

LTC PROPERTIES INC  
Form 10-Q  
August 08, 2013  
[Table of Contents](#)

--

UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

—  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

- 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)

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

Maryland  
(State or other jurisdiction of  
incorporation or organization)

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

2829 Townsgate Road, Suite 350

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

Smaller reporting company

(Do not check if a  
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 August 1, 2013 was 34,751,910.

--	--

Table of Contents

**LTC PROPERTIES, INC.**

**FORM 10-Q**

**June 30, 2013**

**INDEX**

	<b><u>Page</u></b>
<b>PART I -- Financial Information</b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<b><u>PART II -- Other Information</u></b>	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	35
<u>Item 6. Exhibits</u>	36

Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS***(Amounts in thousands)*

	June 30, 2013 <i>(unaudited)</i>	December 31, 2012 <i>(audited)</i>
<b>ASSETS</b>		
Real estate investments:		
Land	\$ 75,094	\$ 75,094
Buildings and improvements	836,934	822,618
Accumulated depreciation and amortization	(209,581)	(197,407)
Net operating real estate property	702,447	700,305
Properties held-for-sale, net of accumulated depreciation and amortization: 2013		
\$804; 2012 \$1,141	210	1,242
Net real estate property	702,657	701,547
Mortgage loans receivable, net of allowance for doubtful accounts: 2013 \$396;		
2012 \$782	39,272	39,299
Real estate investments, net	741,929	740,846
Other assets:		
Cash and cash equivalents	63,315	7,191
Debt issue costs, net	2,701	3,040
Interest receivable	741	789
Straight-line rent receivable,(1) net of allowance for doubtful accounts: 2013		
\$1,532; 2012 \$1,557	28,839	26,998
Prepaid expenses and other assets	6,262	7,548
Notes receivable	1,277	3,180
Total assets	\$845,064	\$789,592
<b>LIABILITIES</b>		
Bank borrowings	\$	\$115,500
Senior unsecured notes	185,800	185,800
Bonds payable	2,035	2,635
Accrued interest	3,296	3,279
Earn-out liabilities	6,963	6,744
Accrued expenses and other liabilities	11,712	12,492
Accrued expenses and other liabilities related to properties held-for-sale	33	34
Total liabilities	209,839	326,484
<b>EQUITY</b>		
Stockholders' equity:		
Preferred stock \$0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2013 2,000; 2012 2,000	38,500	38,500
Common stock: \$0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2013 34,752; 2012 30,544	348	305
Capital in excess of par value	687,841	510,236
Cumulative net income	749,912	724,033
Other	134	152
Cumulative distributions	(841,510)	(810,125)
Total LTC Properties, Inc. stockholders' equity	635,225	463,101
Non-controlling interests		7

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

Total equity	635,225	463,108
Total liabilities and equity	\$845,064	\$789,592

---

(1) On June 30, 2013 and December 31, 2012, we had \$3,206 and \$3,191 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.

*See accompanying notes.*

Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF INCOME***(Amounts in thousands, except per share, unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Rental income (1)	\$24,539	\$21,139	\$49,015	\$41,975
Interest income from mortgage loans	1,050	1,431	2,109	2,963
Interest and other income (2)	92	485	185	722
Total revenues	25,681	23,055	51,309	45,660
<b>Expenses:</b>				
Interest expense	2,798	2,004	5,931	4,037
Depreciation and amortization	6,124	5,355	12,250	10,509
General and administrative expenses	2,869	2,604	6,287	5,128
Total expenses	11,791	9,963	24,468	19,674
Income from continuing operations	13,890	13,092	26,841	25,986
<b>Discontinued operations:</b>				
Net Income from discontinued operations	27	21	52	43
(Loss) gain on real estate assets, net	(1,014)		(1,014)	16
Net (loss) income from discontinued operations	(987)	21	(962)	59
Net income	12,903	13,113	25,879	26,045
Income allocated to non-controlling interests		(10)		(21)
Net income attributable to LTC Properties, Inc.	12,903	13,103	25,879	26,024
Income allocated to participating securities	(91)	(91)	(189)	(185)
Income allocated to preferred stockholders	(818)	(818)	(1,636)	(1,636)
Net income available to common stockholders	\$11,994	\$12,194	\$24,054	\$24,203
<b><u>Basic earnings per common share</u></b>				
Continuing operations	\$0.39	\$0.40	\$0.79	\$0.80
Discontinued operations	(\$0.03)	\$0.00	(\$0.03)	\$0.00
Net income available to common stockholders	\$0.36	\$0.40	\$0.76	\$0.80
<b><u>Diluted earnings per common share</u></b>				
Continuing operations	\$0.39	\$0.40	\$0.79	\$0.80
Discontinued operations	(\$0.03)	\$0.00	(\$0.03)	\$0.00
Net income available to common stockholders	\$0.36	\$0.40	\$0.76	\$0.80
<b><u>Weighted average shares used to calculate earnings per common share</u></b>				
Basic	32,913	30,213	31,645	30,201
Diluted	32,946	30,258	31,679	30,246

(1) During the three and six months ended June 30, 2013, we received \$1,122 and \$2,235, respectively, in rental income and recorded \$3 and \$16, respectively, in straight-line rental income from a lessee that qualifies as a related party. During the three and six months ended June 30, 2012, we received \$1,095 and \$2,181, respectively, in rental income and recorded \$31 and \$70, respectively, in straight-line rental income from a lessee that qualifies as a related party. The

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

lessee's Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

(2) During the three and six months ended June 30, 2013, we did not recognize interest income from any related parties. During the three and six months ended June 30, 2012, we recognized \$55 and \$235, 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.

NOTE: 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 available to common stockholders.

*See accompanying notes.*

Table of Contents

**LTC PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(Amounts in thousands, unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$12,903	\$13,113	\$25,879	\$26,045
Reclassification adjustment	(8)	(16)	(17)	(30)
Comprehensive income	12,895	13,097	25,862	26,015
Comprehensive income allocated to non-controlling interests		(10)		(21)
Comprehensive income attributable to LTC Properties, Inc.	\$12,895	\$13,087	\$25,862	\$25,994

*See accompanying notes.*



Table of Contents**LTC PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Amounts in thousands, unaudited)*

	Six Months Ended June 30,	
	2013	2012
<b>OPERATING ACTIVITIES:</b>		
Net income	\$25,879	\$26,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization continuing and discontinued operations	12,267	10,536
Stock-based compensation expense	1,508	910
Loss (gain) on sale of assets, net	1,014	(16)
Straight-line rental income continuing and discontinued operation\$1)	(1,860)	(1,333)
Provision (recovery) for doubtful accounts continuing and discontinued operations	19	(21)
Non-cash interest related to earn-out liabilities	220	220
Other non-cash items, net	212	642
Increase (decrease) in accrued interest payable	17	(200)
Decrease in interest receivable	25	391
Net change in other assets and liabilities	(564)	(344)
Net cash provided by operating activities	38,737	36,830
<b>INVESTING ACTIVITIES:</b>		
Investment in real estate properties, net		(20,482)
Investment in real estate properties under development	(9,310)	(215)
Investment in real estate capital improvements	(4,506)	(446)
Proceeds from sale of real estate investments, net	1	1,248
Advances under mortgage loans receivable	(913)	
Principal payments received on mortgage loans receivable	938	3,752
Proceeds from redemption of marketable securities		6,500
Advances under notes receivable	(510)	(2,019)
Principal payments received on notes receivable	2,413	191
Net cash used in investing activities	(11,887)	(11,471)
<b>FINANCING ACTIVITIES:</b>		
Bank borrowings	2,000	23,000
Repayment of bank borrowings	(117,500)	(11,000)
Principal payments on bonds payable	(600)	(565)
Proceeds from common stock offering	176,301	
Stock option exercises	523	746
Distributions paid to stockholders	(31,385)	(28,096)
Redemption of non-controlling interests		(2,764)
Distributions paid to non-controlling interests	(7)	(59)
Financing costs paid	(35)	(716)
Other	(23)	
Net cash provided by (used in) financing activities	29,274	(19,454)
Increase in cash and cash equivalents	56,124	5,905
Cash and cash equivalents, beginning of period	7,191	4,408
Cash and cash equivalents, end of period	\$63,315	\$10,313

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid	\$ 6,040	\$ 3,918
---------------	----------	----------

---

(1) During the six months ended June 30, 2013 and 2012, we recorded \$15 and \$70, 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.*

Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. General**

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in senior housing and long term care properties through acquisitions, development, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. 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), memory care properties (or MC) and combinations thereof. 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, property type and form of investment.

