current fiscal year. The Board of Directors and the members of the Audit Committee recommend a vote FOR this proposal.

PROPOSAL 3 – APPROVAL OF AN AMENDMENT TO THE 2004 INCENTIVE PLAN

We are asking our stockholders to approve an amendment (the "2004 Plan Amendment") to the Omega Healthcare Investors, Inc. 2004 Incentive Plan (the "2004 Plan") that would facilitate the ability of the Compensation Committee of our Board of Directors (the "Compensation Committee") to structure and award performance-based compensation that will qualify for a federal income tax deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The 2004 Plan is not being amended to increase the number of shares reserved for issuance thereunder or in any other material respect except for changes intended to satisfy Section 162(m) of the Code. The maximum number of shares reserved for issuance under the 2004 Plan remains at 3,000,000 shares.

As described below under Federal Income Tax Information – Potential Limitation on Company Deductions," Code Section 162(m) denies a tax deduction to public companies for compensation paid to certain "covered employees"

in a taxable year to the extent the compensation paid to a covered employee exceeds \$1,000,000, unless the plan contains features that enable the compensation to qualify as “performance-based compensation.” Before the 2004 Plan Amendment, the 2004 Plan already contained features necessary to qualify certain compensation as performance-based compensation and permitted payment of cash bonuses. The 2004 Plan Amendment, however, expands the types of compensation that will qualify as performance-based compensation, including cash bonuses, adds additional performance goals, and provides a cap on the maximum number of shares that can be granted or dollar amounts that can be paid to an employee during a year as qualified performance-based compensation.

The Company’s general policy has been to pay certain awards, for example annual bonuses, to executive officers that are determined in part based on achievement of pre-established performance goals, such as adjusted Funds From Operations. However, historically certain of these awards have not qualified as performance-based within the meaning of Code Section 162(m) because some of the performance goals used and plan limits on the maximum number of shares that can be granted during a specified period or the maximum dollar amount of compensation that can be paid to an employee during a specified period have not been stockholder approved. If Proposal 3 is approved, the Company will have an increased ability to structure awards as performance-based under Code Section 162(m).

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Although the Company is generally not subject to federal income tax liability so long as the Company continues to qualify as a real estate investment trust (subject to certain exceptions), the Company believes that qualifying compensation as performance-based under Code Section 162(m) is desirable. If the deduction for a portion of the compensation we pay to our covered executives is limited by the provisions of Code Section 162(m), our taxable income will increase by the amount so limited, and we would be required to increase the amount of dividends we pay in order to avoid paying corporate income tax on the disallowed amount. While we would not expect the amount of any such disallowance to be material, our ability to pay dividends at any such point in time could be limited by any number of factors including insufficient cash flow generated by operations, limitations contained in existing loan agreements, or other factors. Accordingly, the Board believes it is in the best interests of the Company to seek stockholder approval of the 2004 Plan Amendment in order to structure potential executive compensation that could exceed \$1 million as tax deductible under Code Section 162(m).

If the 2004 Plan Amendment is not approved by our stockholders, we intend to continue to grant cash bonuses and other awards, but some of these awards that would otherwise be deductible if the 2004 Plan Amendment were approved may not be deductible under Code Section 162(m).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 3

A summary of the 2004 Plan, as amended by the 2004 Plan Amendment for which we are seeking stockholder approval, is set forth below.

General

On April 20, 2004, our Board of Directors approved the 2004 Plan. The 2004 Plan allows the Compensation Committee to grant equity and other compensation to certain employees, directors and consultants for the purpose of giving them a proprietary interest in our company and providing us with a means to attract and retain key personnel.

If approved by the stockholders, the 2004 Plan Amendment would provide the Compensation Committee with greater flexibility to structure awards, including cash bonuses, to qualify as performance-based awards under Code Section 162(m) and would expand the criteria available to the Compensation Committee for setting performance goals. These modifications to the 2004 Plan would provide greater flexibility to the Compensation Committee in establishing performance-based compensation that is tax-deductible to Omega.

Eligibility

Stock incentives may be granted to our employees, directors, and consultants, or any of our affiliates; provided, however, that incentive stock options may be granted only to our employees or employees of our subsidiaries.

Administration

Awards under the 2004 Stock Incentive Plan will be granted, and the terms and conditions of awards will be determined, by the Compensation Committee, the members of which are selected by our Board of Directors.

