

LTC PROPERTIES INC  
Form 10-Q  
October 25, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

**x**

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

**For the quarterly period ended September 30, 2010**

**OR**

**o**

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

**For the Transition period from            to**

**Commission file number 1-11314**

**LTC PROPERTIES, INC.**

(Exact name of Registrant as specified in its charter)

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

**71-0720518**  
(I.R.S. Employer  
Identification No.)

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**31365 Oak Crest Drive, Suite 200**

**Westlake Village, California 91361**

(Address of principal executive offices, including zip code)

**(805) 981-8655**

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of common stock outstanding on October 20, 2010 was 26,226,674.

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**LTC PROPERTIES, INC.**

**FORM 10-Q**

**September 30, 2010**

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Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

	September 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2010 \$154,566; 2009 \$142,839	\$ 361,592	\$ 333,530
Land	38,595	36,205
Properties held-for-sale, net of accumulated depreciation and amortization: 2010 \$2,487; 2009 \$2,341	7,299	4,545
Mortgage loans receivable, net of allowance for doubtful accounts: 2010 \$654; 2009 \$704	64,801	69,883
Real estate investments, net	472,287	444,163
Other Assets:		
Cash and cash equivalents	12,493	8,856
Debt issue costs, net	882	476
Interest receivable	1,444	1,964
Straight-line rent receivable,(1) net of allowance for doubtful accounts: 2010 \$1,262; 2009 \$629	19,294	17,124
Prepaid expenses and other assets	8,534	8,663
Other assets related to properties held-for-sale	211	185
Notes receivable	1,429	2,689
Marketable securities(2)	6,477	6,473
Total Assets	\$ 523,051	\$ 490,593
<b>LIABILITIES</b>		
Bank borrowings	\$	\$ 13,500
Senior unsecured notes	50,000	
Mortgage loan payable		7,685
Bonds payable	3,730	4,225
Accrued interest	608	102
Accrued expenses and other liabilities	9,045	7,786
Accrued expenses and other liabilities related to properties held-for-sale	35	15
Distributions payable	1,768	2,967
Total Liabilities	65,186	36,280
<b>EQUITY</b>		
Stockholders' equity:		
Preferred stock \$0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2010 5,537; 2009 7,932	126,913	186,801
Common stock: \$0.01 par value; 45,000 shares authorized; shares issued and outstanding: 2010 26,227; 2009 23,312	262	233
Capital in excess of par value	397,788	326,163
Cumulative net income	611,247	577,629
Other	307	390
Cumulative distributions	(680,614)	(638,884)
Total LTC Properties, Inc. Stockholders' Equity	455,903	452,332
Non-controlling interests	1,962	1,981

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Total Equity		457,865		454,313
Total Liabilities and Equity	\$	523,051	\$	490,593

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(1) On September 30, 2010 and December 31, 2009, we had \$2,738,000 and \$2,480,000, respectively, in straight-line rent receivable from a lessee that qualifies as a related party because the lessee's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

(2) At September 30, 2010 and December 31, 2009, we had a \$6,500,000 face value investment in marketable securities issued by an entity that qualifies as a related party because the entity's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

*See accompanying notes.*

Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in thousands, except per share amounts)

*(unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
Rental income (1)	\$ 16,384	\$ 14,832	\$ 47,798	\$ 44,554
Interest income from mortgage loans	1,868	2,061	5,683	6,538
Interest and other income (2)	265	306	842	949
Total revenues	18,517	17,199	54,323	52,041
<b>Expenses:</b>				
Interest expense	852	340	1,672	2,046
Depreciation and amortization	4,073	3,621	11,801	10,870
Provisions for doubtful accounts	217	202	1,472	573
Operating and other expenses	1,914	1,766	5,817	5,417
Total expenses	7,056	5,929	20,762	18,906
Income from continuing operations	11,461	11,270	33,561	33,135
<b>Discontinued operations:</b>				
Income from discontinued operations	101	56	201	169
Net income from discontinued operations	101	56	201	169
Net income	11,562	11,326	33,762	33,304
Income allocated to non-controlling interests	(48)	(76)	(144)	(229)
Net income attributable to LTC Properties, Inc.	11,514	11,250	33,618	33,075
Income allocated to participating securities	(54)	(34)	(155)	(105)
Income allocated to preferred stockholders	(5,889)(3)	(3,785)	(13,459)(3)	(10,730)
Net income available to common stockholders	\$ 5,571	\$ 7,431	\$ 20,004	\$ 22,240
<b><u>Basic earnings per common share (4)</u></b>				
Continuing operations	\$ 0.22	\$ 0.32	\$ 0.83	\$ 0.96
Discontinued operation	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Net income allocable to common stockholders	\$ 0.22	\$ 0.32	\$ 0.83	\$ 0.96
<b><u>Diluted earnings per common share (4)</u></b>				
Continuing operations	\$ 0.22	\$ 0.32	\$ 0.82	\$ 0.96
Discontinued operation	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Net income allocable to common stockholders	\$ 0.22	\$ 0.32	\$ 0.83	\$ 0.96
<b><u>Weighted average shares used to calculate earnings per common share</u></b>				
Basic	24,930	23,108	23,959	23,083
Diluted	24,945	23,193	24,055	23,165

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(1) During the three and nine months ended September 30, 2010, we received \$1,042,000 and \$3,118,000, respectively, in rental income and recorded \$83,000 and \$259,000, respectively, in straight-line rental income from a lessee that qualifies as a related party. During the three and nine months ended September 30, 2009, we received \$1,017,000 and \$3,042,000, respectively, in rental income and recorded \$109,000 and \$335,000, respectively, in straight-line rental income from a lessee that qualifies as a related party. The lessee's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

(2) During each of the three and nine months ended September 30, 2010 and 2009, we recognized \$180,000 and \$540,000, respectively, of interest income from an entity that qualifies as a related party because the entity's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

(3) Includes \$2,383,000 of preferred stock redemption charge related to the redemption of all 4,921 shares of our Series E preferred stock and 2,357,686 shares of our Series F preferred stock. See *Note 6. Equity* for further discussion.

(4) Computations of per share amounts from continuing operations, discontinued operations and net income are made independently. Therefore, the sum of per share amounts from continuing operations and discontinued operations may not agree with the per share amounts from net income allocable to common stockholders. Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with the per share amounts for the year.

*See accompanying notes.*

Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

*(Unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 33,762	\$ 33,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization continuing and discontinued operations	11,947	11,089
Stock-based compensation expense	982	1,025
Straight-line rental income continuing and discontinued operation\$1)	(2,815)	(3,245)
Provisions for doubtful accounts	1,472	573
Other non-cash items, net	735	491
Increase (decrease) in accrued interest payable	506	(184)
Decrease in interest receivable	219	231
Net change in other assets and liabilities	1,122	1,658
Net cash provided by operating activities	47,930	44,942
<b>INVESTING ACTIVITIES:</b>		
Investment in real estate properties and capital improvements, net	(42,198)	(2,545)
Investment in real estate mortgages	(1,694)	(219)
Principal payments received on mortgage loans receivable	2,989	6,188
Advances under notes receivable	(100)	(125)
Principal payments received on notes receivable	1,413	537
Net cash (used in) provided by investing activities	(39,590)	3,836
<b>FINANCING ACTIVITIES:</b>		
Bank borrowings	37,500	5,500
Repayment of bank borrowings	(51,000)	(5,500)
Proceeds from issuance of senior unsecured notes	50,000	
Principal payments on mortgage loan payable and bonds payable	(8,180)	(24,800)
Proceeds from common stock offering	67,308	490
Repurchase of common stock		(16)
Redemption of preferred stock	(59,065)	
Repurchase of preferred stock		(2,000)
Distributions paid to non-controlling interests	(163)	(229)
Distributions paid to stockholders	(40,546)	(38,524)
Other	(557)	259
Net cash used in financing activities	(4,703)	(64,820)
Increase (decrease) in cash and cash equivalents	3,637	(16,042)
Cash and cash equivalents, beginning of period	8,856	21,118
Cash and cash equivalents, end of period	\$ 12,493	\$ 5,076
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 856	\$ 1,919
Non-cash investing and financing transactions:		
Conversion of preferred stock to common stock	822	23

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Conversion of mortgage loan to owned property

2,900

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(1) During the nine months ended September 30, 2010 and 2009, we recorded \$259,000 and \$335,000, respectively, in straight-line rental income from a lessee that qualifies as a related party. The lessee's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

*See accompanying notes.*

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. General**

LTC Properties, Inc., a Maryland corporation, is a real estate investment trust (or REIT) that invests primarily in senior housing and long term care properties through mortgage loans, property lease transactions and other investments. Our primary senior housing and long term care property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF) and combinations thereof.

We have prepared consolidated financial statements included herein without audit and in the opinion of management have included all adjustments necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2010 and 2009 pursuant to the rules and regulations of the Securities and Exchange Commission (or SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (or U.S. GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The results of operations for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of the results for a full year.

The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries and a controlled partnership. All significant intercompany accounts and transactions have been eliminated in consolidation. Control over the partnership is based on the provisions of the partnership agreement that provide us with a controlling financial interest in the partnership.

Under the terms of the partnership agreement, our company, as general partner, is responsible for the management of the partnership's assets, business and affairs. Certain of our rights and duties in management of the partnership include making all operating decisions, setting the capital budget, executing all contracts, making all employment decisions, and handling the purchase and disposition of assets. We, as the general partner, are responsible for the ongoing, major, and central operations of the partnership and make all management decisions. In addition, we, as the general partner, assume the risk for all operating losses, capital losses, and are entitled to substantially all capital gains (i.e. asset appreciation). The limited partners have virtually no rights and are precluded from taking part in the operation, management or control of the partnership. The limited partners are also precluded from transferring their partnership interests without the express permission of the general partner. However, we can transfer our interest without consultation or permission of the limited partners.

No provision has been made for federal or state income taxes. Our company qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As such, we generally are not taxed on income that is distributed to our stockholders.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****2. Real Estate Investments**

*Mortgage Loans.* The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2010 (*in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties (1)	SNF Beds	Number of ALF Units	ILF Units	Investment per Bed/Unit
Assisted Living Properties	\$ 24,808	37.9%	10	15		589		\$ 42.12
Skilled Nursing Properties	37,297	57.0%	28	35	4,011			\$ 9.30
Other Properties (2)	3,350	5.1%	1	1	99	74		\$ 19.36
Totals	\$ 65,455	100.0%	39	51	4,110	663		

(1) We have investments in 13 states that include mortgages to 20 different operators.