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 six months ended June 30, 2013 and 2012 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 GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six months ended June 30, 2013 and 2012 are not necessarily indicative of the results for a full year.

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation, including changes as a result of the application of accounting guidance for properties disposed or classified as held-for-sale. During the six months ended June 30, 2013, we sold a 47-bed skilled nursing property located in Colorado for \$1,000. At June 30, 2013, one of our lessees has a mandatory option to purchase one 30-bed skilled nursing property in Ohio. The purchase option provides for a mandatory closing on or before October 31, 2013. See *Note 2. Real Estate Investments* for further discussion of the purchase option. During the six months ended June 30, 2012, we sold a 140-bed skilled nursing property located in Texas for \$1,248,000. Additionally, during the fourth quarter of 2012, we reclassified a 140-unit independent living property located in Texas from held-for-sale to held-for-use. Accordingly, this property has been reclassified from held-for-sale to held-for-use on the June 30, 2012 consolidated balance sheet and consolidated statement of income to conform to the current period presentation. Depreciation expense, which was not recognized during the held-for-sale period, was recognized at the date of reclassification. Due to the market conditions, the timing of the ultimate disposal of this property was uncertain. These adjustments are normal and recurring in nature. See *Note 2. Real Estate Investments* for further discussion of our property sales.

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**

Assisted living properties, independent living properties, memory care properties, and combinations thereof are included in the assisted living property type. Range of care properties (or ROC) property type consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services.

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.

*Owned Properties.* The following table summarizes our investments in owned properties at June 30, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Properties (1)	SNF Beds	Number of ALF Units	Investment per Bed/Unit
Skilled Nursing	\$454,021	49.7%	73	8,418		\$53.93
Assisted Living	379,913	41.6%	96		4,502	\$84.39
Range of Care	43,907	4.8%	8	634	274	\$48.36
Under Development (2)	22,757	2.5%				
Schools	12,444	1.4%	2			
Totals	\$913,042	100.0%	179	9,052	4,776	

(1) We have investments in 26 states leased to 35 different operators.

(2) Includes a MC development with 60 units, two combination ALF and MC developments with a total of 158 units, and a SNF development with 143 beds.

All of our owned properties are leased to our operators pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease covering one or more properties which requires the operator/lessee to pay all costs necessary in the operations of the facilities. Many of the leases contain renewal options and one master lease contains an option to purchase six skilled nursing properties with a total of 230 beds for an all cash purchase price of \$11,000,000. As of June 30, 2013, the net book value for these six properties was \$8,156,000. If the lessee fails to exercise its option to purchase these six properties on or before September 30, 2013, the lessee is obligated

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

to purchase a 30-bed skilled nursing property out of the six property portfolio for \$1,000,000 on or before October 31, 2013. The 30-bed skilled nursing property has a net book value of \$210,000 as of June 30, 2013. 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.

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

During the six months ended June 30, 2013, we completed the construction of a 120-bed skilled nursing property in Texas. This new property replaces a skilled nursing property in our existing portfolio. In July 2013, all the residents were relocated from the old property to the new property. The operator is responsible for closing and selling the old property. During the six months ended June 30, 2013, we funded \$3,405,000 under the \$9,094,000 development commitment for the new property. In July 2013, we funded \$1,008,000 under this development commitment and we anticipate funding the remaining balance in August 2013. Also, during the six months ended June 30, 2013, we sold a 47-bed skilled nursing property in Colorado for \$1,000 and recognized a \$1,014,000 loss on sale.

In July 2013, we completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. Total cost for the new property was approximately \$9,817,000.

As of June 30, 2013, we have a commitment to provide, under certain conditions, up to \$5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. The estimated yield of this commitment is 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 as of June 30, 2013, no funds have been requested under this commitment. In addition, the following table summarizes our investment commitments as of June 30, 2013, excluding the \$5,000,000 per year commitment, and year to date funding on our ongoing development, redevelopment, renovation and expansion projects (*excludes capitalized interest, dollar amounts in thousands*):

Type of Property	Investment Commitment	2013 Funding (2)	Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing	\$29,550	\$2,115	\$7,651	\$21,899	6	640
Assisted Living (1)	40,802	8,042	16,218	24,584	6	354

(1) Includes the development of a 60-unit memory care property for \$9,817 and two assisted living and memory care combination properties for a total of \$16,385, and the expansion of three assisted living properties for a total \$14,600.

(2) Excludes \$260 of capital improvement on three completed projects with no remaining commitments and includes \$6 funded under the commitment as marketing expense.

(3) In July of 2013, we funded \$1,932 under investment commitments.

During the six months ended June 30, 2012, we purchased a 144-bed skilled nursing property located in Texas for an aggregate purchase price of \$18,600,000. We also purchased a vacant parcel of land in Colorado for \$1,882,000 and simultaneously entered into a lease and development commitment agreement to fund the construction of a 60 unit memory care unit. (See above for development commitment status.) Additionally, we sold a 140-bed skilled nursing property located in Texas for \$1,248,000 and recognized a gain, net of selling expenses, of \$16,000. This

property was leased under a master lease and the economic terms of the master lease did not change as a result of this sale.



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

*Mortgage Loans.* The following table summarizes our investments in mortgage loans secured by first mortgages at June 30, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties(1)	SNF Beds	ALF Units	Investment per Bed/Unit
Skilled Nursing (2)	\$24,730	62.3%	15	17	1,861		\$13.29
Assisted Living	12,202	30.8%	3	8		211	\$57.83
Range of Care	2,736	6.9%	1	1	99	74	\$15.82
Totals	\$39,668	100.0%	19	26	1,960	285	

(1) We have investments in 8 states that include mortgages to 11 different operators.

(2) Includes a mortgage and construction loan secured by a currently operating skilled nursing property and parcel of land upon which a 106-bed replacement property is being constructed. The agreement gives us the right to purchase the replacement facility for \$13,500 during an 18 month period beginning on the first anniversary of the issuance of the certificate of occupancy.

At June 30, 2013, the mortgage loans had interest rates ranging from 7.0% to 13.5% and maturities ranging from 2014 to 2022. 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 six months ended June 30, 2013, we funded \$913,000 under a \$10,600,000 mortgage and construction loan and we have a remaining commitment of \$7,067,000. In July 2013, we funded \$1,897,000 under the mortgage and construction loan and we have a remaining commitment of \$5,170,000. During the six months ended June 30, 2013 and 2012, we received \$938,000 and \$1,389,000, respectively, in regularly scheduled principal payments. During the six months ended June 30, 2012, we received \$2,363,000 plus accrued interest related to the early payoff of two mortgage loans secured by two skilled nursing properties.

In August 2013, we entered into a \$141,000,000 mortgage loan agreement with affiliates of Prestige Healthcare and secured by 15 properties with a total of 2,092 skilled nursing beds and 24 independent living units in Michigan. The loan is for a term of 30 years and will bear interest at 9.41% for five years, escalating annually thereafter by 2.25%. Payments will be interest-only for a period of three years, after which the borrower will make interest payments along with annual principal payments of \$1,000,000.