Code Section 162(m) requires that the members of the Compensation Committee must be “outside directors.” To qualify as an outside director, the director cannot be a current employee of Omega, a former employee of Omega who receives compensation for prior services, a current or former officer of Omega, or receive remuneration from Omega either directly or indirectly in any capacity other than a director. The members of our Compensation Committee qualify as outside directors under these regulations.

Awards

The 2004 Plan permits the Compensation Committee to grant a variety of incentives relating to Omega common stock, including stock awards, restricted stock units, stock options, stock appreciation rights, performance awards, phantom stock, and dividend equivalent rights (collectively, "Awards"). Performance awards, however, may alternatively be tied to a value that is not derivative of Omega's equity value.

The 2004 Stock Incentive Plan provides that each non-employee director will receive an initial grant of an option to purchase 10,000 shares when first elected. Annually thereafter, each non-employee director will receive an additional grant of an option to purchase 1,000 shares. Each option granted to a non-employee director will vest on a three-year graded vesting schedule.

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The number of shares of our common stock as to which a stock incentive is granted and to whom any stock incentive is granted shall be determined by the Compensation Committee, subject to the provisions of the 2004 Stock Incentive Plan. Stock incentives issuable may be made exercisable or settled at such prices and may be made terminable under such terms as are established by the Compensation Committee, to the extent not otherwise inconsistent with the terms of the 2004 Stock Incentive Plan.

The terms of particular Awards may provide that they terminate, among other reasons, upon the holder's termination of employment or other status with respect to our company, upon a specified date, upon the holder's death or disability, or upon the occurrence of a change in control of our company. Awards may also include exercise, conversion or settlement rights to a holder's estate or personal representative in the event of the holder's death or disability. At the Compensation Committee's discretion, Awards that are held by an employee who terminates employment may be cancelled, accelerated, paid or continued, subject to the terms of the applicable award agreement and to the provisions of the 2004 Plan.

Limits on Grants

The maximum number of shares of common stock with respect to which options, stock appreciation rights, or other Awards (other than performance awards payable in cash) that are intended to be performance-based compensation under Code Section 162(m) that can be granted during any year to any employee shall not exceed one million one hundred thousand (1,100,000). In addition, to the extent that compensation is granted with the intent that it qualify as performance-based compensation under Code Section 162(m), the maximum aggregate dollar amount of performance awards that may be paid in cash in any calendar year to an employee may not exceed two million (\$2,000,000). Before the 2004 Plan Amendment, the 2004 Plan contained the limit described above for stock options and stock appreciation rights, but did not contain the other limits described above. Stockholder approval of these limits will allow the Compensation Committee the flexibility to structure other forms of Awards to qualify as performance-based compensation under Code Section 162(m).

Qualified Performance Goals

The Compensation Committee may, but is not required to, make the vesting or payment of an Award contingent upon achievement of performance goals that are intended to qualify the Award as performance-based compensation within the meaning of Section 162(m) of the Code. These performance goals, after the 2004 Plan Amendment for which we are seeking stockholder approval, are listed below:

- i. earnings per share;
- ii. operating cash flow;
- iii. cash available;
- iv. net income;
- v. revenue;
- vi. total stockholder return;
- vii. return on invested capital;
- viii. return on stockholder equity;

- ix. return on assets; or
- x. return on common book equity;
- xi. market share;
- xii. economic value added;
- xiii. operating margin
- xiv. stock price;
- xv. operating income;
- xvi. EBIT or EBITDA;
- xvii. funds from operations or adjusted funds from operations;
- xviii. expenses or operating expenses;
- xix. productivity of employees as measured by revenues, costs, or earnings per employee;
- xx. cost reduction goals; and
- xxi. any combination of the foregoing.

The Compensation Committee may apply any of the foregoing either individually or in combination, to Omega as a whole or to a business unit or affiliate, and may measure achievement of the goals either quarterly, annually, or cumulatively over a period of quarters or years, on an absolute basis or relative to a pre-established target, to results for previous quarters or years or to a designated comparison group.

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The Compensation Committee may adjust any evaluation of performance under a performance goal to remove the effect of equity compensation expense under FAS 123R; amortization of acquired technology and intangibles; asset write-downs, litigation or claim judgments or settlements; the effect of changes in or provisions under tax law, accounting principles or other such laws or provisions affecting reported results; accruals for reorganization and restructuring programs; discontinued operations; and any items that are extraordinary, unusual in nature, non-recurring or infrequent in occurrence, except where such action would result in the loss of a tax deduction to us pursuant to Section 162(m) of the Code, if applicable.