(2) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

At September 30, 2010, the mortgage loans had interest rates ranging from 9.8% to 14.3% and maturities ranging from 2011 to 2019. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

During the three months ended September 30, 2010, we invested \$1,622,000, before closing fees of \$64,000, in a mortgage loan secured by a skilled nursing property located in Missouri to finance an expansion of the property and extend the loan maturity for an additional five years to January 2018. The current interest rate is 10.9%, increasing 0.13% annually.

During the nine months ended September 30, 2010, we invested \$72,000 under one mortgage loan for capital improvements and we received \$2,989,000 in regularly scheduled principal payments. During the nine months ended September 30, 2010, we recorded an \$852,000 provision for doubtful accounts related to a mortgage loan secured by a private school property located in Minnesota. The borrower of the private school property ceased operations and filed for Chapter 7 bankruptcy. In September 2010, we acquired the private school property via deed in lieu of foreclosure and have classified it as held-for-sale. We are actively marketing to sell this property.

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During the nine months ended September 30, 2009, we received \$3,026,000 plus accrued interest related to the payoff of two mortgage loans secured by two skilled nursing properties. Additionally, we invested \$219,000 under one mortgage loan for capital improvements. We received \$3,162,000 in regularly scheduled principal payments.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)**

*Owned Properties.* The following table summarizes our investments in owned properties at September 30, 2010 (*in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Properties (1)	SNF Beds	Number of ALF Units	ILF Units	Investment per Bed/Unit
Assisted Living Properties	\$ 257,104	45.5%	84		3,700		\$ 69.49
Skilled Nursing Properties	243,155	43.1%	60	6,908			\$ 35.20
Other Properties (2)	52,110	9.2%	11	696	216	370	\$ 40.65
School	12,170	2.2%	2	N/A	N/A	N/A	N/A
Totals	\$ 564,539	100.0%	157	7,604	3,916	370	

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(1) We have investments in 24 states leased to 26 different operators.

(2) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease which requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Many of the leases contain renewal options and two contain limited period options that permit the operators to purchase the properties. The leases provide for fixed minimum base rent during the initial and renewal periods. The majority of our leases contain provisions for specified annual increases over the rents of the prior year that are generally computed in one of four ways depending on specific provisions of each lease:

- (i) a specified percentage increase over the prior year's rent, generally between 2.0% and 3.0%;
- (ii) a calculation based on the Consumer Price Index;
- (iii) as a percentage of facility net patient revenues in excess of base amounts; or
- (iv) specific dollar increases.

During the three months ended September 30, 2010, a lessee notified us of its intent to exercise its option to purchase a 195-bed skilled nursing property located in Virginia on November 1, 2010. This property has been classified as held-for-sale. The carrying value of this property as of September 30, 2010 was \$4,398,000 and the annual revenue from this property is \$471,000. At this time, we anticipate an immaterial net gain

from this sale.

During the nine months ended September 30, 2010, we acquired a 120-bed skilled nursing property in Florida for \$9,000,000 and incurred and expensed \$51,000 in transaction costs. This property was leased to a third party operator under a 12-year lease with two 10-year renewal options. Also during the nine months ended September 30, 2010, we purchased a 166-bed skilled nursing property in Texas for \$7,850,000 and incurred and expensed \$30,000 in transaction costs. This property was leased to a third party operator under a 10-year lease with two five-year renewal options. We paid this operator, who previously operated the property under a lease with the seller, \$125,000 as a lease inducement. The lease inducement is amortized as a yield adjustment over the life of the lease. Additionally, we acquired two properties in Virginia, a 90-bed skilled nursing property and a property with 137 skilled nursing beds, 47 assisted living units, and 46 independent living units, for \$22,000,000 and incurred and expensed \$7,000 in transaction costs. These properties were leased to a third party operator under a 12-year master lease with two 10-year renewal options.

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

Also during the nine months ended September 30, 2010, we invested \$2,140,000 at an average yield of 9.7%, under agreements to expand and renovate 11 existing properties operated by seven different operators. We also invested \$1,120,000 in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment.

Subsequent to September 30, 2010, we entered into three purchase agreements to acquire four assisted living properties with a total of 241 units for an aggregate purchase price of \$26,900,000. Three of the properties are located in Florida and one is located in Mississippi. The terms of one of the seller's current financing required a 30-day prepayment notice which was given by this seller on September 27, 2010. In addition to the aggregate purchase price identified above, we have agreed to pay \$106,000 representing half of this seller's prepayment penalty on its loan. The three transactions are scheduled to concurrently close on or about October 29, 2010. Simultaneous with the purchases, we will lease the properties under a 10-year triple net master lease with an affiliate of the third party operators that managed or operated the properties under leases with the sellers.

During the nine months ended September 30, 2009, we invested \$1,987,000 at an average yield of 10.6%, under agreements to expand and renovate eight existing properties operated by six different operators. We also invested \$558,000 in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment.

Any reference to the number of properties, number of schools, number of units, number of beds, and yield on investments in real estate are unaudited and outside the scope of our independent registered public accounting firm's review of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

**3. Notes Receivable**

During the nine months ended September 30, 2010, we received \$1,413,000 in principal payments and funded \$100,000 under various loans and line of credit agreements with certain operators. At September 30, 2010, we had six such loans outstanding with a carrying value of \$1,429,000 at a weighted average interest rate of 12.0%. At December 31, 2009, we had seven such loans outstanding with a carrying value of \$2,689,000 at a weighted average interest rate of 11.52%.

**4. Marketable Securities**

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At September 30, 2010 and December 31, 2009, we had an investment in \$6,500,000 face value of Skilled Healthcare Group, Inc. (or SHG) Senior Subordinated Notes with a face rate of 11.0% and an effective yield of 11.1%. Interest on the notes is payable semi-annually in arrears and the notes mature on January 15, 2014. One of our board members is the chief executive officer of SHG. See *Note 9. Transactions with Related Party* for further discussion.

### 5. Debt Obligations

*Bank Borrowings.* During the nine months ended September 30, 2010, we added a new lender with a \$30,000,000 commitment to our Unsecured Credit Agreement, dated July 17, 2008. This additional commitment provides a total availability of \$110,000,000 under our Unsecured Credit Agreement with the opportunity to increase the credit amount up to a total of \$120,000,000. The Unsecured Credit Agreement provides a revolving line of credit with a final maturity date of July 17, 2011. The pricing under the Unsecured Credit Agreement is either Prime Rate plus 0.50% or LIBOR plus 1.50% depending on our borrowing election. At the time of borrowing, we may elect the 1, 2, 3 or 6 month LIBOR rate. Under financial covenants contained in the Unsecured Credit Agreement which are measured quarterly we are required to maintain, among other things:

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

- (i) a ratio, of total indebtedness to total asset value, not greater than 0.5 to 1.0;
- (ii) a ratio not greater than 0.35 to 1.0 of secured debt to total asset value;
- (iii) a ratio not less than 2.5 to 1.0 of EBITDA as calculated in the Unsecured Credit Agreement to interest expense; and
- (iv) a ratio of not less than 1.50 to 1.0 of EBITDA as calculated in the Unsecured Credit Agreement to fixed charges.

During the nine months ended September 30, 2010 we borrowed \$37,500,000 and repaid \$51,000,000 under our Unsecured Credit Agreement. At September 30, 2010, we had no outstanding balance under our Unsecured Credit Agreement and \$110,000,000 available for borrowing. At December 31, 2009, we had \$13,500,000 outstanding at an interest rate of LIBOR plus 1.50% under the Unsecured Credit Agreement. Also, at September 30, 2010 and December 31, 2009, we were in compliance with all covenants.

*Senior Unsecured Notes.* During the three months ended September 30, 2010, we completed the sale to affiliates and managed accounts of Prudential Investment Management, Inc. (individually and collectively "Prudential") of \$25,000,000 aggregate principal amount of 5.26% senior unsecured term notes due July 14, 2015 and \$25,000,000 aggregate principal amount of 5.74% senior unsecured term notes fully amortizing to maturity on January 14, 2019. Also, we entered into an uncommitted private shelf agreement with Prudential which provides for the possible issuance of up to an additional \$50,000,000 of senior unsecured fixed-rate term notes during the three-year issuance period. Interest rates on any issuance under the shelf agreement will be set at a spread over applicable Treasury rates at the date of the rate lock. Maturities of each issuance are at our election for up to 10 years from the date of issuance with a maximum average life of 7 years from the date of original issuance.

*Mortgage Loans Payable.* During the nine months ended September 30, 2010, we paid off a \$7,626,000 mortgage loan secured by an assisted living property located in California. The retired debt had an interest rate of 8.69%. Also, during the nine months ended September 30, 2010, we paid \$59,000 in regularly scheduled principal payments. At September 30, 2010, we have no mortgage loans payable outstanding. At December 31, 2009, we had one mortgage loan outstanding with a carrying value of \$7,685,000 at a fixed interest rate of 8.69%.

During the nine months ended September 30, 2009, we paid off three mortgage loans in the amount of \$23,935,000 secured by 11 assisted living properties located in various states. The retired debts bore a weighted average interest rate of 8.68%. During the nine months ended September 30, 2009, we paid \$400,000 in regularly scheduled principal payments.

*Bonds Payable.* At September 30, 2010 and December 31, 2009, we had outstanding principal of \$3,730,000 and \$4,225,000 respectively, on multifamily tax-exempt revenue bonds that are secured by five assisted living properties in Washington. These bonds bear interest at a variable rate that is reset weekly and mature during 2015. For the nine months ended September 30, 2010, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 2.0%. During the nine months ended September 30, 2010 and 2009, we paid \$495,000 and

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\$465,000 in regularly scheduled principal payments. As of September 30, 2010 and December 31, 2009, the aggregate carrying value of real estate properties securing our bonds payable was \$7,245,000 and \$7,443,000, respectively.

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Equity is allocated between controlling and non-controlling interests as follows (*in thousands*):

	<b>LTC Properties, Inc. Stockholders Equity</b>	<b>Non-controlling Interest</b>	<b>Total Equity</b>
Balance at December 31, 2009	\$ 452,332	\$ 1,981	\$ 454,313
Net income	33,618	144	33,762
Redemption of preferred stock	(59,065)		(59,065)
Common stock offering	67,308		67,308
Vested stock options and restricted stock	982		982
Reclassification adjustment	(84)		(84)
Non-controlling interest preferred return		(163)	(163)
Preferred stock dividends	(11,076)		(11,076)
Common stock dividends	(28,271)		(28,271)
Stock option exercises	159		159
Balance at September 30, 2010	\$ 455,903	\$ 1,962	\$ 457,865

*Preferred Stock.* At September 30, 2010, we had 2,000,000 shares of our 8.5% Series C Cumulative Convertible Preferred Stock (or Series C preferred stock) outstanding. Our Series C preferred stock is convertible into 2,000,000 shares of our common stock at \$19.25 per share. Total shares reserved for issuance of common stock related to the conversion of Series C preferred stock were 2,000,000 shares at September 30, 2010.