Of the aggregate loan amount, we anticipate funding approximately \$126,000,000 during the fourth quarter of 2013 with additional forward commitments of \$12,000,000 for capital improvements and up to \$3,000,000 for short-term working capital. The loan agreement also provides, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, for additional loan proceeds of up to \$40,000,000 with such proceeds limited to \$10,000,000 per twelve months.

The borrower will have a one-time option between the third and twelfth years to prepay up to 50% of the then outstanding loan balance without penalty. Exclusively for the purposes of this option, the properties collateralizing the loan have been separated by us into two pools of assets. If and when the option is exercised, we will identify which of the two pools we will release for prepayment and removal from portfolio of properties securing the loan. If the prepayment option is exercised and timely concluded, the borrower forfeits its opportunity to access any additional loan proceeds.

Additionally, under certain circumstances, including a change in regulatory environment, we have the option to purchase the properties.

Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**3. Notes Receivable**

Notes receivables consist of various loans and line of credit agreements with certain operators. During the six months ended June 30, 2013, we received \$2,372,000 for the early repayment of an 8.5% term loan. At June 30, 2013, we had a 9.0% term loan outstanding with a carrying value of \$622,000. Also at June 30, 2013, we committed to provide \$1,850,000 under seven loans and line of credit agreements to certain operators. As of June 30, 2013, we funded \$655,000 under these commitments and have a remaining commitment of \$1,195,000. In July 2013, we funded \$83,000 under these commitments. Accordingly, we have a remaining commitment of \$1,112,000. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2014. During the six months ended June 30, 2013 and 2012, we received, including the repayment above, \$2,413,000 and \$191,000, respectively, in principal payments and we funded \$510,000 and \$2,019,000, respectively, under our notes receivable.

**4. Marketable Securities**

During 2012, Skilled Healthcare Group, Inc. (or SHG) redeemed all of their outstanding Senior Subordinated Notes at par value plus accrued and unpaid interest up to the redemption date. The SHG Senior Subordinated Notes had a face rate of 11.0% and an effective yield of 11.1%. During the six months ended June 30, 2012, we recognized \$235,000 of interest income from our \$6,500,000 investment in SHG Senior Subordinated Notes. 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 2012, we amended our Unsecured Credit Agreement increasing the commitment to \$240,000,000 with the opportunity to increase the credit amount up to a total of \$350,000,000. Additionally, the drawn pricing was decreased by 25 basis points, the undrawn pricing was decreased by 10 basis points and the maturity of the facility was extended for one additional year to May 25, 2016. The amendment also provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at June 30, 2013, the amended facility provides for interest annually at LIBOR plus 125 basis points and the unused commitment fee was 25 basis points.

During the six months ended June 30, 2013, we borrowed \$2,000,000 and repaid \$117,500,000 under our Unsecured Credit Agreement. At June 30, 2013, we had no outstanding balances under our Unsecured Credit Agreement and we were in compliance with all our covenants.

*Senior Unsecured Notes.* At June 30, 2013 and December 31, 2012, we had \$185,800,000 outstanding under our Senior Unsecured Notes with a weighted average interest rate of 5.2% and \$100,000,000 available under an Amended and Restated Note Purchase and Private Shelf agreement which provides for the possible issuance of senior unsecured fixed-rate term notes through October 19, 2014.

*Bonds Payable.* At June 30, 2013 and December 31, 2012, we had outstanding principal of \$2,035,000 and \$2,635,000 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 six months ended June 30, 2013, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 2.9%. During the six months ended June 30, 2013 and 2012, we paid \$600,000 and \$565,000, respectively, in regularly scheduled principal payments. As of June 30, 2013 and December 31, 2012, the aggregate carrying value of real estate properties securing our bonds payable was \$6,518,000 and \$6,650,000, respectively.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****6. Equity**

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

	LTC Properties, Inc. Stockholders Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2012	\$463,101	\$ 7	\$463,108
Net income	25,879		25,879
Issue common stock	175,639		175,639
Vested restricted common stock	1,508		1,508
Stock option exercise	523		523
Reclassification adjustment	(17)		(17)
Non-controlling interest preferred return		(7)	(7)
Preferred stock dividends	(1,636)		(1,636)
Common stock dividends	(29,749)		(29,749)
Other	(23)		(23)
Balance at June 30, 2013	\$635,225	\$	\$635,225

*Preferred Stock.* At June 30, 2013, 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 June 30, 2013.

*Common Stock.* During the six months ended June 30, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. During the three months ended June 30, 2013, we sold 4,025,000 shares of common stock in a public offering at a price of \$44.50 per share, before fees and costs of \$7,707,000. The net proceeds of \$171,406,000 were used to pay down amounts outstanding under our Unsecured Credit Agreement, to fund acquisitions and our current development commitments and general corporate purposes.

During the three months ended June 30, 2013, we terminated the equity distribution agreement which allowed us 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 were made by means of ordinary brokers transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the six months ended June 30, 2012, we did not sell shares of our common stock under our equity distribution agreement. During the six months ended June 30, 2013, we sold 126,742 shares of common stock for \$4,895,000 in net proceeds under our equity distribution agreement. In conjunction with the sale of

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

common stock, we reclassified \$662,000 of accumulated costs associated with the equity distribution agreement to additional paid in capital.

*Available Shelf Registrations.* On July 19, 2013, we filed a Form S-3ASR shelf registration statement to replace our prior shelf registration statement. This current shelf registration statement provides us with the capacity to offer up to \$800,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under this 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.

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

*Non-controlling Interests.* We currently have no limited partners. During 2012, we had one limited partnership. The limited partnership agreement allowed 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. Since we exercised control, we consolidated the limited partnership and we carried the non-controlling interests at cost.

During 2012, two of our limited partners exercised their conversion rights to exchange all of their 112,588 partnership units. At our discretion, we converted 23,294 partnership units into an equal number of our common shares. The partnership conversion price was \$17.00 per partnership unit. At our discretion, we elected to satisfy the conversion of 89,294 limited partnership units with cash. We paid the limited partners \$2,764,000, which represents the closing price of our common stock on the redemption date plus \$0.05 per share multiplied by the number of limited partnership units redeemed. The amount we paid upon redemption exceeded the book value of the limited partnership interest redeemed by \$1,246,000. Accordingly, the \$1,246,000 excess book value of the limited partners' interest in the partnership was reclassified to stockholders' equity. We accounted for these conversions as an equity transaction because there was no change in control requiring consolidation or deconsolidation and remeasurement. Subsequent to these partnership conversions, the assets held by the limited partnership were transferred to other subsidiaries of the Company and the limited partnership was terminated.

The following table represents the change from net income attributable to us and transfers from non-controlling interest (*in thousands*):

	Six months ended June 30,	
	2013	2012
Net income attributable to LTC Properties, Inc.	\$25,879	\$26,024
Transfers from the non-controlling interest		
Decrease in paid-in capital for limited partners conversion		(1,246)
Change from net income attributable to LTC Properties, Inc. and transfers from non-controlling interest	\$25,879	\$24,778

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

	Six months ended June 30, 2013		Six months ended June 30, 2012	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series C	\$ 1,636	\$ 1,636	\$ 1,636	\$ 1,636
Total Preferred	1,636	1,636	1,636	1,636
Common Stock (1)	29,749	29,749	26,460	26,460

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

Total	\$31,385	\$31,385	\$28,096	\$28,096
-------	----------	----------	----------	----------

---

(1) Represents \$0.155 per share per month and \$0.145 per share per month for the six months ended June 30, 2013 and 2012, respectively.

In July 2013, we declared a monthly cash dividend of \$0.155 per share on our common stock for the months of July, August and September 2013, payable on July 31, August 30 and September 30, 2013, respectively, to stockholders of record on July 23, August 22 and September 20, 2013, respectively.



Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Other Equity.* At June 30, 2013 and December 31, 2012, other equity consisted of accumulated comprehensive income of \$134,000 and \$152,000, 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.

