

LTC PROPERTIES INC
Form 10-Q
May 06, 2014
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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 March 31, 2014

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)

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
(Do not check if a
smaller reporting company)

Smaller reporting company

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

The number of shares of common stock outstanding on April 29, 2014 was 34,817,385.

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FORM 10-Q

March 31, 2014

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

| | March 31, 2014 <i>(unaudited)</i> | December 31, 2013 <i>(audited)</i> |
|---|--------------------------------------|---------------------------------------|
| ASSETS | | |
| Real estate investments: | | |
| Land | \$ 80,993 | \$ 80,993 |
| Buildings and improvements | 870,498 | 856,624 |
| Accumulated depreciation and amortization | (224,966) | (218,700) |
| Net operating real estate property | 726,525 | 718,917 |
| Mortgage loans receivable, net of allowance for doubtful accounts: 2014 \$1,691; 2013 \$1,671 | 167,472 | 165,444 |
| Real estate investments, net | 893,997 | 884,361 |
| Other assets: | | |
| Cash and cash equivalents | 7,542 | 6,778 |
| Debt issue costs, net | 2,276 | 2,458 |
| Interest receivable | 677 | 702 |
| Straight-line rent receivable, net of allowance for doubtful accounts: 2014 \$1,548; 2013 \$1,541 | 30,393 | 29,760 |
| Prepaid expenses and other assets | 6,761 | 6,756 |
| Notes receivable | 595 | 595 |
| Total assets | \$942,241 | \$931,410 |
| LIABILITIES | | |
| Bank borrowings | \$ 41,000 | \$ 21,000 |
| Senior unsecured notes | 251,633 | 255,800 |
| Bonds payable | 1,400 | 2,035 |
| Accrued interest | 2,350 | 3,424 |
| Accrued expenses and other liabilities | 14,088 | 16,713 |
| Total liabilities | 310,471 | 298,972 |
| EQUITY | | |
| Stockholders' equity: | | |
| Preferred stock \$0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2014 2,000; 2013 2,000 | 38,500 | 38,500 |
| Common stock: \$0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2014 34,817; 2013 34,746 | 348 | 347 |
| Capital in excess of par value | 689,551 | 688,654 |
| Cumulative net income | 798,852 | 781,848 |
| Accumulated other comprehensive income | 108 | 117 |
| Cumulative distributions | (895,589) | (877,028) |
| Total equity | 631,770 | 632,438 |
| Total liabilities and equity | \$942,241 | \$931,410 |

See accompanying notes.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2014 | 2013 |
| Revenues: | | |
| Rental income | \$25,252 | \$24,511 |
| Interest income from mortgage loans | 4,093 | 1,059 |
| Interest and other income | 93 | 93 |
| Total revenues | 29,438 | 25,663 |
| Expenses: | | |
| Interest expense | 3,187 | 3,133 |
| Depreciation and amortization | 6,298 | 6,136 |
| General and administrative expenses | 2,949 | 3,418 |
| Total expenses | 12,434 | 12,687 |
| Net income | 17,004 | 12,976 |
| Income allocated to participating securities | (103) | (98) |
| Income allocated to preferred stockholders | (818) | (818) |
| Net income available to common stockholders | \$16,083 | \$12,060 |
| <u>Earnings per common share</u> | | |
| Basic | \$0.47 | \$0.40 |
| Diluted | \$0.46 | \$0.40 |
| <u>Weighted average shares used to calculate earnings per common share</u> | | |
| Basic | 34,586 | 30,365 |
| Diluted | 36,611 | 30,399 |
| Dividends declared and paid per common share | \$0.510 | \$0.465 |

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, unaudited)

| | Three Months Ended March 31, | |
|-----------------------------|---------------------------------|----------|
| | 2014 | 2013 |
| Net income | \$17,004 | \$12,976 |
| Reclassification adjustment | (9) | (9) |
| Comprehensive income | \$16,995 | \$12,967 |

See accompanying notes.