During the nine months ended September 30, 2010 and 2009, holders of 32,895 shares and 900 shares, respectively, of the 8.5% Series E Cumulative Convertible Preferred Stock (or Series E preferred stock) elected to convert such shares into 65,790 shares and 1,800 shares, respectively, of our common stock at the Series E preferred stock conversion rate of \$12.50 per share. The Series E preferred stock has a liquidation value of \$25.00 per share. During the three months ended September 30, 2010, we redeemed the remaining 4,921 shares of our outstanding Series E preferred stock at a redemption price of \$25.4191 per share, including accrued and unpaid dividends up to and including the redemption date. Accordingly, we recognized the \$6,000 of original issue costs related to the Series E preferred stock as a preferred stock redemption charge which is included in the income statement line item Income allocated to preferred stockholders. At September 30, 2010, we had no shares of our Series E preferred stock outstanding.

At September 30, 2010, we had 3,536,530 shares of our 8.0% Series F Cumulative Preferred Stock (or Series F preferred stock) outstanding. The Series F preferred stock has a liquidation value of \$25.00 per share. During the three months ended September 30, 2010, we redeemed 2,357,686 shares of our Series F preferred stock, representing 40% of our outstanding shares, at a redemption price of \$25.3889 per share,

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including accrued and unpaid dividends up to the redemption date. Accordingly, we recognized the \$2,377,000 of original issue costs related to the Series F preferred stock as a preferred stock redemption charge which is included in the income statement line item Income allocated to preferred stockholders. During the nine months ended September 30, 2009, we invested \$2,000,000 to repurchase a total of 109,484 shares of our Series F preferred stock at an average cost of \$18.27 per share, including commissions. As required by the accounting guidance regarding the effect on the calculation of earnings per share for the redemption or induced conversion of preferred stock, the discounted purchase price on these shares, which is the liquidation value over the fair value, netted with the original issuance costs was added to net income in calculating net income available to common stockholders.

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Common Stock.* During the nine months ended September 30, 2010, a total of 6,666 common stock options were exercised at a total option value of \$159,000 and a total market value on the date of exercise of \$182,000. During the nine months ended September 30, 2009, a total of 15,000 common stock options were exercised at a total option value of \$294,000 and a total market value on the date of exercise of \$373,000.

During the three months ended September 30, 2010, we sold 1,970,000 shares of common stock at a price of \$24.70 per share, before fees of \$366,000 and costs of \$304,000, in a registered direct placement to certain institutional investors. The net proceeds of \$47,989,000 were used as part of the redemption cost of all of our Series E preferred stock and 2,357,686 shares of our Series F preferred stock outstanding, as previously discussed.

Our Board of Directors authorized a share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities, including common and preferred stock in the open market. During the nine months ended September 30, 2010, we did not purchase shares of our common or preferred stock. During the nine months ended September 30, 2009, we purchased and retired 900 shares of common stock for an aggregate purchase price of \$16,000 or \$17.33 per share, including commission. The shares were purchased on the open market under this Board authorization. At September 30, 2010, we continue to have an open Board authorization to purchase an additional 3,360,237 shares in total of common and/or preferred stock.

On August 4, 2010, we entered into an amendment to our equity distribution agreement dated as of August 5, 2009 with KeyBanc Capital Markets, Inc. (or KeyBanc) to issue and sell, from time to time, up to \$85,686,000 in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions at market prices, in block transactions, or as otherwise agreed between us and KeyBanc. During the three months ended September 30, 2010, we sold 391,400 shares of common stock at a weighted average price, including fees, of \$24.69 per share, resulting in net proceeds of \$9,665,000 after \$230,000 of fees and costs. Proceeds from the sale were used in the redemption of our preferred stock previously discussed. During the nine months ended September 30, 2010, we sold 756,400 shares of common stock at a weighted average price, including fees, of \$25.54 per share, resulting in net proceeds of \$19,319,000 after \$479,000 of fees and costs. At September 30, 2010 we had \$65,106,000 available under this amended equity distribution agreement. During the three and nine months ended September 30, 2009, we sold 20,000 shares of common stock at a weighted average price, including fees, of \$24.53 per share, resulting in net proceeds of \$490,000 after \$11,000 of fees and costs.

On June 9, 2010, we filed a Form S-3 shelf registration statement which became effective June 16, 2010, to replace our prior shelf registration statement. Our current shelf registration statement provides us with the capacity to offer up to \$400,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering. At September 30, 2010 we had \$276,341,000 availability under our effective shelf registration.

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*Non-controlling Interests.* We have one limited partnership. The limited partnership agreement allows the limited partners to convert, on a one-for-one basis, their limited partnership units into shares of common stock or the cash equivalent, at our option. We have reserved 112,588 shares of our common stock under this partnership agreement. If we issued shares of our common stock upon limited partners' election to exercise their conversion rights, the carrying amount of the partnership would be reclassified to stockholders' equity. Since we exercise control, we consolidate the limited partnership and we carry the non-controlling interests at cost. At September 30, 2010, the carrying value and market value of the partnership conversion rights was \$1,962,000 and \$2,921,000, respectively.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)**

*Distributions.* We declared and paid the following cash dividends (*in thousands*):

	<b>Nine months ended September 30, 2010</b>		<b>Nine months ended September 30, 2009</b>	
	<b>Declared</b>	<b>Paid</b>	<b>Declared</b>	<b>Paid</b>
Preferred Stock				
Series C	\$ 2,454	\$ 2,454	\$ 2,454	\$ 2,454
Series E	42	62	61	61
Series F	8,580	9,759	8,841	8,896
	11,076	12,275	11,356	11,411
Common Stock (1)	28,271	28,271	27,113	27,113
Total (2)	\$ 39,347	\$ 40,546	\$ 38,469	\$ 38,524

(1) Represents \$0.13 per share per month for the nine months ended September 30, 2010 and 2009.

(2) The difference between declared and paid is the change in distributions payable on the balance at September 30, 2010 and December 31, 2009.

On October 4, 2010, we declared a monthly cash dividend of \$0.13 per common share per month for the months of October, November and December 2010, payable on October 29, November 30 and December 31, 2010, respectively, to stockholders of record on October 21, November 22 and December 23, 2010, respectively. Subsequently, on October 20, 2010, we increased the November and December 2010 monthly common stock cash dividend by 7.7% to \$0.14 per common share per month. The previously announced record and payment dates remain unchanged.

*Other Equity.* Other equity consists of accumulated comprehensive income of \$307,000 and \$390,000 at September 30, 2010 and December 31, 2009, respectively. This balance represents the net unrealized holding gains on available-for-sale REMIC Certificates recorded in 2005 when we repurchased the loans in the underlying loan pool. This amount is being amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC Pool.

The following table represents our consolidated comprehensive income (*in thousands*):

**Three Months Ended****Nine Months Ended**

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	September 30,		September 30,	
	2010	2009	2010	2009
Comprehensive Income:				
Net income	\$ 11,562	\$ 11,326	\$ 33,762	\$ 33,304
Reclassification adjustment	(28)	(28)	(84)	(316)
Comprehensive income	\$ 11,534	\$ 11,298	\$ 33,678	\$ 32,988

*Stock-Based Compensation.* No stock options were issued during the nine months ended September 30, 2010. During the nine months ended September 30, 2009, we granted 15,000 options to purchase common stock at an exercise price of \$24.65 per share. These stock options vest ratably over a three-year period. At September 30, 2010, the total number of stock options that are scheduled to vest through December 31, 2010, 2011 and 2012 is 0, 5,000 and 5,000, respectively. We have no stock options outstanding that are scheduled to vest beyond 2012. Compensation expense relating to the vesting of stock options for the three and nine months ended September 30, 2010 were \$4,000 and \$71,000, respectively. Compensation expense relating to the vesting of stock options for the three and nine months ended September 30, 2009 were \$38,000 and \$108,000, respectively. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2010, 2011 and 2012 is \$4,000, \$17,000 and \$10,000, respectively.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)**

During the nine months ended September 30, 2010, we granted 4,000 shares of restricted common stock at \$25.95 per share, 1,000 shares of restricted common stock at \$25.04 per share and 11,030 shares of restricted common stock at \$26.53 per share. These shares vest ratably over a three-year period from the grant date. Also, during the nine months ended September 30, 2010, we granted 99,661 shares of restricted common stock at \$26.53 per share. These shares vest ratably over a five-year period with the first date of vesting beginning in December 31, 2010. During the three and nine months ended September 30, 2010, we recognized \$257,000 and \$911,000, respectively, of compensation expense related to the vesting of restricted common stock.

During the nine months ended September 30, 2009, we granted 36,988 shares of restricted common stock at \$17.06 per share, 3,000 shares of restricted common stock at \$18.34 per share and 3,000 shares of restricted common stock at \$18.34 per share. These shares vest ratably over a three-year period from the grant date. During the three and nine months ended September 30, 2009, we recognized \$322,000 and \$917,000, respectively, of compensation expense related to the vesting of restricted common stock.

**7. Commitments and Contingencies**

The following table summarizes our capital improvement commitments as of September 30, 2010 (*dollar amounts in thousands*):

<b>Commitment</b>	<b>Expiration Date</b>	<b>Used Commitment at 9/30/10</b>	<b>Open Commitment at 9/30/10</b>	<b>Estimated Yield</b>	<b>Property Type (1)</b>	<b>Properties</b>	<b>Major Operator</b>
\$ 875	10/7/2010	\$ 789	\$ 86	(7)	OTHER	1	N/A
1,920	12/1/2010	967	953	(6)	ALF	2	N/A
150	12/31/2010	65(10)(a)	85	10.00%(2)	OTHER	1	N/A
2,500	12/31/2010	1,802	698	10.00%(2)	OTHER	1	N/A
4,000	12/31/2010	680(10)(b)	3,320	11.00%(2)	SNF	1	Preferred Care
2,000	1/1/2011		2,000	(2)(5)	SNF	1	N/A
1,500	5/31/2011	471(10)(c)	1,029	(8)	ALF	3	N/A
5,000	12/31/2014		5,000(9)	(4)	ALF	37	ALC
\$ 17,945		\$ 4,774	\$ 13,171				

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- (1) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.
  - (2) Minimum rent will increase upon final funding and project completion or in some cases, the improvement deadline as defined in each lease agreement.
  - (3) Minimum rent will increase on the 1st of each month by the amount advanced in the previous month multiplied by the estimated yield.
  - (4) 9.5% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the five days prior to funding, minus 420 basis points (expressed as a percentage).
  - (5) The higher of one-year LIBOR plus 5.3% or 10%.