*Stock-Based Compensation.* During the six months ended June 30, 2013, a total of 22,000 stock options were exercised at a total option value of \$523,000 and a total market value on the date of exercise of \$865,000. During the six months ended June 30, 2012, a total of 35,000 stock options were exercised at a total option value of \$746,000 and a total market value on the date of exercise of \$1,136,000. No stock options were issued during the six months ended June 30, 2013 and 2012. At June 30, 2013, we had 73,334 stock options outstanding and all stock options are exercisable. Compensation expense related to the vesting of stock options for the three and six months ended June 30, 2012 was \$4,000 and \$8,000, respectively.

During the three months ended June 30, 2013, we granted 8,400 shares of restricted common stock at \$46.54 per share and 6,000 shares of restricted common stock at \$41.83 per share. These shares vest ratably over a three-year period from the grant date. During the six months ended June 30, 2013, excluding the shares granted above, we granted 20,000 shares of restricted common stock at \$36.26 per share. These shares all vest on June 1, 2016. Also during the six months ended June 30, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$457,000 of compensation expense related to the accelerated vesting. During the three and six months ended June 30, 2013, we recognized \$523,000 and \$1,508,000, respectively, of compensation expense related to the vesting of restricted common stock.

During the six months ended June 30, 2012, we granted 8,000 shares of restricted common stock at \$31.87 per share and 56,200 shares of restricted common stock at \$31.77 per share. The vesting of these shares are as follows: 8,000 shares vest ratably over a three-year period from the grant date, 14,000 shares vest ratably over a five-year period from the grant date, 30,000 shares all vest on June 15, 2015, and 12,200 shares all vest on January 10, 2016. During the three and six months ended June 30, 2012, we recognized \$454,000 and \$902,000, respectively, of compensation expense related to the vesting of restricted common stock.

**7. Commitments and Contingencies**

As part of an acquisition in 2011, we committed to provide a contingent payment if certain operational thresholds are met. The contingent payment was recorded at fair value, which was estimated using a discounted cash flow analysis, and we are accreting the contingent liability to the estimated settlement amount as of the payment date. The fair value of such contingent liability is re-evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates. Any changes in estimated fair value are recognized in our results of operations. During each of the three and six months ended June 30, 2013 and 2012, we recorded non-cash interest expense of \$110,000 and \$220,000 related to the contingent liability. At June 30, 2013 and December 31, 2012, the contingent liability had a carrying value of

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

\$6,963,000 and \$6,744,000, respectively.

At June 30, 2013, we made outstanding commitments totaling \$70,352,000 to develop, re-develop, renovate or expand six skilled nursing properties with a total of 640 beds, a memory care property with 60 units, two assisted living and memory care combination properties with a total of 158 units, and three assisted living properties with a total of 136 units. As of June 30, 2013, we have funded \$23,869,000 under these commitments and have a remaining commitment of \$46,483,000. We also have a commitment to provide, under certain conditions, up to \$5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. See *Note 2. Real Estate*

Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Investments* for further discussion of these commitments. Additionally at June 30, 2013, we had a \$10,600,000 mortgage and construction commitment. As of June 30, 2013, we funded \$3,533,000 under this commitment and have a remaining commitment of \$7,067,000. See *Note 2. Real Estate Investments* for further discussion of this mortgage and construction loan. We also committed to provide \$1,850,000 in loan and line of credit agreements to certain operators. As of June 30, 2013, we had funded \$655,000 under these commitments and have a remaining commitment of \$1,195,000. See *Note 3. Notes Receivables* for further discussion of these commitments.

**8. Major Operators**

We have 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). The remaining EHSI assets and operations were converted into a Canadian REIT (Extencicare REIT) listed on the Toronto Stock Exchange (or TSX). During 2012, Extencicare REIT converted from an income trust structure to a corporate structure under a corporation named Extencicare, Inc. (or Extencicare). Both Extencicare and ALC continue to be parties to the leases with us.

On July 11, 2013, ALC merged with Aid Holdings, LLC, a Delaware limited liability company (or Aid Holdings), and Aid Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Aid Holdings (or Aid Merger Sub). Aid Holdings and Aid Merger Sub are affiliates of TPG Capital, L.P.

Extencicare and ALC collectively lease 37 assisted living properties with a total of 1,430 units owned by us representing approximately 6.2%, or \$52,351,000, of our total assets at June 30, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013.

Brookdale Senior Living Communities, Inc. (or Brookdale Communities) is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. (or Brookdale). Brookdale Communities leases 35 assisted living properties with a total of 1,414 units owned by us representing approximately 6.2%, or \$52,551,000, of our total assets at June 30, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013.

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 27 skilled nursing properties and two range of care properties that we own or on which we hold mortgages secured by first trust deeds. These properties consist of a total of 3,354 skilled nursing beds and 49 assisted living units. This represents approximately 6.1%, or \$51,339,000, of our total assets at June 30, 2013 and 10.5% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013. 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, Extencare, 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.

Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**9. Transactions with Related Party**

We have entered into transactions with Skilled Healthcare Group, Inc. (or SHG). One of our directors, Boyd W. Hendrickson, serves as Chief Executive Officer of SHG.

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%. 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 had a remaining investment in \$6,500,000 face value of SHG Senior Subordinated Notes. During 2012, SHG redeemed all of their outstanding Senior Subordinated Notes at par value plus accrued and unpaid interest up to the redemption date. During the three and six months ended June 30, 2012, we recognized \$55,000 and \$235,000 of interest income related to the SHG Senior Subordinated Notes.

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 assignment of the master lease to subsidiaries of SHG. During the three and six months ended June 30, 2013, we received \$1,122,000 and \$2,235,000, respectively, in rental income and recorded \$3,000 and \$16,000, respectively, in straight-line rental income from subsidiaries of SHG. During the three and six months ended June 30, 2012, we received \$1,095,000 and \$2,181,000, respectively, in rental income and recorded \$31,000 and \$70,000, respectively, in straight-line rental income from subsidiaries of SHG. At June 30, 2013 and December 31, 2012, the straight-line rent receivable from subsidiaries of SHG was \$3,206,000 and \$3,191,000, respectively.

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		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Income from continuing operations	\$13,890	\$13,092	\$26,841	\$25,986
Less net income allocated to non-controlling interests		(10)		(21)
Less net income allocated to participating securities:				
Nonforfeitable dividends on participating securities	(91)	(91)	(189)	(185)
Total net income allocated to participating securities	(91)	(91)	(189)	(185)
Less net income allocated to preferred stockholders:				
Preferred stock dividends	(818)	(818)	(1,636)	(1,636)
Total net income allocated to preferred stockholders	(818)	(818)	(1,636)	(1,636)
Income from continuing operations available to common stockholders	12,981	12,173	25,016	24,144
Discontinued operations:				
Net Income from discontinued operations	27	21	52	43
(Loss) gain on sale of assets, net	(1,014)		(1,014)	16
Total net (loss) income from discontinued operations	(987)	21	(962)	59
Net income available to common stockholders	11,994	12,194	24,054	24,203
Effect of dilutive securities:				
Convertible preferred securities				
Net income for diluted net income per share	\$11,994	\$12,194	\$24,054	\$24,203
Shares for basic net income per share	32,913	30,213	31,645	30,201
Effect of dilutive securities:				
Stock options	33	45	34	45
Convertible preferred securities				
Shares for diluted net income per share	32,946	30,258	31,679	30,246
Basic net income per share	\$0.36	\$0.40	\$0.76	\$0.80
Diluted net income per share (1)	\$0.36	\$0.40	\$0.76	\$0.80

---

(1) For the three and six months ended June 30, 2013 and 2012, 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 reported in earnings. We did not adopt the elective fair market value option for our financial assets and financial liabilities.