Before the 2004 Plan Amendment, the Plan already contained the performance goals (with a few minor differences) in items (i) through (x) and gave the Compensation Committee the ability to make some of the adjustments described above. The 2004 Plan Amendment expands the categories of performance goals and the Compensation Committee's ability to make appropriate adjustments.

Options

Options may be made exercisable at a price not less than the fair market value of our common stock on the date that the option is awarded or the last business day preceding. The Compensation Committee shall determine the fair market value of our common stock until such time as our common stock is publicly traded. Except for adjustments in the event of a recapitalization or similar event, the option exercise price may not be reduced after the date of grant of an option and no option may be cancelled or surrendered in exchange for an option with a lower exercise price.

The Compensation Committee may permit an option exercise price to be paid in cash or by the delivery of previously-owned shares of our common stock, or to be satisfied through a cashless exercise executed through a broker or by having a number of shares of our common stock otherwise issuable at the time of exercise withheld. The 2004 Plan permits the grant of both incentive and non-qualified stock options.

Stock Appreciation Rights

Stock appreciation rights may be granted separately or in connection with another Award, and the Compensation Committee may provide that they are exercisable at the discretion of the holder or that they will be paid at a time or times certain or upon the occurrence or non-occurrence of certain events. Stock appreciation rights may be settled in shares of our common stock or in cash, according to terms established by the Compensation Committee with respect to any particular award.

Stock Awards

The Compensation Committee may grant shares of our common stock or restricted stock to a participant, subject to such restrictions and conditions, if any, as the Compensation Committee shall determine.

Performance Awards

After the 2004 Plan Amendment, performance awards entitle the participant to receive at a specified future date payment of an amount equal to either the value of a specified or determinable number of units stated in terms of a designated or determinable dollar amount per unit or a percentage or multiple of a specified dollar amount determined by the Compensation Committee, and payment will be subject to such conditions or restrictions as the Compensation Committee shall determine, including achievement of specified Performance Goals, and shall be payable in cash or shares of our common stock, as the Compensation Committee may determine. Before the 2004 Plan Amendment, the Plan permitted the grant of performance awards (then called "performance unit awards"), but they were required to be denominated only in "units." The 2004 Plan Amendment provides the Compensation Committee with greater flexibility to structure cash bonuses to qualify as performance-based compensation under Code Section 162(m).

Other Awards

Dividend equivalent rights, restricted stock unit awards and phantom shares may be granted with respect to such number of shares of our common stock and may be subject to such conditions or restrictions as the Compensation Committee shall determine and shall be payable in cash or shares of our common stock, as the Compensation Committee may determine.

Participation in the 2004 Plan

Information regarding the grant of awards under the 2004 Plan to key personnel is subject to the discretion of the Board and set forth in the Stock Awards Column of the Summary Compensation Table, the accompanying compensation tables, and the Compensation Discussion and Analysis above. All Stock Awards described in the compensation tables were granted under the 2004 Plan.

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Recapitalizations and Reorganizations

The number of shares of our common stock reserved for issuance in connection with the grant or settlement of Awards or to which an Award is subject, as the case may be, and the exercise price of each option are subject to adjustment in the event of any recapitalization of our company or similar event effected without receipt of consideration by us.

In the event of certain corporate reorganizations, Awards may be substituted, cancelled, accelerated, cashed-out or otherwise adjusted by the Compensation Committee, provided such adjustment is not inconsistent with the express terms of the 2004 Plan or the applicable award agreement.

Amendment or Termination

Although the amended 2004 Plan may be further amended by our Board of Directors without stockholder approval, our Board of Directors also may condition any such amendment upon stockholder approval if stockholder approval is deemed necessary or appropriate in consideration of tax, securities or other laws.

Federal Income Tax Information

The following discussion outlines generally the federal income tax consequences of participation in the amended 2004 Plan. Individual circumstances may vary and each participant should rely on his or her own tax counsel for advice regarding federal income tax treatment under the amended 2004 Plan.

Non-Qualified Options

A participant will not recognize income upon the grant of an option or at any time prior to the exercise of the option or a portion thereof. At the time the participant exercises a non-qualified option or portion thereof, he or she will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of our common stock on the date the option is exercised over the price paid for our common stock, and we will then be entitled to a corresponding deduction.

Depending upon the period shares of our common stock are held after exercise, the sale or other taxable disposition of shares acquired through the exercise of a non-qualified option generally will result in a short or long-term capital gain or loss equal to the difference between the amount realized on such disposition and the fair market value of such shares when the non-qualified option was exercised.