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- (6) The commitment is allocated in three tranches of \$750,000, \$850,000 and \$320,000. The yield for the \$750,000 tranche is included in the initial lease rate; the yield for the \$850,000 tranche is 8.5% with minimum rent increases as per footnote (3); the yield for the \$320,000 tranche is 9.5% with minimum rent increases as per footnote (3).
- (7) The yield is included in the initial lease rate.
- (8) The lease rate in effect on the date funded: 7% for March through November 2010. Minimum rent increase as per footnote (2).
- (9) \$5,000,000 per year for the life of the lease.
- (10) Subsequent to September 30, 2010, we invested an additional \$425,000 in the following commitments (10)(a) \$88,000, (10)(b) \$289,000, and (10)(c) \$48,000 . We also increased the commitment of (10)(a) from \$150,000 to \$155,000.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)**

The following table summarizes our loan commitments as of September 30, 2010 (*dollar amounts in thousands*):

<b>Commitment</b>	<b>Expiration Date</b>	<b>Used Commitment at 9/30/10</b>	<b>Open Commitment at 9/30/10</b>	<b>Yield</b>	<b>Property Type (1)</b>	<b>Properties</b>	<b>Major Operator</b>
\$ 50	3/31/2011	\$ 20	\$ 30	10.00%	OTHER	1	N/A

(1) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

**8. Major Operators**

We have three operators, based on properties subject to lease agreements and secured by mortgage loans that represent between 10% and 20% of our total assets and three operators from each of which we derive over 10% of our rental revenue and interest income from mortgage loans.

In 2006, Extencicare Services, Inc. (or EHSI), one of our major operators, effected a reorganization whereby it completed a spin-off of Assisted Living Concepts, Inc. (or ALC). ALC is now a NYSE traded public company operating assisted living centers. The remaining EHSI assets and operations were converted into a Canadian REIT (Extencicare REIT) listed on the Toronto Stock Exchange (or TSX). Both Extencicare REIT and ALC continue to be parties to the leases with us.

Beginning in 2009, Alterra Healthcare Corporation changed its name to Brookdale Senior Living Communities, Inc. (or Brookdale Communities). Brookdale Communities is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. (or Brookdale).

The following table summarizes Extencicare REIT's, ALC's and Brookdale's financial information as of and for the quarter ended June 30, 2010 per the operators' public filings (*in thousands*). Our other operator is privately owned and thus no public financial information is available:

**Extencicare REIT(1)****ALC****Brookdale**

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Current assets	\$	541,282	\$	30,050	\$	321,857
Non-current assets		1,212,551		427,891		4,276,187
Current liabilities		380,900		31,530		800,117
Non-current liabilities		1,331,073		146,452		2,724,450
Stockholders' equity		41,860		279,959		1,073,477
Gross revenue		514,371		58,305		548,972
Operating expenses		444,684		49,870		525,228
Income (loss) from continuing operations		13,978		2,896		(9,557)
Net income (loss)		13,004		2,896		(9,557)
Cash provided by operations		42,355		18,164		114,771
Cash used in investing activities		(7,082)		(8,248)		(102,544)
Cash used in financing activities		(3,080)		(2,037)		(27,252)

(1) The numbers shown for Extendicare REIT are in Canadian dollars and are prepared in accordance with Canadian GAAP.

\* The financial information contained in the foregoing table for Extendicare REIT, ALC and Brookdale is based on information we obtained from such companies' available public filings and, therefore, we have not independently verified the accuracy of such information.

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

Extendicare REIT and ALC collectively lease 37 assisted living properties with a total of 1,427 units owned by us representing approximately 11.1%, or \$58,137,000, of our total assets at September 30, 2010 and 15.4% of rental revenue and interest income from mortgage loans recognized as of September 30, 2010.

Brookdale Communities leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 11.1%, or \$57,917,000, of our total assets at September 30, 2010 and 14.5% of rental revenue and interest income from mortgage loans recognized as of September 30, 2010.

Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 31 skilled nursing properties and two other properties that we own or on which we hold mortgages secured by first trust deeds. These properties consist of a total of 3,963 skilled nursing beds and 49 assisted living units. This represents approximately 11.2%, or \$58,592,000, of our total assets at September 30, 2010 and 14.8% of rental revenue and interest income from mortgage loans recognized as of September 30, 2010. They also operate one skilled nursing property under a sub-lease with another lessee we have which is not included in the Preferred Care rental revenue and interest income from mortgage loans.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by Brookdale Communities, Extendicare REIT, ALC, Preferred Care, or any of our lessees and borrowers, including any bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

**9. Transactions with Related Party**

In December 2005, we purchased, on the open market, \$10,000,000 face value of SHG Senior Subordinated Notes with a face rate of 11.0% and an effective yield of 11.1%. One of our directors, Boyd W. Hendrickson, serves as Chief Executive Officer of SHG. Our Board of Directors, with Mr. Hendrickson abstaining, ratified the purchase of SHG Senior Subordinated Notes. As a result of an early redemption by SHG in 2007, we have a remaining investment in \$6,500,000 face value of SHG Senior Subordinated Notes at September 30, 2010 and December 31, 2009. During each of the three and nine months ended September 30, 2010 and 2009, we recognized \$180,000 and \$540,000 of interest income related to the SHG Senior Subordinated Notes. Interest on the notes is payable semi-annually in arrears and the notes mature on January 15, 2014.

In addition, during September 2007 SHG purchased the assets of Laurel Healthcare (or Laurel). We were not a direct party to this transaction. One of the assets SHG purchased was Laurel's leasehold interests in the skilled nursing properties in New Mexico Laurel leased from us under a 15-year master lease agreement dated in February 2006. Our Board of Directors, with Mr. Hendrickson abstaining, ratified our consent to the assignment of Laurel's master lease to subsidiaries of SHG. The economic terms of the master lease agreement did not change as a result of our

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assignment of the master lease to subsidiaries of SHG. During the three and nine months ended September 30, 2010, we received \$1,042,000 and \$3,118,000, respectively, in rental income and recorded \$83,000 and \$259,000, respectively, in straight-line rental income from subsidiaries of SHG. During the three and nine months ended September 30, 2009, we received \$1,017,000 and \$3,042,000, respectively, in rental income and recorded \$109,000 and \$335,000, respectively, in straight-line rental income from subsidiaries of SHG. At September 30, 2010 and December 31, 2009, the straight-line rent receivable from subsidiaries of SHG was \$2,738,000 and \$2,480,000, respectively.

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**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

On September 7, 2010, SHG announced that it reached an agreement to settle a complaint originally filed May 4, 2006 that resulted in a jury verdict in July 2010 awarding substantial monetary damages to the plaintiffs. As part of the settlement, the plaintiffs agreed to release SHG from claims related to the litigation. Under the terms of the settlement, SHG agreed to certain changes in the level of staffing at its California facilities and further agreed to deposit a total of \$50,000,000 into escrow accounts to cover settlement payments. The escrow accounts are expected to be funded by SHG's revolving credit facility. Accounting Standards Codification No. 320, *Investments Debt and Equity Securities* (or ASC 320), requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. As a result of the verdict against SHG and subsequent settlement, the fair value of our SHG Senior Subordinated Notes decreased below amortized cost basis which we believe to be temporary based on the facts available to us. At September 30, 2010, the pricing of our marketable debt securities was 99.0%. We do not intend to sell the debt securities and currently we have concluded that it is not more likely than not that we will be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****10. Earnings per Share**

The following table sets forth the computation of basic and diluted net income per share (*in thousands, except per share amounts*):

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Income from continuing operations	\$ 11,461	\$ 11,270	\$ 33,561	\$ 33,135
Less net income allocated to non-controlling interests:	(48)	(76)	(144)	(229)
Less net income allocated to participating securities:				
Nonforfeitable dividends on participating securities	(54)	(34)	(155)	(105)
Total net income allocated to participating securities	(54)	(34)	(155)	(105)
Less net income allocated to preferred stockholders:				
Preferred stock dividends	(3,506)	(3,785)	(11,076)	(11,356)
Preferred stock redemption charge	(2,383)		(2,383)	
Allocation of income from preferred stock buyback				626
Total net income allocated to preferred stockholders	(5,889)	(3,785)	(13,459)	(10,730)
Income from continuing operations allocable to common stock holders	5,470	7,375	19,803	22,071
Discontinued operations	101	56	201	169
Total net income allocable to common stockholders	5,571	7,431	20,004	22,240
Effect of dilutive securities:				
Convertible preferred securities		20	40	60
Net income for diluted net income per share	\$ 5,571	\$ 7,451	\$ 20,044	\$ 22,300
Shares for basic net income per share	24,930	23,108	23,959	23,083
Effect of dilutive securities:				

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Stock options	15	9	21	7
Convertible preferred securities		76	75	75
Shares for diluted net income per share	24,945	23,193	24,055	23,165
Basic net income per share	\$ 0.22	\$ 0.32	\$ 0.83	\$ 0.96
Diluted net income per share (1)	\$ 0.22	\$ 0.32	\$ 0.83	\$ 0.96

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(1) The Series C Cumulative Convertible Preferred Stock, the participating securities and the non-controlling interest have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****11. Fair Value Measurements**

In accordance with the accounting guidance regarding the fair value option for financial assets and financial liabilities, entities are permitted to choose to measure certain financial assets and liabilities at fair value, with the change in unrealized gains and losses on items for which the fair value option has been elected reported in earnings. We did not adopt the elective fair market value option in our financial statements.

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments. We do not invest our cash in auction rate securities. The carrying value and fair value of our financial instruments as of September 30, 2010 and December 31, 2009 assuming election of fair value for our financial assets and financial liabilities were as follows:

	At September 30, 2010		At December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	\$ 64,801	\$ 73,653 <sup>(1)</sup>	\$ 69,883	\$ 80,200 <sup>(1)</sup>
Marketable debt securities	6,477	6,435 <sup>(2)</sup>	6,473	6,874 <sup>(2)</sup>
Mortgage loans payable			7,685	7,806 <sup>(3)</sup>
Bonds payable	3,730	3,730 <sup>(4)</sup>	4,225	4,225 <sup>(4)</sup>
Bank borrowings		(4)	13,500	13,500 <sup>(4)</sup>
Senior Unsecured Notes	50,000	49,846 <sup>(5)</sup>		

(1) Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable as September 30, 2010 and December 31, 2009 was 7.5%.

(2) Our investment in marketable debt securities is classified as Level 2. The fair value is measured using quoted market rates based on most recent transactions from an independent third party source. The pricing of our marketable debt securities at September 30, 2010 and December 31, 2009 was 99.0% and 105.75%, respectively. See *Note 4. Marketable Securities* for further discussion.