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 June 30, 2013 and December 31, 2012 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	At June 30, 2013		At December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	\$39,272	\$44,741(1)	\$39,299	\$44,939(1)
Bonds payable	2,035	2,035(2)	2,635	2,635(2)
Bank borrowings		(2)	115,500	115,500(2)
Senior unsecured notes	185,800	190,841(3)	185,800	194,838(3)
Contingent liabilities	6,963	6,963(4)	6,744	6,744(4)

(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 at June 30, 2013 and December 31, 2012 was 5.5% and 6.0%, respectively.

(2) Our bonds payable and bank borrowings are at a variable interest rate. The estimated fair value of our bonds payable and bank borrowings approximated their carrying values at June 30, 2013 and December 31, 2012 based upon prevailing market interest rates for similar debt arrangements.

(3) 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 June 30, 2013, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.9% for those maturing before year 2019 and 4.6% for those maturing through year 2021. At December 31, 2012, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.8% for those maturing before year 2019 and 4.3% for those maturing through year 2021.

(4) Our contingent obligation under the earn-out liabilities is classified as Level 3. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis. The discount rate that we use consists of a risk-free U.S. Treasury rate plus a company specific credit spread which we believe is acceptable by willing market participants. At June 30, 2013 and December 31, 2012, the discount rate used to value our future cash outflow of the earn-out liability was 6.2% and 6.6%, respectively.





Table of Contents

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**12. Subsequent Events**

Subsequent to June 30, 2013 the following events occurred.

We entered into a \$141,000,000 mortgage loan agreement secured by 15 skilled nursing properties with a total of 2,092 beds and one 24-unit independent living property in Michigan. See *Note 2. Real Estate Investments* for further discussion.

We completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. Development costs for the new property were approximately \$9,817,000. See *Note 2. Real Estate Investments* for further discussion.

We funded \$1,932,000 under ongoing real estate investment commitments. Accordingly, we have a remaining commitment of \$44,551,000. We also funded \$1,008,000 under a \$9,094,000 commitment to construct a replacement skilled nursing property which was completed in June 2013. Additionally, we funded \$1,897,000 under a mortgage and construction loan commitment and we have a remaining commitment of \$5,170,000. See *Note 2. Real Estate Investments* for further discussion. We also funded \$83,000 under loans and line of credit agreements to certain operators and have a remaining commitment of \$1,112,000. See *Note 3. Notes Receivable* for further discussion.

We declared a monthly cash dividend of \$0.155 per share on our common stock for the months of July, August and September 2013, payable on July 31, August 30 and September 30, 2013, respectively, to stockholders of record on July 23, August 22 and September 20, 2013, respectively.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****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 (including as a result of the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010), changes in Medicare and Medicaid reimbursement amounts (including due to federal and state budget constraints), 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, 2012 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.*

**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 acquisitions, development, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. 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), memory care properties (or MC) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property type. Range of care properties (or ROC) property type consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. As of June 30, 2013, senior housing and long term healthcare properties comprised approximately 99% of our investment portfolio. We have been operating since August 1992.

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

### Table of Contents

The following table summarizes our real estate investment portfolio as of June 30, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Six Months Ended June 30, 2013		Percentage of Revenues (3)	Number of Properties (4)	Number of	
			Rental Income(1)	Interest Income (2)			SNF Beds(5)	ALF Units(5)
Skilled Nursing(6)	\$478,751	50.2%	\$25,180	\$ 1,395	51.9%	90	10,279	
Assisted Living	392,115	41.2%	20,463	553	41.1%	104		4,713
Range of Care	46,643	4.9%	2,653	161	5.5%	9	733	348
Under Development(7)	22,757	2.4%	788		1.5%			
Schools	12,444	1.3%			0.0%	2		
Totals	\$952,710	100.0%	\$49,084	\$2,109	100.0%	205	11,012	5,061

- 
- (1) Includes rental income from continuing and discontinued operations.
- (2) Includes interest income from mortgage loans.
- (3) Includes rental income from continuing and discontinued operations and interest income from mortgage loans.
- (4) We have investments in 29 states leased or mortgaged to 42 different operators.
- (5) See Item 1. Financial Statements Note 2. Real Estate Investments for discussion of bed/unit count.
- (6) Includes a mortgage and construction loan secured by a currently operating skilled nursing property and parcel of land upon which a 106-bed replacement property is being constructed. The agreement gives us the right to purchase the replacement facility for \$13,500 during an 18 month period beginning on the first anniversary of the issuance of the certificate of occupancy.
- (7) Includes a MC development with 60 units, two combination ALF and MC developments with a total of 158 units and a 143-bed SNF development.

As of June 30, 2013 we had \$741.9 million in carrying value of net real estate investments, consisting of \$702.6 million or 94.7% invested in owned and leased properties and \$39.3 million or 5.3% invested in mortgage loans secured by first mortgages.

For the six months ended June 30, 2013, rental income and interest income from mortgage loans represented 95.5% and 4.1%, respectively, of total gross revenues. 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. For the six months ended June 30, 2013, we recorded \$1.9 million in straight-line rental income and \$18,000 of straight-line rent receivable reserve. For leases in place at June 30, 2013, assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight-line rental income will decrease from \$3.6 million for projected annual 2013 to \$1.9 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.9 million for projected annual 2013 to \$98.3 million for projected annual 2014. During the six months ended June 30, 2013, we received \$47.6 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.3 million. For the six months ended June 30, 2013, no leases were renewed. At June 30, 2013 and December 31, 2012, the straight-line rent receivable balance, net of reserves, on the balance sheet was \$28.8 million and \$27.0 million, respectively.

Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care 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, property type 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.

- 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 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.

Table of Contents

- Memory care facilities offer specialized options for seniors with Alzheimer's disease and other forms of dementia. Purpose built, free-standing memory care facilities offer an attractive alternative for private-pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.

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 lease 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.

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, 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 and unsecured 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 interest rates. Changes in the capital markets environment may impact the availability of cost-effective capital.

We believe our business model has enabled and will continue to enable us to maintain the integrity of our property investments, including in response to financial difficulties that may be experienced by operators. Traditionally, we have taken a conservative approach to managing our business, choosing to maintain liquidity and exercise patience until favorable investment opportunities arise.

At June 30, 2013, we had \$63.3 million of cash on hand, \$240.0 million available under our unsecured line of credit, and \$100.0 million available under the uncommitted private shelf agreement for our senior unsecured notes. Also, our potential ability to access the capital markets through the issuance of debt and/or equity securities under our \$800.0 million effective shelf registration. As a result, we believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, 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.



Table of Contents

*Healthcare Regulatory Climate*

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On August 2, 2012, CMS published a notice updating Medicare skilled nursing facility payment rates for fiscal year 2013, which began on October 1, 2012. The notice calls for a 1.8 percent update in rates (consisting of a 2.5 % market basket update, reduced by a 0.7 percentage point multifactor productivity adjustment mandated by the Affordable Care Act, as discussed below). CMS estimates that overall Medicare payments to skilled nursing facilities in fiscal year 2013 would increase by \$670 million compared to fiscal year 2012. On May 6, 2013, CMS published its proposed Medicare skilled nursing facility payment rate update for fiscal year 2014, which begins on October 1, 2013. CMS estimates that the proposed rule would increase aggregate Medicare skilled nursing facility payments by \$500 million, or 1.4%, compared to fiscal year 2013 levels. Specifically, under the proposed rule, Medicare rates would be updated to reflect a 2.3% market basket increase that is reduced by a 0.4 percentage point multifactor productivity adjustment, and that is further reduced by a proposed 0.5 percentage point forecast error correction. CMS also proposes to rebase the SNF market basket to reflect fiscal year 2010 data and make other policy changes. The final fiscal year 2014 rule has not yet been released. There can be no assurance that future regulations modifying Medicare skilled nursing facility payment rates will not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the Affordable Care Act ). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called productivity adjustment based on economy-wide productivity gains beginning in fiscal year 2012; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business when fully implemented. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

Under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration will last through fiscal year 2021, although Congress and the Administration could enact legislation to end or modify sequestration at any time. Congress and the Administration also could consider other legislation that would have the impact of reducing Medicare reimbursement for skilled nursing facilities and other Medicare providers or otherwise reforming payment policy for post-acute care services. There can be no assurances that enacted or future budget control mechanisms will not have an adverse impact on the financial condition of our borrowers and lessees, which subsequently could materially adversely impact our company.