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

| | Three Months Ended March 31, | |
|---|------------------------------|----------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net income | \$17,004 | \$12,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,298 | 6,136 |
| Stock-based compensation expense | 666 | 985 |
| Straight-line rental income | (639) | (937) |
| Provision for doubtful accounts | 27 | 15 |
| Non-cash interest related to earn-out liabilities | | 110 |
| Other non-cash items, net | 369 | 355 |
| Decrease in accrued interest payable | (1,074) | (994) |
| Decrease (increase) in interest receivable | 5 | (24) |
| Net change in other assets and liabilities | (2,827) | (1,061) |
| Net cash provided by operating activities | 19,829 | 17,561 |
| INVESTING ACTIVITIES: | | |
| Investment in real estate properties under development | (6,157) | (3,952) |
| Investment in real estate capital improvements | (7,410) | (2,358) |
| Capitalized interest | (307) | (177) |
| Advances under mortgage loans receivable | (2,568) | (910) |
| Principal payments received on mortgage loans receivable | 519 | 462 |
| Advances under notes receivable | | (63) |
| Principal payments received on notes receivable | | 114 |
| Net cash used in investing activities | (15,923) | (6,884) |
| FINANCING ACTIVITIES: | | |
| Bank borrowings | 20,000 | 2,000 |
| Principal payments on senior unsecured notes | (4,167) | |
| Principal payments on bonds payable | (635) | (600) |
| Proceeds from common stock offering | | 4,895 |
| Stock option exercises | 238 | 523 |
| Distributions paid to stockholders | (18,560) | (15,035) |
| Distributions paid to non-controlling interests | | (7) |
| Financing costs paid | (11) | |
| Other | (7) | (23) |
| Net cash used in financing activities | (3,142) | (8,247) |
| Increase in cash and cash equivalents | 764 | 2,430 |
| Cash and cash equivalents, beginning of period | 6,778 | 7,191 |
| Cash and cash equivalents, end of period | \$ 7,542 | \$ 9,621 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$ 4,375 | \$ 4,118 |

See accompanying notes.

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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 health 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 health care properties managed by experienced operators. Our primary senior housing and long-term health 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 consolidated financial statements 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 months ended March 31, 2014 and 2013 are not necessarily indicative of the results for a full year.

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.

Impact of New Accounting Pronouncement.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08 (or ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in ASU 2014-08 change the criteria for reporting discontinued operations. Under ASU 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. ASU 2014-08 is effective in the first quarter of 2015 with early adoption permitted. We elected early adoption of ASU 2014-08 which did not have a material impact on our consolidated financial position or results of operations.

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 March 31, 2014 (*dollar amounts in thousands*):

| Type of Property | Gross Investments | Percentage of Investments | Number of Properties (1) | SNF Beds | Number of ALF Units | Average Investment per Bed/Unit |
|-----------------------|-------------------|---------------------------|--------------------------|----------|---------------------|---------------------------------|
| Skilled Nursing | \$459,351 | 48.3% | 68 | 8,264 | | \$55.58 |
| Assisted Living | 407,232 | 42.8% | 98 | | 4,629 | \$87.97 |
| Range of Care | 43,906 | 4.6% | 8 | 634 | 274 | \$48.35 |
| Under Development (2) | 27,395 | 2.9% | | | | |
| Other (3) | 13,607 | 1.4% | 2 | | | |
| Totals | \$951,491 | 100.0% | 176 | 8,898 | 4,903 | |

(1) We own properties in 27 states that are leased to 33 different operators.

(2) Includes three MC developments with a total of 168 units, a combination ALF and MC development with 81 units, and a SNF development with 143 beds.

(3) Includes two school properties and four parcels of land held-for-use.

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease which requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Many of the leases contain renewal options. 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.

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 March 31, 2014, no funds have been requested under this commitment.

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

Excluding the \$5,000,000 per year commitment above, the following table summarizes our investment commitments as of March 31, 2014 and year-to-date funding on our development, redevelopment, renovation, and expansion projects (*excludes capitalized interest, dollar amounts in thousands*):

| Type of Property | Investment Commitment | 2014 Funding (2) | Commitment Funded | Remaining Commitment | Number of Properties | Number of Beds/Units |
|---------------------|-----------------------|------------------|-------------------|----------------------|----------------------|----------------------|
| Skilled Nursing | \$30,150 | \$ 1,757 | \$14,514 | \$15,636 | 7 | 760 |
| Assisted Living (1) | 50,656 | 11,360 | 22,021 | 28,635 | 7 | 385 |
| Totals | \$80,806 | \$13,117(3) | \$36,535 | \$44,271(3) | 14 | 1,145 |

(1) Includes the development of three MC properties for a total commitment of \$30,256, one ALF/MC property for a total commitment of \$5,800, and the expansion of three ALFs for a total commitment of \$14,600.

(2) Excludes funding for completed development of \$450.