Incentive Stock Options

A participant who exercises an incentive stock option will not be taxed at the time he or she exercises the option or a portion thereof. Instead, he or she will be taxed at the time he or she sells our common stock purchased pursuant to the option. The participant will be taxed on the difference between the price he or she paid for our common stock and the amount for which he or she sells our common stock. If the participant does not sell the stock prior to two years from the date of grant of the option and one year from the date the stock is transferred to him or her, the participant will be entitled to capital gain or loss treatment based upon the difference between the amount realized on the disposition and the aggregate exercise price and we will not get a corresponding deduction. If the participant sells the stock at a gain prior to that time, the difference between the amount the participant paid for the stock and the lesser of the fair market value on the date of exercise or the amount for which the stock is sold, will be taxed as ordinary income and we will be entitled to a corresponding deduction; if the stock is sold for an amount in excess of the fair market value on the date of exercise, the excess amount is taxed as capital gain. If the participant sells the stock for less than the amount he or she paid for the stock prior to the one or two year periods indicated, no amount will be taxed as ordinary income and the loss will be taxed as a capital loss.

Exercise of an incentive option may subject a participant to, or increase a participant's liability for, the alternative minimum tax.

Stock Awards

A participant will not be taxed upon the grant of a stock award if such award is not transferable by the participant or is subject to a "substantial risk of forfeiture," as defined in the Code. However, when the shares of our common stock that are subject to the stock award are transferable by the participant and are no longer subject to a substantial risk of forfeiture, the participant will recognize compensation taxable as ordinary income in an amount equal to the fair market value of the stock subject to the stock award, less any amount paid for such stock, and we will then be entitled to a corresponding deduction. However, if a participant so elects at the time of receipt of a stock award, he or she may include the fair market value of the stock subject to the stock award, less any amount paid for such stock, in income at that time and we also will be entitled to a corresponding deduction at that time.

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Other Awards

A participant will not recognize income upon the grant of certain equity incentives such as a stock appreciation right, dividend equivalent right, performance award or phantom share. Generally, at the time a participant receives payment under any such award, he or she will recognize compensation taxable as ordinary income in an amount equal to the cash or the fair market value of our common stock received, and we will then be entitled to a corresponding deduction.

Potential Limitation on Company Deductions

Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1,000,000. It is possible that compensation attributable to equity compensation, when combined with cash compensation and all other types of compensation received by a covered employee from the company, may cause this limitation to be exceeded in any particular year. Compensation that qualifies under Code Section 162(m) as “qualified performance-based compensation” is exempt from the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), qualified performance-based compensation is compensation that meets the following requirements:

- i. the compensation is payable only upon attainment of pre-established, objective performance goals;
- ii. the performance goals under which the compensation is paid must be established by a compensation committee comprised solely of two or more outside directors; and
- iii. the material terms of the performance goals under which compensation can be paid are approved by the stockholders of the corporation.

Stock options and stock appreciation rights are deemed to satisfy the requirement in clause (i) above if the grant is made by the compensation committee, the plan under which the option or right is granted states the maximum number of shares subject to options or rights that may be granted during a specified period to any employee, and the option or right strike price is set at the fair market value of the underlying stock as of the date of grant.

The 2004 Plan Amendment that we are asking you to approve expands the Compensation Committee’s ability to structure awards that qualify as performance-based compensation under Code Section 162(m), by expanding the type of cash bonuses that can qualify as performance-based, expanding the available performance goals as described above, and imposing limits on the maximum number of shares or dollar amounts that can be paid to an employee in any year as performance-based compensation. However, even if the stockholders vote to approve the 2004 Plan Amendment, the Compensation Committee will have the ability to structure Awards under the Plan that do not qualify as qualified performance-based compensation, and thus there can be no assurance that all Awards under the Plan will be treated as qualified performance-based compensation under Code Section 162(m) and tax-deductible to the company.

Voting Required for Approval

For the 2004 Plan Amendment to be approved, the number of "for" votes cast at the meeting for this proposal must be at least a majority of all votes cast on the proposal and the total number of votes cast with respect to this proposal must represent more than 50% of all of the shares entitled to vote on the proposal. For purposes of the vote on Proposal 3, abstentions and broker non-votes will not be counted as shares entitled to vote and will have no effect on the results of the vote.

Recommendation of the Board

Accordingly, our Board of Directors unanimously recommends that the stockholders vote "FOR" this Proposal 3, the proposal to approve the 2004 Plan Amendment.