Table of Contents

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. 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 the government and other third party payors.

***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.

*Concentration Risk.* We evaluate by gross investment 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 five operators. Geographic mix measures the portion of our investment that relate to our top five states.

Table of Contents

The following table reflects our recent historical trends of concentration risk (*gross investment, in thousands*):

	6/30/13	3/31/13	Period Ended 12/31/12	9/30/12	6/30/12
<b>Asset mix:</b>					
Real property	\$913,042	\$906,582	\$900,095	\$805,759	\$743,297
Loans receivable	39,668	40,142	40,081	49,141	50,246
<b>Investment mix:</b>					
Skilled nursing properties	\$478,751	\$478,311	\$475,873	\$472,220	\$412,018
Assisted living properties	392,115	392,119	392,157	320,253	320,368
Range of care properties	46,643	46,707	46,769	46,830	46,888
Under development	22,757	17,143	13,051	3,329	2,033
Schools	12,444	12,444	12,326	12,268	12,236
<b>Operator mix:</b>					
Extencicare & ALC	\$88,034	\$88,034	\$88,034	\$88,034	\$ 88,034
Juniper Communities, LLC	87,088	87,088	87,088		
Preferred Care (1)	84,089	84,192	84,292	84,425	85,075
Brookdale Communities	84,212	84,211	84,210	84,210	84,210
Senior Care Centers, LLC (2)	63,698	63,698	63,698	63,698	63,698
Remaining operators	545,589	539,501	532,854	534,533	472,526
<b>Geographic mix:</b>					
Texas	\$236,100	\$233,865	\$232,106	\$229,062	\$222,989
Ohio	110,804	110,804	110,804	110,804	56,804
New Jersey	70,667	70,667	70,667	12,195	12,195
Florida	67,742	67,772	67,802	67,830	67,859
Colorado	59,725	59,009	56,960	31,145	29,849
Remaining states	407,672	404,607	401,837	403,864	403,847

(1) Preferred Care, Inc. (or Preferred Care) leases 22 skilled nursing and two range of care properties under two master leases and one skilled nursing property under a separate lease agreement. In addition, they operate four skilled nursing properties securing four mortgage loans receivable that we have with unrelated third parties. 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.

(2) Senior Care Centers, LLC (or Senior Care) also operates four skilled nursing properties under a sub-lease with another lessee which is not included in the Senior Care operator mix.

**Credit Strength.** We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to gross asset value and debt to market capitalization. The leverage ratios indicate how much of our consolidated balance sheet capitalization is related to long term obligations. 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 adjusted earnings before gain on sale of real estate, interest, taxes, depreciation and amortization (or Adjusted 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:



Table of Contents**Balance Sheet Metrics**

	Year to Date 6/30/13	6/30/13	3/31/13	Quarter Ended 12/31/12	9/30/12	6/30/12
Debt to gross asset value	17.8%	17.8% (1)	30.6% (4)	30.8% (7)	24.8% (7)	20.3%
Debt & preferred stock to gross asset value	21.4%	21.4% (1)	34.5% (4)	34.7% (7)	29.1% (7)	24.8%
Debt to market capitalization ratio	11.9%	11.9% (2)	19.1% (5)	21.4% (8)	18.1% (7)	13.0%
Debt & preferred stock to market capitalization ratio	14.3%	14.3% (2)	21.6% (5)	24.2% (8)	21.3% (7)	15.9%
Interest coverage ratio(12)	7.6x	8.2x (3)	7.1x (6)	7.4x (9)	7.2x (11)	10.2x
Fixed charge coverage ratio(12)	6.0x	6.3x (3)	5.6x (6)	5.7x (10)	5.6x (11)	7.3x

---

(1) Decrease primarily due to the decrease in outstanding debt offset by the increase in gross asset value from additional development and capital improvement funding.

(2) Decrease primarily due to the decrease in outstanding debt offset by the sale of 4,025,000 shares of common stock in a public offering and the decrease in market capitalization.

(3) Increase primarily due to the decrease in interest expense due to the decrease in outstanding debt.

(4) Decrease primarily due to increase in gross asset value from additional development and capital improvement funding.

(5) Decrease primarily due to the increase in market capitalization.

(6) Decrease primarily due to increase in interest expense resulting from increased pricing levels under our unsecured line of credit.

(7) Increase primarily due to the increase in outstanding debt due to acquisitions.

(8) Increase primarily due to the increase in bank borrowings due to acquisitions offset by the increase in market capitalization.

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

(9) Increase primarily due to the decrease in interest expense caused by recording capitalized interest on the funding of construction projects partially offset by increased income due to rental income from acquisitions.

(10) Increase due to the decrease in interest expense caused by recording capitalized interest on the funding of properties under development.

(11) Decrease primarily due to the increase in interest expense due to increased bank borrowing and the new senior unsecured term notes, the increase in debt issue costs and the non-cash interest related to the contingent earn-out liabilities.

(12) In calculating our interest coverage and fixed charge coverage ratios above, we use Adjusted EBITDA, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (non-GAAP financial measure). Adjusted 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 Adjusted 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 GAAP measure to Adjusted EBITDA.

	Year to Date			Quarter Ended		
	6/30/13	6/30/13	3/31/13	12/31/12	9/30/12	6/30/12
Net income	\$25,879	\$12,903	\$12,976	\$12,778	\$12,504	\$13,113
Add: Loss on Sale	1,014	1,014				
Add: Interest expense	5,931	2,798	3,133	2,907	2,988	2,004
Add: Depreciation and amortization continuing and discontinued operations	12,267	6,131	6,136	5,692	5,925	5,369
Total adjusted EBITDA	\$45,091	\$22,846	\$22,245	\$21,377	\$21,417	\$20,486
Interest expense	\$5,931	\$2,798	\$3,133	\$2,907	\$2,988	\$2,004
Interest coverage ratio	7.6x	8.2x	7.1x	7.4x	7.2x	10.2x
Interest expense	\$5,931	\$2,798	\$3,133	\$2,907	\$2,988	\$2,004
Preferred stock dividends	1,636	818	818	819	818	818
Total fixed charges	\$7,567	\$3,616	\$3,951	\$3,726	\$3,806	\$2,822
Fixed charge coverage ratio	6.0x	6.3x	5.6x	5.7x	5.6x	7.3x

Table of Contents

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;
- 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.

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.

Table of Contents**Operating Results***Three months ended June 30, 2013 compared to three months ended June 30, 2012 (amounts in thousands)*

	2013	Three months ended June 30, 2012	Increase/ (Decrease)
<b>Revenues:</b>			
Rental income	\$24,539	\$21,139	\$3,400 (1)
Interest income from mortgage loans	1,050	1,431	(381) (2)
Interest and other income	92	485	(393) (3)
Total revenues	25,681	23,055	2,626
<b>Expenses:</b>			
Interest expense	2,798	2,004	794 (4)
Depreciation and amortization	6,124	5,355	769 (1)
General and administrative expenses	2,869	2,604	265 (5)
Total expenses	11,791	9,963	1,828
Income from continuing operations	13,890	13,092	798
<b>Discontinued operations:</b>			
Net Income from discontinued operations	27	21	6
(Loss) on real estate assets, net	(1,014)		(1,014) (6)
Net (loss) income from discontinued operations	(987)	21	(1,008)
Net income	12,903	13,113	(210)
Income allocated to non-controlling interests		(10)	10 (7)
Net income attributable to LTC Properties, Inc.	12,903	13,103	(200)
Income allocated to participating securities	(91)	(91)	
Income allocated to preferred stockholders	(818)	(818)	
Net income available to common stockholders	\$11,994	\$12,194	\$ (200)

---

(1) Increased due to acquisitions, developments and capital improvement investments.