(3) Our obligation under our mortgage loans payable is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At December 31, 2009, the discount rate used to value our future cash outflow of our mortgage loans payable was 6.25%.

(4) Our bonds payable and bank borrowings are at a variable interest rate. The estimated fair value of our bonds payable approximated their carrying values at September 30, 2010 and December 31, 2009 based upon prevailing market interest rates for similar debt arrangements.

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(5) Our obligation under our senior unsecured notes is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At September 30, 2010, the discount rate used to value our future cash outflow of our senior unsecured notes was 5.5%.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****12. Subsequent Events**

Subsequent to September 30, 2010 the following events occurred.

On October 4, 2010, we declared a monthly cash dividend of \$0.13 per common share per month for the months of October, November and December 2010, payable on October 29, November 30 and December 31, 2010, respectively, to stockholders of record on October 21, November 22 and December 23, 2010, respectively. Subsequently, on October 20, 2010, we increased the November and December 2010 monthly common stock cash dividend by 7.7% to \$0.14 per common share per month. The previously announced record and payment dates remain unchanged.

We entered into three purchase agreements to acquire four assisted living properties with a total of 241 units for an aggregate purchase price of \$26,900,000. Three of the properties are located in Florida and one is located in Mississippi. The terms of one of the seller's current financing required a 30-day prepayment notice which was given by this seller on September 27, 2010. In addition to the aggregate purchase price identified above, we have agreed to pay \$106,000 representing half of this seller's prepayment penalty on its loan. The three transactions are scheduled to concurrently close on or about October 29, 2010. Simultaneous with the purchases, we will lease the properties under a 10-year triple net master lease with an affiliate of the third party operators that managed or operated the properties under leases with the sellers.

We invested an additional \$425,000 in various capital improvement commitments as follows (*dollar amounts in thousands*):

Commitment	Expiration Date	Funded Subsequent to 9/30/10	Open Commitment Subsequent to 9/30/10	Estimated Yield	Property Type	Properties	Major Operator
\$ 155 <sup>(3)</sup>	12/31/2010	\$ 88	\$ (3)	10.00% <sup>(1)</sup>	OTHER	1	N/A
4,000	12/31/2010	289	3,031	11.00% <sup>(1)</sup>	SNF	1	Preferred Care
1,500	5/31/2011	48	981	(2)	ALF	3	N/A

(1) Minimum rent will increase upon final funding and project completion or in some cases, the improvement deadline as defined in each lease agreement.

(2) The lease rate in effect on the date funded: 7% for March through November 2010. Minimum rent increase as per footnote (1).

(3) Capital improvement commitment was increased from \$150,000 to \$155,000.



Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Executive Overview****Business**

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in senior housing and long term healthcare properties through mortgage loans, property lease transactions and other investments. Our primary senior housing and long term healthcare property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF) and combinations thereof. In the third quarter of 2010, senior housing and long term healthcare properties comprised approximately 98% of our investment portfolio. We have been operating since August 1992.

The following table summarizes our direct real estate investment portfolio (properties that we own or on which we hold promissory notes secured by first mortgages) as of September 30, 2010 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Nine Months Ended September 30, 2010		Percentage of Revenues (3)	Number of Properties (4)	SNF Beds	Number of ALF Units	ILF Units
			Rental Income (5)	Interest Income (2)					
Assisted Living Properties	\$ 281,912	44.8%	\$ 22,408	\$ 2,107	45.5%	99		4,289	
Skilled Nursing Properties	280,452	44.5%	21,192	3,205	45.3%	95	10,919		
Other Properties (1)	55,460	8.8%	3,661	294	7.4%	12	795	290	370
Schools	12,170	1.9%	901	77	1.8%	2	N/A	N/A	N/A
Totals	\$ 629,994	100.0%	\$ 48,162	\$ 5,683	100.0%	208	11,714	4,579	370

(1) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) Includes Interest Income from Mortgage Loans.

(3) Includes Rental Income and Interest Income from Mortgage Loans.

(4) We have investments in 29 states leased or mortgaged to 42 different operators.

(5) Includes rental income from properties classified as held-for-sale.

As of September 30, 2010 we had \$472.3 million in carrying value of net real estate investments, consisting of \$407.5 million or 86.3% invested in owned and leased properties and \$64.8 million or 13.7% invested in mortgage loans secured by first mortgages.

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For the nine months ended September 30, 2010, rental income and interest income from mortgage loans represented 88.1% and 10.4%, respectively, of total gross revenues, including rental income from properties held-for-sale. In most instances, our lease structure contains fixed annual rental escalations, which are generally recognized on a straight-line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved. This lease structure initially generates lower revenues and net income but enables us to generate additional growth and minimize non-cash straight-line rent over time. For the nine months ended September 30, 2010 and 2009, we recorded \$2.8 million and \$3.2 million, respectively, in straight-line rental income. Also during each of the nine months ended September 30, 2010 and 2009, we recorded an additional \$0.6 million of straight-line rent receivable reserve. Straight-line rental income for leases in place at September 30, 2010 will decrease from \$3.7 million for projected annual 2010 to \$1.6 million for projected annual 2011 assuming no modification or replacement of existing leases and no new leased investments with fixed annual rental escalations are added to our portfolio. Conversely, our cash rental income is projected to increase from \$61.5 million for projected annual 2010 to \$64.4 million for projected annual 2011 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. During the nine months ended September 30, 2010, we received \$45.8 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.5 million. At September 30, 2010 and December 31, 2009, the straight-line rent receivable balance, net of reserves, for continuing and discontinued operations on the balance sheet was \$19.5 million and \$17.3 million, respectively.

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Our primary objectives are to sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term healthcare properties and other health care related properties managed by experienced operators. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator and form of investment. We opportunistically consider investments in health care facilities in related businesses where the business model is similar to our existing model and the opportunity provides an attractive expected return. Consistent with this strategy, we pursue, from time to time, opportunities for potential acquisitions and investments, with due diligence and negotiations often at different stages of development at any particular time.

- For investments in skilled nursing properties, we favor low cost per bed opportunities, whether in fee simple properties or in mortgages. The average per bed cost of our owned skilled nursing properties is approximately \$35,200 per bed while that of properties subject to our mortgages is approximately \$9,300 per bed.
- Additionally with respect to skilled nursing properties, we attempt to invest in properties that do not have to rely on a high percentage of private-pay patients. We seek to invest primarily in properties that are located in suburban and rural areas of states. We prefer to invest in a property that has significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.
- For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels. Thus, we believe that although the majority of our investments are in affordably priced units, our portfolio also includes a significant number of upscale units in appropriate markets with certain operators.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in mortgage loans and owned properties represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their leases and loan obligations and the rates earned thereon. To the extent that the operators experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of health care facility and operator. Our monitoring process includes periodic review of financial statements for each facility, periodic review of operator credit, scheduled property inspections and review of covenant compliance relating to real estate taxes and insurance.

In addition to our monitoring and research efforts, we also structure our investments to help mitigate payment risk. Some operating leases and loans are credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other loans, operating leases or agreements between us and the operator and its affiliates.

Depending upon the availability and cost of external capital, we anticipate making additional investments in health care related properties. New investments are generally funded from cash on hand and temporary borrowings under our unsecured line of credit and internally generated cash flows. Our investments generate internal cash from rent and interest receipts and principal payments on mortgage loans receivable. Permanent financing for future investments, which replaces funds drawn under our unsecured line of credit, is expected to be provided through a combination of public and private offerings of debt and equity securities and secured debt financing. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in

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interest rates. Changes in the capital markets environment may impact the availability of cost-effective capital. We believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and finance future investments during the current period of tightened credit conditions.

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*Economic Climate*

The U.S. continues to experience challenging financial markets, tight credit conditions, and slow growth. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our operators. Despite the overall economic climate, we believe our business model has enabled and will continue to allow us to maintain the integrity of our property investments, including our ability to respond to financial difficulties that may be experienced by operators. We have taken and will continue to have a conservative approach to managing our business and investments, choosing to maintain liquidity and exercise patience until favorable investment opportunities arise.

At September 30, 2010, we had \$12.5 million of cash on hand, \$110.0 million available on our Unsecured Credit Agreement which matures July 17, 2011, and the uncommitted private shelf agreement with affiliates and managed accounts of Prudential Investment Management, Inc. (individually and collectively "Prudential") which provides for the possible issuance of up to \$50.0 million of senior unsecured fixed-rate term notes during the three-year issuance period. Also, our potential ability to access the capital markets through the issuance of \$65.1 million of common stock under our amended equity distribution agreement and through the issuance of debt and/or equity securities under our \$276.3 million effective shelf registration. As a result, we believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and finance some future investments should we determine such future investments are financially feasible.

*Political Climate*

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 31, 2009, CMS published the final Medicare skilled nursing facility rates for fiscal year 2010, which began on October 1, 2009. The rule reduces Medicare payments by \$360 million or 1.1%, compared to fiscal year 2009 levels. The rule provides for a recalibration of the case mix weights that will reduce payments by 3.3%, which more than offsets the 2.2% market basket update. On July 22, 2010, CMS published a notice with comment period announcing Medicare skilled nursing facility prospective payment system rates for fiscal year 2011, beginning October 1, 2010. CMS estimates that the notice would increase total Medicare skilled nursing facility payments by \$542 million (1.7%) in FY 2011 compared to 2010 rates as a result of a 2.3% increase in the market basket update, offset in part by a negative 0.6% adjustment to reflect the difference between CMS's previous forecast and the actual change in the market basket index for FY 2009. The loss of revenues associated with future changes in skilled nursing facility payment rates could have an adverse effect on the financial condition of our lessees and borrowers which could, in turn, adversely impact the timing or level of their payments to us.

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In March 2010, the President signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education and Reconciliation Act of 2010 (or, collectively, the Health Care Reform Law). The Health Care Reform Law contain various provisions that may impact us directly and that may impact our lessees and borrowers. Certain provisions of this law may have a positive impact on the revenues of our lessees and borrowers, by increasing coverage of uninsured individuals, for example. Other provisions may have a negative impact on our lessees and borrowers, including health care provider cost-containment initiatives such as reductions in Medicare skilled nursing facility reimbursement, measures to tie Medicare provider reimbursement to health care quality, mandatory compliance programs, enhanced transparency and disclosure requirements, and incentives to state Medicaid programs to promote community-based care as an alternative to institutional long-term care services, among others. In addition, the law provides for the establishment of a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services, which could lead to changes in the delivery of post-acute services. The Health Care Reform Law also strengthens certain fraud and abuse penalty provisions that could apply to our operators in the event of one or more violations of federal health care laws. In addition, there are provisions that impact the health coverage that we and our lessees and borrowers provide to our respective employees. We cannot predict at this time what effect, if any, the various provisions of the Health Care Reform Law will have on our lessees and borrowers or our business; however, if the operations, cash flows or financial condition of our lessees and borrowers are materially adversely impacted by the Health Care Reform Law, our revenue and operations may be adversely affected as well.