(3) In April 2014, we funded \$2,438 under investment commitments. Accordingly, we have a remaining commitment of \$41,833.

Our construction in progress (or CIP) activity during the three months ended March 31, 2014 for our development, redevelopment, renovation, and expansion projects is as follows (*dollar amounts in thousands*):

| Properties | Projects | CIP Balance at 12/31/13 | Funded(1) | Capitalized Interest | Conversions out of CIP | CIP Balance at 3/31/14 |
|--|----------|-------------------------|-----------|----------------------|------------------------|------------------------|
| Development projects: | | | | | | |
| Assisted living | 5 | \$ 6,334 | \$ 4,541 | \$137 | (\$8) | \$11,004 |
| Skilled nursing | 1 | 5,893 | 1,166 | 118 | | 7,177 |
| Subtotal | 6 | 12,227 | 5,707 | 255 | (8) | 18,181 |
| Redevelopment, renovation and expansion projects: | | | | | | |
| Assisted living | 3 | 8 | 6,819 | 52 | | 6,879 |
| Skilled nursing | 5 | 2,433 | 591 | | | 3,024 |
| Subtotal | 8 | 2,441 | 7,410 | 52 | | 9,903 |
| Total | 14 | \$14,668 | \$13,117 | \$307 | (\$8) | \$28,084 |

(1) Excludes \$450 of capital improvement commitment funding which was capitalized directly into building.

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Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at March 31, 2014 (*dollar amounts in thousands*):

| Type of Property | Gross Investments | Percentage of Investments | Number of Loans | Number of Properties(1) | Number of SNF Beds | Number of ALF Units | Investment per Bed/Unit |
|--------------------|----------------------|---------------------------------|--------------------|-------------------------------|--------------------------|---------------------------|-------------------------------|
| Skilled Nursing(2) | \$154,564 | 91.4% | 16 | 33 | 3,953 | | \$39.10 |
| Assisted Living | 12,066 | 7.1% | 3 | 8 | | 211 | \$57.18 |
| Range of Care | 2,533 | 1.5% | 1 | 1 | 99 | 74 | \$14.64 |
| Totals | \$169,163 | 100.0% | 20 | 42 | 4,052 | 285 | |

(1) We have investments in properties located in 9 states that include mortgages to 12 different operators.

(2) Includes a mortgage and construction loan secured by a closed skilled nursing property and a newly constructed 106-bed replacement property.

At March 31, 2014, the mortgage loans had interest rates ranging from 7.1% to 13.6% and maturities ranging from 2014 to 2043. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 30-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.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

During the three months ended March 31, 2014 and 2013, we received \$519,000 and \$462,000, respectively, in regularly scheduled principal payments. Additionally, during the three months ended March 31, 2014 and 2013, we funded \$2,568,000 and \$910,000, respectively, under a \$10,600,000 mortgage and construction loan. This mortgage and construction loan is secured by a skilled nursing property and a parcel of land upon which a 106-bed replacement property was being constructed. During the three months ended March 31, 2014, we completed the construction of the 106-bed replacement skilled nursing property and relocated all the residents from the old property to the new property. The borrower is responsible for marketing and selling the old property. At March 31, 2014, we have a remaining commitment of \$441,000 under this mortgage and construction loan. In April 2014, we funded \$344,000 under a \$12,000,000 mortgage loan capital improvement commitment. See Note 6. *Commitments and Contingencies* for further discussion.

3. Notes Receivable

Notes receivable consists of various loans and line of credit agreements with certain operators. During the three months ended March 31, 2014, we did not receive or fund any principal under these notes. In the comparable 2013 period, we received \$114,000 in principal payments and we funded \$63,000 under these notes. At March 31, 2014, we had eight loans and line of credit agreements with a total commitment to fund \$2,750,000. As of March 31, 2014, we funded \$595,000 under these commitments and we have a remaining commitment of \$2,155,000. The weighted average interest rate of these loans is 11.8%.

4. Debt Obligations

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to \$240,000,000 with the opportunity to increase the credit amount up to a total of \$350,000,000. The Unsecured Credit Agreement matures on May 25, 2016 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at March 31, 2014, the facility provides for interest annually at LIBOR plus 150 basis points and the unused commitment fee was 30 basis points.

During the three months ended March 31, 2014, we borrowed \$20,000,000 under our Unsecured Credit Agreement. At March 31, 2014, we had \$41,000,000 outstanding at an interest rate of LIBOR plus 125 basis points and \$199,000,000 available for borrowing. At March 31, 2014, we were in compliance with all covenants.