(2) Decreased primarily due to payoffs and normal amortization of existing mortgage loans partially offset by origination of two loans totaling \$7,719 in 2012 and construction funding of \$914 during 2013.

(3) Decreased primarily due to the bankruptcy settlement distribution related to Sunwest Management, Inc. (or Sunwest) and the redemption of the Skilled Healthcare Group bond.

Edgar Filing: LTC PROPERTIES INC - Form 10-Q

- (4) Increase primarily due to increase in sale of senior unsecured notes, higher average bank borrowing outstanding, and an increase in interest rates on our unsecured line of credit resulting from a change in pricing levels offset by increase in capitalized interest due to development investments.
  
- (5) Increased primarily due to increased salaries and benefits reflective of increased staffing levels.
  
- (6) Sale of a 47-bed skilled nursing property sold during 2013.
  
- (7) Decreased due to the conversion of all 112,588 limited partnership units during 2012.



Edgar Filing: LTC PROPERTIES INC - Form 10-Q

Table of Contents

*Six months ended June 30, 2013 compared to six months ended June 30, 2012 (amounts in thousands)*

	2013	Six months ended June 30, 2012	Increase/ (Decrease)
<b>Revenues:</b>			
Rental income	\$49,015	\$41,975	\$7,040 (1)
Interest income from mortgage loans	2,109	2,963	(854) (2)
Interest and other income	185	722	(537) (3)
Total revenues	51,309	45,660	5,649
<b>Expenses:</b>			
Interest expense	5,931	4,037	1,894 (4)
Depreciation and amortization	12,250	10,509	1,741 (1)
General and administrative expenses	6,287	5,128	1,159 (5)
Total expenses	24,468	19,674	4,794
Income from continuing operations	26,841	25,986	855
<b>Discontinued operations:</b>			
Net Income from discontinued operations	52	43	9
(Loss) gain on real estate assets, net	(1,014)	16	(1,030) (6)
Net (loss) income from discontinued operations	(962)	59	(1,021)
Net income	25,879	26,045	(166)
Income allocated to non-controlling interests		(21)	21 (7)
Net income attributable to LTC Properties, Inc.	25,879	26,024	(145)
Income allocated to participating securities	(189)	(185)	(4)
Income allocated to preferred stockholders	(1,636)	(1,636)	
Net income available to common stockholders	\$24,054	\$24,203	\$(149)

(1) Increased due to acquisitions, developments and capital improvement investments.

(2) Decreased primarily due to payoffs and normal amortization of existing mortgage loans partially offset by origination of two loans totaling \$7,719 in 2012 and construction funding of \$914 during 2013.

(3) Decreased primarily due to the bankruptcy settlement distribution related to Sunwest and the redemption of the Skilled Healthcare Group bond.

(4) Increase primarily due to increase in sale of senior unsecured notes, higher average bank borrowing outstanding, and an increase in interest rates on our unsecured line of credit resulting from a change in pricing levels offset by increase in capitalized interest due to development investments.

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

(5) Increased primarily due to a one-time \$707 charge related to the retirement of our Senior Vice President, Marketing and Strategic Planning. The one-time charge included a severance payment of \$250 and vesting expense of \$457 related to the acceleration of 18,180 shares of restricted common stock. Additionally, the increase is due to increased salaried and benefits reflective of increased staffing levels.

(6) Includes the loss on sale of a 47-bed skilled nursing property sold during 2013 and the gain on sale of a 140-bed skilled nursing property sold during 2012.

(7) Decreased due to the conversion of all 112,588 limited partnership units during 2012.

Table of Contents**Funds From Operations**

Funds from Operations (or FFO) available to common stockholders, basic FFO available to common stockholders per share and diluted FFO available to common stockholders per share are supplemental measures of a REIT's financial performance that are not defined by U.S. GAAP. Real estate values historically rise and fall with market conditions, but cost accounting for real estate assets in accordance with U.S. GAAP assumes that the value of real estate assets diminishes predictably over time. We believe that by excluding the effect of historical cost depreciation, which may be of limited relevance in evaluating current performance, FFO facilitates comparisons of operating performance between periods.

We use FFO as a supplemental performance measurement of our cash flow generated by operations. FFO does not represent cash generated from operating activities in accordance with U.S. GAAP, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income available to common stockholders.

We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts (or NAREIT). FFO, as defined by NAREIT, means net income available to common stockholders (computed in accordance with U.S. GAAP) excluding gains or losses on the sale of real estate and impairment write-downs of depreciable real estate plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our calculation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that have a different interpretation of the current NAREIT definition from us; therefore, caution should be exercised when comparing our FFO to that of other REITs.

The following table reconciles net income available to common stockholders to FFO available to common stockholders (unaudited, amounts in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income available to common stockholders	\$11,994	\$12,194	\$24,054	\$24,203
Add: Depreciation and amortization (continuing and discontinued operations)	6,131	5,369	12,267	10,536
Add (less): Loss (gain) on sale of real estate, net	1,014		1,014	(16)
FFO available to common stockholders	\$19,139	\$17,563	\$37,335	\$34,723
FFO available to common stockholders per share:				
Basic	\$0.58	\$0.58	\$1.18	\$1.15
Diluted	\$0.57	\$0.57	\$1.16	\$1.13
Weighted average shares used to calculate FFO per share:				
Basic	32,913	30,213	31,645	30,201
Diluted	35,139	32,488	33,881	32,479

**Liquidity and Capital Resources**

*Operating Activities.* At June 30, 2013, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$913.0 million invested primarily in owned long-term healthcare properties and mortgage loans of approximately \$39.7 million (prior to deducting a \$0.4 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 90 skilled nursing properties, 104 assisted living properties, 9 range of care properties, two schools and five parcels of land under development. These properties are located in 29 states. Assisted living properties, independent living properties, memory care properties and combinations thereof are included in the assisted living property type. Range of care properties consist of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. For the six months ended June 30, 2013, we had net cash provided by operating activities of \$38.7 million.

Table of Contents

For the six months ended June 30, 2013, we recorded \$1.9 million in straight-line rental income and a reserve of \$18,000 on our straight-line rent receivable. For leases in place at June 30, 2013, assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight-line rental income will decrease from \$3.6 million for projected annual 2013 to \$1.9 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.9 million for projected annual 2013 to \$98.3 million for projected annual 2014. During the six months ended June 30, 2013, we received \$47.6 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.3 million. For the six months ended June 30, 2013, no leases were renewed.

*Investing and Financing Activities.* For the six months ended June 30, 2013, we used \$11.9 million of cash for investing activities. During the six months ended June 30, 2013, we received \$0.9 million in regularly scheduled principal payments on our mortgage loans. Additionally, we funded \$0.9 million under a \$10.6 million mortgage and construction loan and we have a remaining commitment of \$7.1 million at June 30, 2013. Subsequent to June 30, 2013, we funded \$1.9 million under the mortgage and construction loan and we have a remaining commitment of \$5.2 million.

During the six months ended June 30, 2013, we completed the construction of a 120-bed skilled nursing property in Texas. This new property replaces a skilled nursing property in our existing portfolio. In July 2013, all the residents were relocated from the old property to the new property. The operator is responsible for closing and selling the old property. During the six months ended June 30, 2013, we funded \$3.4 million under the \$9.1 million development commitment for the new property. In July 2013, we funded \$1.0 million under this development commitment and we anticipate funding the remaining balance in August 2013. Also, during the six months ended June 30, 2013, we sold a 47-bed skilled nursing property in Colorado for \$1,000 and recognized a \$1.0 million loss on sale.