In addition, comprehensive reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states, and most states have adopted Medicaid cost containment provisions in recent years in light of budget shortfalls. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by government and other third party payors.

***Key Transactions***

During the three months ended September 30, 2010, we completed the sale to affiliates and managed accounts of Prudential Investment Management, Inc. (individually and collectively Prudential ) of \$25.0 million aggregate principal amount of 5.26% senior unsecured term notes due July 14, 2015 and \$25.0 million aggregate principal amount of 5.74% senior unsecured term notes fully amortizing to maturity on January 14, 2019. Also, we entered into an uncommitted private shelf agreement with Prudential which provides for the possible issuance of up to an additional \$50.0 million of senior unsecured fixed-rate term notes during the three-year issuance period. Interest rates on any issuance under the shelf agreement will be set at a spread over applicable Treasury rates at the date of the rate lock. Maturities of each issuance are at our election for up to 10 years from the date of issuance with a maximum average life of 7 years from the date of original issuance. The proceeds from the \$50.0 million senior unsecured term notes were used to repay \$41.0 million under our Unsecured Credit Agreement. After this repayment, we have no outstanding balance under our Unsecured Credit Agreement and \$110.0 million available for borrowing.

During the three months ended September 30, 2010, we sold 1,970,000 shares of common stock at a price of \$24.70 per share, before fees of \$0.4 million and costs of \$0.3 million, in a registered direct placement to certain institutional investors. We raised \$48.0 million in net proceeds from the offering. Additionally, during the three months ended September 30, 2010, we sold 391,400 shares of common stock under an amended equity distribution agreement to issue and sell, from time to time, up to \$85.7 million in aggregated offering price of our common stock. The weighted average price for the 391,400 shares, including fees and costs, was \$24.69 per share, resulting in net proceeds of \$9.7 million after \$0.2 million of fees and costs. The proceeds from the registered direct placement and the amended equity distribution agreement were used to redeem all 4,921 shares of our 8.5% Series E Cumulative Convertible Preferred Stock ( Series E Preferred Stock ) and 2,357,686 shares of our 8.0% Series F Cumulative Preferred Stock ( Series F Preferred Stock ) outstanding. Accordingly, we recognized the \$2.4 million of original issue costs related to the Series E and Series F Preferred Stock as a preferred stock redemption charge which is included in the income statement line item Income allocated to preferred stockholders.



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Subsequent to September 30, 2010, we entered into three purchase agreements to acquire four assisted living properties with a total of 241 units for an aggregate purchase price of \$26.9 million. Three of the properties are located in Florida and one is located in Mississippi. The terms of one of the seller's current financing required a 30-day prepayment notice which was given by this seller on September 27, 2010. In addition to the aggregate purchase price identified above, we have agreed to pay \$0.1 million representing half of this seller's prepayment penalty on its loan. The three transactions are scheduled to concurrently close on or about October 29, 2010. Simultaneous with the purchases, we will lease the properties under a 10-year triple net master lease with an affiliate of the third party operators that managed or operated the properties under leases with the sellers. The projected revenues provided from the acquisition of these properties for calendar year 2010 and 2011 are \$0.5 million and \$2.9 million, respectively, under U.S. GAAP accounting, which includes non-cash straight-line rent of approximately \$0.1 million and \$0.4 million, respectively, in 2010 and 2011.

***Key Performance Indicators, Trends and Uncertainties***

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

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**Concentration Risk.** We evaluate our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property or mortgage loans. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top three operators. Geographic mix measures the portion of our investment that relate to our top five states. The following table reflects our recent historical trends of concentration risk:

	9/30/10	6/30/10	Period Ended		12/31/09	9/30/09
			3/31/10			
(gross investment, in thousands)						
Asset mix:						
Real property	\$ 564,539	\$ 560,254	\$ 536,963	\$ 519,460	\$ 505,181	
Loans receivable	65,455	68,644	69,663	70,587	72,268	
Investment mix:						
Assisted living properties	\$ 281,912	\$ 281,575	\$ 280,682	\$ 280,771	\$ 267,860	
Skilled nursing properties	280,452	279,098	271,164	254,694	255,648	
Other properties (1)	55,460	55,205	41,760	41,562	40,921	
Schools	12,170	13,020	13,020	13,020	13,020	
Operator mix:						
Extendicare (ALC)	\$ 88,034	\$ 88,034	\$ 88,034	\$ 88,034	\$ 88,034	
Preferred Care, Inc. (2)	86,920	86,516	86,610	86,702	86,803	
Brookdale Communities	84,210	84,210	84,210	84,210	84,210	
Remaining operators	370,830	370,138	347,772	331,101	318,402	
Geographic mix:						
Colorado	\$ 27,806	\$ 27,806	\$ 27,806	\$ 27,806	\$ 27,806	
Florida	53,023	53,078	53,132	44,144	43,941	
Ohio	56,804	56,804	56,804	56,804	56,804	
Texas	109,015	109,556	110,017	102,741	103,251	
Washington	28,092	28,118	28,138	27,815	27,293	
Remaining states	355,254	353,536	330,729	330,737	318,354	

(1) Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) Preferred Care, Inc. leases 23 skilled nursing and two other properties under two master leases and one skilled nursing property under a separate lease agreement. In addition, they operate seven skilled nursing properties securing six mortgage loans receivable we have with unrelated third parties and one mortgage loan receivable we have with Preferred Care. They also operate one skilled nursing facility under a sub-lease with another lessee we have which is not included in the Preferred Care operator mix.

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**Credit Strength.** We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to book capitalization and debt to market capitalization. The leverage ratios indicate how much of our balance sheet capitalization relates to long-term debt. Our coverage ratios include interest coverage ratio and fixed charge coverage ratio. The coverage ratios indicate our ability to service interest and fixed charges (interest plus preferred dividends). The coverage ratios are based on earnings before interest, taxes, depreciation and amortization (or EBITDA). Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. The following table reflects the recent historical trends for our credit strength measures:

	Year to Date 9/30/10	9/30/10	6/30/10	Quarter Ended 3/31/10	12/31/09	9/30/09
Debt to book capitalization ratio	10.5%	10.5%(1)	8.9%(4)	7.9%(4)	5.3%(7)	2.6%
Debt & Preferred Stock to book capitalization ratio	35.3%	35.3%(2)	45.8%(4)	45.2%(4)	44.2%(7)	42.6%
Debt to market capitalization ratio	6.3%	6.3%(1)	5.5%(4)	4.6%(4)	3.0%(7)	1.6%
Debt & Preferred Stock to market capitalization ratio	21.4%	21.4%(2)	28.6%(4)	26.1%(5)	25.1%(7)	25.3%
Interest coverage ratio(9)	28.3x	19.4x(3)	38.3x(5)	37.0x(6)	40.8x(8)	45.2x
Fixed charge coverage ratio(9)	3.7x	3.8x	3.8x(5)	3.5x(6)	3.6x(8)	3.7x

- (1) Increase primarily due to the sale to Prudential of \$50.0 million aggregate principal amount of the senior unsecured term notes.
- (2) Decrease primarily due to the redemption of all of our Series E preferred stock and 40% of our Series F preferred stock outstanding.
- (3) Decrease primarily due to the increase in interest expense related to the \$50.0 million senior unsecured term notes.
- (4) Increase primarily due to the increase in bank borrowing.
- (5) Increase primarily due to additional net income generated from acquisitions in 2009 and 2010.
- (6) Decrease primarily due to the increase of \$0.9 million in provision for doubtful accounts related to a mortgage loan secured by a private school property located in Minnesota. The borrower ceased operations and filed for Chapter 7 bankruptcy in the second quarter of 2010. This private school property was acquired during the third quarter of 2010 via deed in lieu of foreclosure and has been classified as held-for-sale. The Company is actively marketing to sell this property.
- (7) Decrease primarily due to the increase in market capitalization partially offset by the increase in bank borrowing.
- (8) Decrease primarily due to the increase in operating and other expenses relating to transaction costs incurred for the acquisition of three assisted living properties in November of 2009.
- (9) In calculating our interest coverage and fixed charge coverage ratios above, we use EBITDA, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (non-GAAP financial measure). Our coverage ratios indicate our ability to service interest expense and fixed charges (interest plus preferred dividends). Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. EBITDA is not an alternative to net income, operating income, income from continuing operations or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on EBITDA as a substitute for any such U.S. GAAP financial measures or consider it in isolation, for the purpose of analyzing our financial performance, financial position or cash flows. Net income is the most directly comparable

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GAAP measure to EBITDA. Below are a reconciliation of net income to EBITDA and the calculation of the interest coverage and fixed charge coverage ratios disclosed above.

	Year to Date 9/30/10	9/30/10	6/30/10	Quarter Ended 3/31/10	12/31/09	9/30/09
Net income	\$ 33,762	\$ 11,562	\$ 11,630	\$ 10,570	\$ 11,056	\$ 11,326
Add: Interest Expense	1,672	852	419	401	372	340
Add: Depreciation and amortization continuing operations	11,801	4,073	3,941	3,787	3,660	3,621
Add: Depreciation and amortization discontinued operations	146		73	73	73	73
Total EBITDA	\$ 47,381	\$ 16,487	\$ 16,063	\$ 14,831	\$ 15,161	\$ 15,360
Interest expense	\$ 1,672	\$ 852	\$ 419	\$ 401	\$ 372	\$ 340
Interest coverage ratio	28.3x	19.4x	38.3x	37.0x	40.8x	45.2x
Interest expense	\$ 1,672	\$ 852	\$ 419	\$ 401	\$ 372	\$ 340
Preferred stock dividends (excludes preferred stock redemption charge)	11,076	3,506	3,785	3,785	3,785	3,785
Total fixed charges	\$ 12,748	\$ 4,358	\$ 4,204	\$ 4,186	\$ 4,157	\$ 4,125
Fixed charge coverage ratio	3.7x	3.8x	3.8x	3.5x	3.6x	3.7x

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We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. This may be a result of various factors, including, but not limited to

- The status of the economy;
- The status of capital markets, including prevailing interest rates and availability of capital;
- Compliance with and changes to regulations and payment policies within the health care industry;
- Changes in financing terms;
- Competition within the health care and senior housing industries; and
- Changes in federal, state and local legislation and regulations.

Management regularly monitors the economic and other factors listed above. We develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends.