STOCKHOLDER PROPOSALS

December 19, 2008 is the date by which proposals of stockholders intended to be presented at the 2009 Annual Meeting of Stockholders must be received by us for inclusion in our proxy statement and form of proxy relating to that meeting.

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In addition, our Bylaws provide that in order for business to be brought before the Annual Meeting, a stockholder must deliver or mail written notice to our Secretary at our principal executive office not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's Annual Meeting provided, however, that if the date of the Annual Meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice must be delivered not more than 90 days prior to such Annual Meeting nor less than 60 days prior to such Annual Meeting or if later, not later than the close of business on the tenth day following the day on which the date of such meeting is publicly announced. The notice must state the stockholder's name, address, class and number of shares of our stock and briefly describe the business to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of the stockholder and of the beneficial owner, if any, on whose behalf the proposal is made. If the stockholder intends to nominate a candidate for election as a director, in addition to the requirements set forth above, the notice should include the name of the nominee for election as a director, the age of the nominee, the nominee's business address and experience during the past five years, the number of shares of our stock beneficially held by the nominee, and such other information concerning the nominee as would be required to be included in a proxy statement soliciting proxies for the election of the nominee. The notice must also include a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person pursuant to which the nominations are to be made by such stockholder, a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the person named in the notice, and the consent of the nominee to serve as a director.

EXPENSES OF SOLICITATION

The total cost of this solicitation will be borne by us. In addition to use of the mails, proxies may be solicited by our directors, officers and regular employees of our company personally and by telephone or facsimile. We may reimburse persons holding shares in their own names or in the names of the nominees for expenses such persons incur in obtaining instructions from beneficial owners of such shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors and persons who beneficially own more than 10% of our company common stock to file initial reports of ownership and reports of changes in ownership with the SEC. SEC regulations require these individuals to give us copies of all Section 16(a) forms they file.

Based solely on our review of forms that were furnished to us and written representations from reporting persons, we believe that the executive officers, directors and more than 10% stockholders complied with all filing requirements related to Section 16(a). In making these statements, we have relied on the representations of the persons involved and on copies of their reports filed with the SEC.

OTHER MATTERS

The Board of Directors knows of no other business that may be validly presented at the Annual Meeting, but if other matters do properly come before the Annual Meeting, it is intended that the persons named in the proxy will vote on said matters in accordance with their best judgment.

/s/ C. TAYLOR PICKETT
Chief Executive Officer

April 18, 2008
Timonium, Maryland

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OMEGA HEALTHCARE INVESTORS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY

The undersigned hereby appoints Robert O. Stephenson and Thomas H. Peterson and each of them, as proxies, each with the power to appoint his substitute to represent and to vote as designated below, all the shares of common stock of Omega Healthcare Investors, Inc. ("Omega") held of record by the undersigned on April 14, 2008 at the Annual Meeting of Stockholders to be held on May 22, 2008 or any adjournment thereof.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned. If no specification is made, this Proxy will be voted FOR:

1. The Election of Directors

NOMINEES:

Harold J. Kloosterman and C. Taylor Pickett

2. Ratification of Independent Auditors

Ernst & Young LLP

3. Approval of the amendments to the 2004 Stock Incentive Plan described in Proposal 3 in the accompanying proxy statement

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting and at any adjournment thereof.

(Continued, and to be marked, dated and signed, on the other side)

SEE REVERSE SIDE

-- FOLD AND DETACH HERE --

[X] (Please mark your votes as in this example.)

The Directors recommend a vote "FOR" Proposal 1, Proposal 2 and Proposal 3.

VOTE FOR VOTE WITHELD

1 . T h e E l e c t i o n o f Directors [] []

NOMINEES:

Harold J. Kloosterman and C. Taylor Pickett

(Instruction: To withhold authority to vote for any individual nominee, write that nominee's name here.)

FOR AGAINST ABSTAIN

2 . R a t i f i c a t i o n o f I n d e p e n d e n t Auditors [] [] [] Ernst & Young LLP

3. Approval of the amendments to the 2004 Stock Incentive Plan described in Proposal 3 in the accompanying proxy statement [] [] []

NOTE: Please sign exactly as your name appears on this Proxy. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Please check the box if you plan to attend the Annual Meeting in person. []

SIGNATURE(S) DATE

NOTE: Please sign exactly as your name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. This proxy will not be used if you attend the meeting in person and so request.

- FOLD AND DETACH