Senior Unsecured Notes. At March 31, 2014 and December 31, 2013, we had \$251,633,000 and \$255,800,000, respectively, outstanding under our Senior Unsecured Notes with a weighted average interest rate of 4.8%. During the three months ended March 31, 2014, we paid \$4,167,000 in regularly scheduled principal payments. At March 31, 2014, we had \$30,000,000 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.

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Bonds Payable. At March 31, 2014 and December 31, 2013, we had outstanding principal of \$1,400,000 and \$2,035,000 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 three months ended March 31, 2014, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 3.3%. During the three months ended March 31, 2014 and 2013, we paid \$635,000 and \$600,000, respectively, in regularly scheduled principal payments. As of March 31, 2014 and December 31, 2013, the aggregate carrying value of real estate properties securing our bonds payable was \$6,320,000 and \$6,386,000, respectively.

Table of Contents**LTC PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****5. Equity**Equity is as follows (*in thousands*):

| | Total Equity |
|---|-----------------|
| Balance at December 31, 2013 | \$632,438 |
| Net income | 17,004 |
| Vested stock option and restricted common stock | 666 |
| Stock option exercise | 238 |
| Reclassification adjustment | (9) |
| Preferred stock dividends | (818) |
| Common stock dividends | (17,742) |
| Other | (7) |
| Balance at March 31, 2014 | \$631,770 |

Preferred Stock. At March 31, 2014, 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 March 31, 2014.

Common Stock. During the three months ended March 31, 2014 and 2013, we acquired 200 shares and 600 shares, respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. During 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 three months ended March 31, 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 common stock, during 2013, 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, depository 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.

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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 the three months ended March 31, 2013, we paid \$7,000 of accrued distributions to our former limited partners.

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

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

| | Three months ended March 31, 2014 | | Three months ended March 31, 2013 | |
|--------------------------|-----------------------------------|----------|-----------------------------------|----------|
| | Declared | Paid | Declared | Paid |
| Preferred Stock Series C | \$ 818 | \$ 818 | \$ 818 | \$ 818 |
| Common Stock(1) | 17,742 | 17,742 | 14,217 | 14,217 |
| Total | \$18,560 | \$18,560 | \$15,035 | \$15,035 |

(1) Represents \$0.17 per share per month and \$0.155 per share per month for the three months ended March 31, 2014 and 2013, respectively.

In April 2014, we declared a monthly cash dividend of \$0.17 per share on our common stock for the months of April, May and June, payable on April 30, May 30, and June 30, 2014, respectively, to stockholders of record on April 22, May 22, and June 20, 2014, respectively.

Accumulated Other Comprehensive Income. At March 31, 2014 and December 31, 2013, accumulated comprehensive income of \$108,000 and \$117,000, respectively, 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 three months ended March 31, 2014, a total of 10,000 stock options were exercised at a total option value of \$238,000 and a total market value on the date of exercise of \$390,000. In the comparable 2013 period, 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 three months ended March 31, 2014, we granted 15,000 options to purchase common stock at an exercise price of \$38.43 per share. These stock options vest ratably over a three-year period from the grant date. No stock options were granted during the three months ended March 31, 2013. At March 31, 2014, we had 78,334 stock options outstanding and 63,334 stock options are exercisable.

At March 31, 2014, the total number of stock options that are scheduled to vest through December 31, 2014, 2015, 2016 and 2017 is 0; 5,000; 5,000 and 5,000, respectively. We have no stock options outstanding that are scheduled to vest beyond 2017. Compensation expense related to the vesting of stock options for the three months ended March 31, 2014 was \$1,000. We did not record compensation expense related to the vesting of stock options for the three months ended March 31, 2013. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2014, 2015, 2016 and 2017 is \$11,000; \$15,000; \$15,000 and \$2,000, respectively.

During the three months ended March 31, 2014, we granted 59,000 shares of restricted common stock at \$36.81 per share and 3,000 shares of restricted common stock at \$38.43 per share. These shares vest ratably over a three-year period from the grant date. During the three months ended March 31, 2013, 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 three months ended March 31, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our former Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$457,000 of compensation expense related to the accelerated vesting. During the three months ended March 31, 2014 and 2013, we recognized \$665,000 and \$985,000, respectively, of compensation expense related to the vesting of restricted common stock.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

6. 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 were accreting the contingent liability to the settlement amount as of the payment date. During the third quarter of 2013, we paid \$7,000,000 related to the contingent liability. Accordingly, we have no remaining contingent liability as of March 31, 2014. During the three months ended March 31, 2013, we recorded non-cash interest expense of \$110,000 related to the contingent liability.