**Operating Results**

***Three months ended September 30, 2010 compared to three months ended September 30, 2009***

Revenues for the three months ended September 30, 2010 increased to \$18.5 million from \$17.2 million for the same period in 2009 primarily due to increases in rental income partially offset by decreases in interest income from mortgage loans, as discussed below. Rental income for the three months ended September 30, 2010 increased \$1.6 million from the same period in 2009 primarily due to increases resulting from acquisitions in 2010 and 2009.

Interest income from mortgage loans for the three months ended September 30, 2010 decreased \$0.2 million from the same period in 2009 primarily due to payoffs, normal amortization of existing mortgage loans and the deed in lieu of foreclosure of the mortgage loan secured by a private school property located in Minnesota.

Interest and other income were comparable for each of the three months ended September 30, 2010 and 2009.

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Interest expense for the three months ended September 30, 2010 was \$0.5 million higher than the same period in 2009 primarily due to the sale of \$50.0 million aggregate principal of senior unsecured notes.

Depreciation and amortization expense for the three months ended September 30, 2010 increased \$0.5 million from the same period in 2009 primarily due to capital improvement investments and acquisitions in 2010 and 2009.

Provisions for doubtful accounts for the three months ended September 30, 2010 were comparable to the same period in 2009.

Operating and other expenses for the three months ended September 30, 2010 increased \$0.1 million from the same period in 2009 primarily due to the increase in legal and other expenses related to the shelf registration and the Series E and Series F preferred stock redemption.

For the three months ended September 30, 2010 and 2009, net income from discontinued operations included the financial results from properties classified as held-for-sale. Properties classified as held-for-sale include the private school property in Minnesota that we acquired via deed in lieu of foreclosure and the 195-bed skilled nursing property in Virginia that the lessee notified us of its intent to exercise its purchase option. This reclassification was made in accordance with accounting guidance which requires that the financial results of properties meeting certain criteria be reported on a separate line item called Discontinued Operations.

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Net income allocable to common stockholders for the three months ended September 30, 2010 decreased \$1.9 million from the same period in 2009 primarily due to the \$2.4 million preferred stock redemption charge which is the Series E and Series F original issue discount partially offset by the decrease in preferred stock dividends relating to the Series E and Series F redemption and the changes previously described above.

***Nine months ended September 30, 2010 compared to nine months ended September 30, 2009***

Revenues for the nine months ended September 30, 2010 increased to \$54.3 million from \$52.0 million for the same period in 2009 primarily due to increases in rental income partially offset by decreases in interest income from mortgage loans, as discussed below. Rental income for the nine months ended September 30, 2010 increased \$3.2 million from the same period in 2009 primarily due to increases resulting from acquisitions in 2010 and 2009.

Interest income from mortgage loans for the nine months ended September 30, 2010 decreased \$0.9 million from the same period in 2009 primarily due to payoffs, normal amortization of existing mortgage loans and the deed in lieu of foreclosure of the mortgage loan secured by a private school property located in Minnesota.

Interest and other income for the nine months ended September 30, 2010 decreased \$0.1 million from the same period in 2009 primarily due to lower interest income resulting from payoffs and normal amortization of our notes receivable. Also, during the nine months ended September 30, 2009, we received other income in conjunction with early payoffs of mortgage loans.

Interest expense for the nine months ended September 30, 2010 was \$0.4 million lower than the same period in 2009 due to a decrease in mortgage loans payable outstanding during the period resulting from the repayment of mortgage loans in 2010 and 2009 and normal amortization of existing mortgage loans partially offset by increase in bank borrowings outstanding during 2010 and the sale of \$50.0 million aggregate principal of senior unsecured notes.

Depreciation and amortization expense for the nine months ended September 30, 2010 increased \$0.9 million from the same period in 2009 primarily due to capital improvement investments and acquisitions in 2010 and 2009.

Provisions for doubtful accounts for the nine months ended September 30, 2010 increased \$0.9 million from the same period in 2009 primarily due to provision for doubtful accounts related to a mortgage loan secured by a private school property located in Minnesota. The borrower of the private school property ceased operations and filed for Chapter 7 bankruptcy. We acquired this private school property via deed in lieu of foreclosure and have classified it as held-for-sale. We are actively marketing to sell this property.

Operating and other expenses for the nine months ended September 30, 2010 increased \$0.4 million from the same period in 2009 primarily due to transaction costs related to the acquisitions in 2010, and the increase in legal and other expenses related to the shelf registration and the Series E and Series F preferred stock redemption.

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For the nine months ended September 30, 2010 and 2009, net income from discontinued operations included the financial results from properties classified as held-for-sale. Properties classified as held-for-sale include the private school property in Minnesota that we acquired via deed in lieu of foreclosure and the 195-bed skilled nursing property in Virginia that the lessee notified us of its intent to exercise its purchase option. This reclassification was made in accordance with accounting guidance which requires that the financial results of properties meeting certain criteria be reported on a separate line item called Discontinued Operations.

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Net income allocable to common stockholders for the nine months ended September 30, 2010 decreased \$2.2 million from the same period in 2009 primarily due to the \$2.4 million preferred stock redemption charge which is the Series E and Series F original issue discount partially offset by the decrease in preferred stock dividends relating to the Series E and Series F redemption and the changes previously described above.

**Liquidity and Capital Resources**

*Operating Activities.* At September 30, 2010, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$564.5 million invested primarily in owned long-term healthcare properties and mortgage loans of approximately \$65.5 million (prior to deducting a \$0.7 million reserve). Our portfolio consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 95 skilled nursing properties, 99 assisted living properties, 12 other properties and two schools. These properties are located in 29 states. Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services. For the nine months ended September 30, 2010, we had net cash provided by operating activities of \$47.9 million.

For the nine months ended September 30, 2010 we recorded \$2.8 million in straight-line rental income. We currently expect that straight-line rental income for leases in place at September 30, 2010 will decrease from \$3.7 million for projected annual 2010 to \$1.6 million for projected annual 2011 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. Conversely, our cash rental income is projected to increase from \$61.5 million for projected annual 2010 to \$64.4 million for projected annual 2011 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. Also during the nine months ended September 30, 2010, we recorded an additional reserve of \$0.6 million on our straight-line rent receivable. During the nine months ended September 30, 2010 we received \$45.8 million of cash rental revenue and recorded \$0.5 million of amortized lease inducement cost.

*Investing and Financing Activities.* For the nine months ended September 30, 2010, we used \$39.6 million of cash for investing activities. We acquired two properties in Virginia, a 90-bed skilled nursing property and a property with 137 skilled nursing beds, 47 assisted living units and 46 independent living units, for \$22.0 million and incurred and expensed \$7,000 in transaction costs. These properties were leased to a third party operator under a 12-year master lease with two 10-year renewal options. Additionally, we acquired a 120-bed skilled nursing property in Florida for \$9.0 million and incurred and expensed \$0.1 million in transaction costs. This property was leased to a third party operator under a 12-year lease with two 10-year renewal options. We also purchased a 166-bed skilled nursing property in Texas for \$7.9 million and incurred and expensed \$30,000 in transaction costs. This property was leased to a third party operator under a 10-year lease with two five-year renewal options. We paid this operator, who previously operated the property under a lease with the seller, \$0.1 million as a lease inducement. The lease inducement is amortized as a yield adjustment over the life of the lease. In addition, we invested \$2.1 million, at an average yield of 9.7%, under agreements to expand and renovate 11 existing properties operated by seven different operators. We also invested \$1.1 million in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment. Additionally during the nine months ended September 30, 2010, a lessee notified us of its intent to exercise its option to purchase a 195-bed skilled nursing property located in Virginia on November 1, 2010. This property has been classified as held-for-sale. The carrying value of this property as of September 30, 2010 was \$4.4 million and the annual revenue from this property is \$0.5 million. At this time, we anticipate an immaterial net gain from this sale.

Subsequent to September 30, 2010, we entered into three purchase agreements to acquire four assisted living properties with a total of 241 units for an aggregate purchase price of \$26.9 million. Three of the properties are located in Florida and one is located in Mississippi. The terms of one of the seller's current financing required a 30-day prepayment notice which was given by this seller on September 27, 2010. In addition to the aggregate purchase price identified above, we have agreed to pay \$0.1 million representing half of this seller's prepayment penalty on its loan. The three transactions are scheduled to concurrently close on or about October 29, 2010. Simultaneous with the purchases, we will lease the

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properties under a 10-year triple net master lease with an affiliate of the third party operators that managed or operated the properties under leases with the sellers. The projected revenues provided from the acquisition of these properties for calendar year 2010 and 2011 are \$0.5 million and \$2.9 million, respectively, under U.S. GAAP accounting, which includes non-cash straight-line rent of approximately \$0.1 million and \$0.4 million, respectively, in 2010 and 2011.

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During the nine months ended September 30, 2010, we invested \$1.6 million, before closing fees of \$0.1 million, in a mortgage loan secured by a skilled nursing property located in Missouri to finance an expansion of the property and extend the loan maturity for an additional five years to January 2018. The current interest rate is 10.9%, increasing 0.13% annually. We also invested \$0.1 million under one existing mortgage loan for capital improvements and we received \$3.0 million in principal payments on mortgage loans. Additionally, we recorded \$0.9 million of provision for doubtful accounts related to a mortgage loan secured by a private school property located in Minnesota. The borrower of the private school property ceased operations and filed for Chapter 7 bankruptcy. In September 2010, we acquired the private school property via deed in lieu of foreclosure and have classified it as held-for-sale. We are actively marketing to sell this property.

During the nine months ended September 30, 2010, we received \$1.4 million in principal payments and funded \$0.1 million on notes receivable. At September 30, 2010, we had six such loans outstanding with a carrying value of \$1.4 million at a weighted average interest rate of 12.0%.

For the nine months ended September 30, 2010, we used \$4.7 million of cash in financing activities. We paid \$0.6 million in scheduled principal payments on mortgage loans and bonds payable. Also, we paid off a \$7.6 million mortgage loan secured by an assisted living property located in California at a fixed interest rate of 8.69%.