In July 2013, we completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. Development costs for the new property were approximately \$9.8 million.

Subsequent to June 30, 2013, we entered into a \$141.0 million mortgage loan agreement with affiliates of Prestige Healthcare and secured by 15 properties with a total of 2,092 skilled nursing beds and 24 independent living units in Michigan. Prestige Healthcare is a privately held operating company based in Louisville, KY that currently operates skilled nursing facilities with approximately 2,500 beds in 7 states including one facility in Michigan. The loan is for a term of 30 years and will bear interest at 9.41% for five years, escalating annually thereafter by 2.25%. Payments will be interest-only for a period of three years, after which the borrower will make interest payments along with annual principal payments of \$1.0 million.

Of the aggregate loan amount, we anticipate funding approximately \$126.0 million during the fourth quarter of 2013 with additional forward commitments of \$12.0 million for capital improvements and up to \$3.0 million for short-term working capital. The loan agreement also provides, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, for additional loan proceeds of up to \$40.0 million with such proceeds limited to \$10.0 million per twelve months.

The borrower will have a one-time option between the third and twelfth years to prepay up to 50% of the then outstanding loan balance without penalty. Exclusively for the purposes of this option, the properties collateralizing the loan have been separated by us into two pools of assets. If and when the option is exercised, we will identify which of the two pools we will release for prepayment and removal from portfolio of properties securing the loan. If the prepayment option is exercised and timely concluded, the borrower forfeits its opportunity to access any additional loan proceeds.

Additionally, under certain circumstances, including a change in regulatory environment, we have the option to purchase the properties.

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

### Table of Contents

As of June 30, 2013, we have a commitment to provide, under certain conditions, up to \$5.0 million per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. The estimated yield of this commitment is 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 as of June 30, 2013, no funds have been requested under this commitment. In addition, the following table summarizes our investment commitments as of June 30, 2013, excluding the \$5.0 million per year commitment, and year to date funding on our ongoing development, redevelopment, renovation (*excludes capitalized interest, dollar amounts in thousands*):

Type of Property	Investment Commitment	2013 Funding (2)	Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing	\$29,550	\$2,115	\$7,651	\$21,899	6	640
Assisted Living (1)	40,802	8,042	16,218	24,584	6	354
Totals	\$70,352	\$10,157 (3)	\$23,869	\$46,483	12	994

(1) Includes the development of a 60-unit memory care property for \$9,817 and two assisted living and memory care combination properties for a total of \$16,385, and the expansion of three assisted living properties for a total \$14,600.

(2) Excludes \$260 of capital improvement on three completed projects with no remaining commitments and includes \$6 funded under the commitment as marketing expense.

(3) In July of 2013, we funded \$1,932 under investment commitments.

In connection with an acquisition in December 2012, we expect to acquire a 72-unit assisted living property located in Pennsylvania for approximately \$12.0 million. We plan to finance the acquisition with cash on hand and the assumption of approximately \$6.8 million of an existing U.S. Department of Housing and Urban Development ( HUD ) insured loan encumbering the property. The HUD loan bears interest at 3.75% and matures in 2051. Closing is subject to, among other things, the consent of HUD to the assignment to and assumption by us of the HUD loan. Simultaneous with the acquisition of this property, we intend to lease the property to an entity affiliated with Juniper Communities, LLC under similar terms and conditions as their existing master triple-net lease.

During the six months ended June 30, 2013, we received \$2.4 million for the early repayment of an 8.5% term loan. At June 30, 2013, we had a 9.0% term loans outstanding with a carrying value of \$0.6 million. Also at June 30, 2013, we committed to provide \$1.9 million under seven loans and line of credit agreements to certain operators. As of June 30, 2013, we funded \$0.7 million under these commitments and have a remaining commitment of \$1.2 million. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2014. During the six months ended June 30, 2013, we received, including the repayment above, \$2.4 million in principal payments and we funded \$0.5 million under our notes receivables.

For the six months ended June 30, 2013, we used \$29.3 million of cash in financing activities. During the six months ended June 30, 2013, we paid \$0.6 million in scheduled principal payments on bonds payable. During the six months ended June 30, 2013, we borrowed \$2.0 million and

## Edgar Filing: LTC PROPERTIES INC - Form 10-Q

repaid \$117.5 million under our unsecured line of credit. At June 30, 2013, we had no outstanding balances under our unsecured line of credit and we were in compliance with all our covenants.

During the six months ended June 30, 2013, we sold 4,025,000 shares of common stock at a price of \$44.50 per share, before fees and costs of \$7.7 million, in a public offering. The net proceeds of \$171.4 million were used to pay down amounts outstanding under our unsecured line of credit, to fund acquisitions and our current development commitments and general corporate purposes.

During the three months ended June 30, 2013, we terminated the equity distribution agreement which allowed us 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 were made by means of ordinary brokers transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the six months ended June 30, 2013, we sold 126,742 shares of common stock for \$4.9 million in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we reclassified \$0.7 million of accumulated costs associated with the equity distribution agreement to additional paid in capital.



Table of Contents

During the six months ended June 30, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Additionally, during the six months ended June 30, 2013, a total of 22,000 stock options were exercised at a total option value of \$0.5 million and a total market value on the date of exercise of \$0.9 million. No stock options were issued during the six months ended June 30, 2013 and all stock options outstanding are exercisable as of June 30, 2013. During the six months ended June 30, 2013, we granted 20,000 shares of restricted common stock at \$36.26 per share. These shares all vest on June 1, 2016. Additionally, we granted 8,400 shares of restricted common stock at \$46.54 per share and 6,000 shares of restricted common stock at \$41.83 per share. These shares vest ratably over a three-year period from the grant date. Also during the six months ended June 30, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$0.5 million of compensation expense related to the accelerated vesting. During the six months ended June 30, 2013, we recognized \$1.5 million of compensation expense related to the vesting of restricted common stock.

We paid cash dividends on our 8.5% Series C Cumulative Convertible Preferred Stock totaling \$1.6 million. Additionally, we declared and paid cash dividends on our common stock totaling \$29.7 million. In July 2013, we declared a monthly cash dividend of \$0.155 per share on our common stock for the months of July, August and September 2013, payable on July 31, August 30 and September 30, 2013, respectively, to stockholders of record on July 23, August 22 and September 20, 2013, respectively.

*Available Shelf Registration.* On July 19, 2013, we filed a Form S-3ASR shelf registration statement to replace our prior shelf registration statement. Our current shelf registration statement provides us with the capacity to offer up to \$800.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf 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.

*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, independent living properties, memory care properties, range of care properties and schools we own or that are pledged to us. Range of Care properties consist of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care 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 senior housing and long term care properties. 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 June 30, 2013, only \$2.0 million of our debt, excluding our Unsecured Credit Agreement, was at a variable interest rate.



Table of Contents

At June 30, 2013, we had \$63.3 million of cash on hand, \$240.0 million available under our unsecured line of credit and \$100.0 million available under the uncommitted private shelf agreement for potential future senior unsecured notes. Also, our potential ability to access the capital markets through the issuance of debt and/or equity securities under our \$800.0 million effective shelf registration.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets 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 2013.

**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, 2012.

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

There were no material changes in our market risk during the six months ended June 30, 2013. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2012.

**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.

Table of Contents

## **PART II**

### **OTHER INFORMATION**

#### **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, 2012.

Table of Contents

**Item 6. Exhibits**

- 3.1 LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.2 to LTC Properties Inc. s Current Report on Form 8-K dated September 14, 2012)
- 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)
- 10.1 Form of 2008 Equity Participation Plan of LTC Properties, Inc. Restricted Stock Agreement
- 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
- 101 The following materials from LTC Properties, Inc. s Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2013 and 2012; (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012; and (iv) Notes to Consolidated Financial Statements\*\*

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

Table of Contents

**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: August 8, 2013

By:

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