At March 31, 2014, we had outstanding commitments totaling \$80,806,000 to develop, re-develop, renovate or expand senior housing and long-term health care properties. As of March 31, 2014, we have funded \$36,535,000 under these commitments and we have a remaining commitment of \$44,271,000. In April 2014, we funded \$2,438,000 under investment commitments. Accordingly, we have a remaining commitment of \$41,833,000. 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 Investments* for further discussion of these commitments.

Additionally at March 31, 2014, we had a \$10,600,000 mortgage and construction commitment. As of March 31, 2014, we funded \$10,159,000 under this commitment and we have a remaining commitment of \$441,000. We have also committed to provide an existing borrower an additional \$12,000,000 for capital improvements and additional loan proceeds of up to \$40,000,000, under certain conditions and based on certain operating metrics and valuation thresholds. At March 31, 2014, no amounts have been funded under these commitments. In April 2014, we funded \$344,000 in capital improvements. Accordingly, we have \$11,656,000 remaining under this capital improvement commitment.

At March 31, 2014, we committed to provide \$2,750,000 in loans and line of credit agreements. As of March 31, 2014, we had funded \$595,000 under these commitments and we have a remaining commitment of \$2,155,000. See *Note 3. Notes Receivable* for further discussion of these commitments.

7. Major Operators

We have two operators from each of which we derive over 10% of our combined rental revenue and interest income from mortgage loans.

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Prestige Healthcare (or Prestige) is a privately held company and operates 15 skilled nursing properties and two range of care properties that we own or on which we hold a mortgage secured by first trust deeds. These properties consist of a total of 2,210 skilled nursing beds and 93 assisted living units. Additionally, Prestige manages four parcels of land that we own. These assets represent 14.3% or \$135,157,000 of our total assets at March 31, 2014 and generated 10.6% of our combined rental revenue and interest income from mortgage loans recognized for the three months ended March 31, 2014.

Senior Care Centers, LLC (or Senior Care) is a privately held company. Senior Care leases nine skilled nursing properties with a total of 1,190 beds owned by us representing approximately 11.0%, or \$104,086,000, of our total assets at March 31, 2014 and generated 10.5% of our combined rental revenue and interest income from mortgage loans recognized for the three months ended March 31, 2014.

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

Our master lease with Extencicare, Inc. (or Extencicare) and Enlivant (formerly known as Assisted Living Concepts, LLC) covering 37 assisted living properties with a total of 1,429 units will expire on December 31, 2014. In 2013, Enlivant 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. For the three months ended March 31, 2014, this portfolio generated approximately \$2,741,000 or 9.3% of our combined rental revenue and interest income from mortgage loans. There can be no assurance that we will be able to re-lease these communities on a timely basis, if at all, or that the new rents will be the same as the current rents. In January 2014, we retained CS Capital Advisors, LLC, as our advisors, to assist in the marketing and re-leasing process of these properties.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by Prestige Healthcare, Senior 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.

8. 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 March 31, | |
|--|---------------------------------|----------|
| | 2014 | 2013 |
| Net income | \$17,004 | \$12,976 |
| Less net income allocated to participating securities: | | |
| Nonforfeitable dividends on participating securities | (103) | (98) |
| Total net income allocated to participating securities | (103) | (98) |
| Less net income allocated to preferred stockholders: | | |
| Preferred stock dividends | (818) | (818) |
| Total net income allocated to preferred stockholders | (818) | (818) |
| Net income available to common stockholders | 16,083 | 12,060 |
| Effect of dilutive securities: | | |
| Convertible preferred securities | 818 | |

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| | | |
|---|----------|----------|
| Net income for diluted net income per share | \$16,901 | \$12,060 |
| Shares for basic net income per share | 34,586 | 30,365 |
| Effect of dilutive securities: | | |
| Stock options | 25 | 34 |
| Convertible preferred securities | 2,000 | |
| Shares for diluted net income per share | 36,611 | 30,399 |
| Basic net income per share | \$0.47 | \$0.40 |
| Diluted net income per share (1) | \$0.46 | \$0.40 |