Our Unsecured Revolving Credit Agreement (or Unsecured Credit Agreement), dated July 17, 2008, was at an initial commitment amount of \$80.0 million. During the nine months ended September 30, 2010, we added a new lender with a \$30.0 million commitment to our Unsecured Credit Agreement increasing our total availability to \$110.0 million. The Unsecured Credit Agreement provides for the opportunity to increase the credit amount up to a total of \$120.0 million. The Unsecured Credit Agreement provides a revolving line of credit with a final maturity date of July 17, 2011. The pricing under the Unsecured Credit Agreement based on our borrowing election is Prime Rate plus 0.50% or LIBOR plus 1.50%. At the time of borrowing, we may elect the 1, 2, 3 or 6 month LIBOR rate. Under financial covenants contained in the Unsecured Credit Agreement which are measured quarterly we are required to maintain, among other things:

- (i) a ratio, of total indebtedness to total asset value, not greater than 0.5 to 1.0;
- (ii) a ratio not greater than 0.35 to 1.0 of secured debt to total asset value;
- (iii) a ratio not less than 2.5 to 1.0 of EBITDA as calculated in the Unsecured Credit Agreement to interest expense; and
- (iv) a ratio of not less than 1.50 to 1.0 of EBITDA as calculated in the Unsecured Credit Agreement to fixed charges.

During the nine months ended September 30, 2010, we borrowed \$37.5 million and repaid \$51.0 million under our Unsecured Credit Agreement. At September 30, 2010, we had no outstanding balance under our Unsecured Credit Agreement with \$110.0 million available for borrowing. At September 30, 2010, we were in compliance with all our covenants.

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During the nine months ended September 30, 2010, we completed the sale to affiliates and managed accounts of Prudential of \$25.0 million aggregate principal amount of 5.26% senior unsecured term notes due July 14, 2015 and \$25.0 million aggregate principal amount of 5.74% senior unsecured term notes fully amortizing to maturity on January 14, 2019. Also, we entered into an uncommitted private shelf agreement with Prudential which provides for the possible issuance of up to an additional \$50.0 million of senior unsecured fixed-rate term notes during the three-year issuance period. Interest rates on any issuance under the shelf agreement will be set at a spread over applicable Treasury rates at the date of the rate lock. Maturities of each issuance are at our election for up to 10 years from the date of issuance with a maximum average life of 7 years from the date of original issuance.

We paid cash dividends on our Series C, Series E, and Series F preferred stock totaling \$2.5 million, \$0.1 million and \$9.8 million, respectively. Additionally, we declared and paid cash dividends on our common stock totaling \$28.3 million. On October 4, 2010, we declared a monthly cash dividend of \$0.13 per common share per month for the months of October, November and December 2010, payable on October 29, November 30 and December 31, 2010, respectively, to stockholders of record on October 21, November 22 and December 23, 2010, respectively. Subsequently, on October 20, 2010, we increased the November and December 2010 monthly common stock cash dividend by 7.7% to \$0.14 per common share per month. The previously announced record and payment dates remain unchanged.

During the nine months ended September 30, 2010, a total of 6,666 common stock options were exercised at a total option value \$0.2 million and a total market value on the date of exercise of \$0.2 million. During the nine months ended September 30, 2010, we granted 4,000 shares of restricted common stock at \$25.95 per share, 1,000 shares of restricted common stock at \$25.04 per share, and 11,030 shares of restricted common stock at \$26.53 per share. These shares vest ratably over a three-year period from the grant date. Also, during the nine months ended September 30, 2010, we granted 99,661 shares of restricted common stock at \$26.53 per share. These shares vest ratably over a five-year period with the first date of vesting beginning in December 31, 2010.

Our Board of Directors authorized a share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities, including common and preferred securities. We continue to have an open Board authorization to purchase an additional 3,360,237 shares in total of our equity securities.

On August 4, 2010, we entered into an amendment to our equity distribution agreement dated as of August 5, 2009 with KeyBanc Capital Markets, Inc. (or KeyBanc) to issue and sell, from time to time, up to \$85.7 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions at market prices, in block transactions, or as otherwise agreed between us and KeyBanc. During the nine months ended September 30, 2010, we sold 756,400 shares of common stock at a weighted average price, including fees, of \$25.54 per share, resulting in net proceeds of \$19.3 million after \$0.5 million of fees. At September 30, 2010, we had \$65.1 million available under this equity distribution agreement.

During the nine months ended September 30, 2010, we sold 1,970,000 shares of common stock at a price of \$24.70 per share, before \$0.4 million of fees and \$0.3 million in costs, in a registered direct placement to certain institutional investors. The net proceeds of \$48.0 million were used for the redemption of all of our 4,921 shares of our Series E preferred stock and 2,357,686 shares of our Series F preferred stock outstanding. Accordingly, we recognized the \$2.4 million original issue costs related to the Series E and Series F preferred stock as a preferred stock redemption charge.

*Available Shelf Registration.* On June 9, 2010, we filed a Form S-3 shelf registration statement which became effective June 16, 2010, to replace our prior shelf registration statement. Our current shelf registration statement provides us with the capacity to offer up to \$400.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf

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registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering. At September 30, 2010, we had \$276.3 million availability under our effective shelf registration.

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*Liquidity.* We expect our future income and ability to make distributions from cash flows from operations to depend on the collectibility of our rents and mortgage loans receivable. The collection of these loans and rents will be dependent, in large part, upon the successful operation by the operators of the skilled nursing properties, assisted living properties, other properties and schools we own or that are pledged to us. Other properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services. The operating results of the facilities will be impacted by various factors over which the operators/owners may have no control. Those factors include, without limitation, the status of the economy, changes in supply of or demand for competing long-term healthcare facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term healthcare industry. In addition, our future growth in net income and cash flow may be adversely impacted by various proposals for changes in the governmental regulations and financing of the long-term healthcare industry. We cannot presently predict what impact these proposals may have, if any. We believe that an adequate provision has been made for the possibility of loans proving uncollectible but we will continually evaluate the financial status of the operations of the skilled nursing facilities, assisted living facilities, other facilities and the school. In addition, we will monitor our borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

Our investments, principally our investments in mortgage loans and owned properties, are subject to the possibility of loss of their carrying values as a result of changes in market prices, interest rates and inflationary expectations. The effects on interest rates may affect our costs of financing our operations and the fair market value of our financial assets. Generally our loans have predetermined increases in interest rates and our leases have agreed upon annual increases. Inasmuch as we may initially fund some of our investments with variable interest rate debt, we would be at risk of net interest margin deterioration if medium and long-term rates were to increase. As of September 30, 2010, only \$3.7 million of our debt, excluding our Unsecured Credit Agreement, was at a variable interest rate.

At September 30, 2010, we had \$12.5 million of cash on hand, \$110.0 million available on our Unsecured Credit Agreement which matures July 17, 2011 and the uncommitted private shelf agreement with Prudential which provides for the possible issuance of up to \$50.0 million of senior unsecured fixed-rate term notes during the three-year issuance period. Also, our potential ability to access the capital markets through the issuance of \$65.1 million of common stock under our amended equity distribution agreement and through the issuance of debt and/or equity securities under our \$276.3 million effective shelf registration.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our current Unsecured Credit Agreement borrowing capacity and our uncommitted private shelf agreement with Prudential are sufficient to provide for payment of our current operating costs, meet debt obligations, provide funds for distribution to the holders of our preferred stock and pay common dividends at least sufficient to maintain our REIT status and repay borrowings at, or prior to, their maturity. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for additional capital investments in 2010 and 2011.

**Critical Accounting Policies**

There have been no material changes from the critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes in our market risk during the nine months ended September 30, 2010. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2009.

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**Item 4. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). As of the end of the period covered by this report based on such evaluation our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**OTHER INFORMATION**

**Statement Regarding Forward Looking Disclosure**

*This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify some of the forward-looking statements by their use of forward-looking words, such as believes, expects, may, will, should, seeks, approximately, intends, estimates or anticipates, or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy, the status of capital markets (including prevailing interest rates), and our access to capital; the income and returns available from investments in health care related real estate, the ability of our borrowers and lessees to meet their obligations to us, our reliance on a few major operators; competition faced by our borrowers and lessees within the health care industry, regulation of the health care industry by federal, state and local governments, compliance with and changes to regulations and payment policies within the health care industry, debt that we may incur and changes in financing terms, our ability to continue to qualify as a real estate investment trust, the relative illiquidity of our real estate investments, potential limitations on our remedies when mortgage loans default, and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under Risk Factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in our publicly available filings with the Securities and Exchange Commission. We do not undertake any responsibility to update or revise any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.*

**Item 1. Legal Proceedings**

We are a party from time to time to various general and professional liability claims and lawsuits asserted against the lessees or borrowers of our properties, which in our opinion are not singularly or in the aggregate material to our results of operations or financial condition. These types of claims and lawsuits may include matters involving general or professional liability, which we believe under applicable legal principles are not our responsibility as a non-possessory landlord or mortgage holder. We believe that these matters are the responsibility of our lessees and borrowers pursuant to general legal principles and pursuant to insurance and indemnification provisions in the applicable leases or mortgages. We intend to continue to vigorously defend such claims.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.



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#### **Item 6. Exhibits**

3.1 LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.1 to LTC Properties Inc. s Form 10-Q for the quarter ended June 30, 2009)

3.2 Bylaws of LTC Properties, Inc., as amended and restated August 3, 2009 (incorporated by reference to Exhibit 3.2 to LTC Properties Inc. s Form 10-Q for the quarter ended June 30, 2009)

4.1 Notice Of Redemption To the Holders of LTC Properties, Inc. 8.5% Series E Cumulative Convertible Preferred Stock (incorporated by reference to Exhibit 99.2 to LTC Properties Inc. s Current Report on Form 8-K dated August 10, 2010)

4.2 Notice Of Partial Redemption To the Holders of LTC Properties, Inc. 8.0% Series F Cumulative Preferred Stock (incorporated by reference to Exhibit 99.3 to LTC Properties Inc. s Current Report on Form 8-K dated August 10, 2010)

10.1 Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and Prudential Investment Management, Inc. dated July 14, 2010 (incorporated by reference to Exhibit 10.1 to LTC Properties Inc. s Form 10-Q for the quarter ended June 30, 2010)

10.2 Form of Purchase Agreement by and between the Company and the Purchasers of the Shares (incorporated by reference to Exhibit 10.1 to LTC Properties Inc. s Current Report on Form 8-K dated August 3, 2010)

10.3 Placement Agent Agreement dated August 2, 2010 between the Company and CSCA Capital Advisors, LLC (incorporated by reference to Exhibit 10.2 to LTC Properties Inc. s Current Report on Form 8-K dated August 3, 2010)

10.4 Amendment No. 1 to Equity Distribution Agreement, dated August 4, 2010, between LTC Properties, Inc. and KeyBanc Capital Markets Inc. (incorporated by reference to Exhibit 1.1 to LTC Properties Inc. s Current Report on Form 8-K dated August 4, 2010)

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LTC PROPERTIES, INC.  
Registrant

Dated: October 25, 2010

By: /s/ PAMELA SHELLEY-KESSLER  
Pamela Shelley-Kessler  
Senior Vice President, Chief Financial Officer and Corporate  
Secretary  
(Principal Financial and Accounting Officer)