(1) For the three months ended March 31, 2014, the participating securities have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive. For the three months ended March 31, 2013, the Series C Cumulative Convertible Preferred Stock and the participating securities 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)****9. 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 March 31, 2014 and December 31, 2013 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

| | At March 31, 2014 | | At December 31, 2013 | |
|---------------------------|-------------------|--------------|----------------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Mortgage loans receivable | \$167,472 | \$202,129(1) | \$165,444 | \$200,248(1) |
| Bonds payable | 1,400 | 1,400(2) | 2,035 | 2,035(2) |
| Bank borrowings | 41,000 | 41,000 (2) | 21,000 | 21,000 (2) |
| Senior unsecured notes | 251,633 | 259,000(3) | 255,800 | 262,351(3) |

(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 March 31, 2014 and December 31, 2013 was 8.4%.

(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 March 31, 2014 and December 31, 2013 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 March 31, 2014, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.95% for those maturing before year 2020 and 4.15% for those maturing beyond year 2020. At December 31, 2013, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.95% for those maturing before year 2020 and 4.25% for those maturing beyond year 2020.

10. Subsequent Events

Subsequent to March 31, 2014 the following events occurred.

Real Estate Owned Properties: We funded \$2,438,000 under ongoing real estate investment commitments. Accordingly, we have a remaining commitment of \$41,833,000. See *Note 2. Real Estate Investments* for further discussion on the acquisitions, pipeline agreement and commitments.

Commitments and Contingencies: We funded \$344,000 in capital improvements under a \$12,000,000 mortgage loan commitment. Accordingly, we have a remaining commitment of \$11,656,000. See *Note 6. Commitments and Contingencies* for further discussion of capital improvement commitments.

Equity: We declared a monthly cash dividend of \$0.17 per share on our common stock for the months of April, May and June, payable on April 30, May 30, and June 30, 2014, respectively, to stockholders of record on April 22, May 22, and June 20, 2014, respectively.

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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, plans, 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 (including our ability to re-lease properties upon expiration of a lease term); 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, 2013 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 health 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 health care properties managed by experienced operators. Our primary senior housing and long-term health 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. 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 March 31, 2014, senior housing and long-term health care properties comprised approximately 99% of our investment portfolio. We have been operating since August 1992.

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The following table summarizes our real estate investment portfolio as of March 31, 2014 (*dollar amounts in thousands*):

| Type of Property | Gross Investments | Percentage of Investments | Three Months Ended March 31, 2014 | | Percentage of Revenues (2) | Number of Properties (3) | SNF Beds(4) | Number of ALF Units(4) |
|------------------------------------|-------------------|---------------------------|--------------------------------------|---------------------|----------------------------|--------------------------|-------------|------------------------|
| | | | Rental Income | Interest Income (1) | | | | |
| Skilled Nursing(5) | \$ 613,915 | 54.9% | \$13,565 | \$3,745 | 59.0% | 101 | 12,217 | |
| Assisted Living | 419,298 | 37.4% | 10,602 | 274 | 37.1% | 106 | | 4,840 |
| Range of Care Under Development(6) | 46,439 | 4.1% | 688 | 74 | 2.6% | 9 | 733 | 348 |
| Other(7) | 27,395 | 2.4% | | | 0.0% | | | |
| | 13,607 | 1.2% | 397 | | 1.3% | 2 | | |
| Totals | \$ 1,120,654 | 100.0% | \$25,252 | \$4,093 | 100.0% | 218 | 12,950 | 5,188 |

(1) Includes interest income from mortgage loans.

(2) Includes rental income and interest income from mortgage loans.

(3) We have investments in 30 states leased or mortgaged to 40 different operators.

(4) See *Item 1. Financial Statements Note 2. Real Estate Investments* for discussion of bed/unit count.

(5) Includes a mortgage and construction loan secured by a closed skilled nursing property and a newly constructed 106-bed replacement property.

(6) Includes three MC developments with a total of 168 units, a combination ALF and MC development with 81 units, and a SNF development with 143 beds.

(7) Includes two school properties and four parcels of land held-for-use.

As of March 31, 2014 we had \$894.0 million in carrying value of net real estate investments, consisting of \$726.5 million or 81.3% invested in owned and leased properties and \$167.5 million or 18.7% invested in mortgage loans secured by first mortgages.

For the three months ended March 31, 2014, rental income and interest income from mortgage loans represented 85.8% and 13.9%, 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 three months ended March 31, 2014, we recorded \$0.6 million in straight-line rental income and \$7,000 of straight-line rent receivable reserve. We currently expect that straight-line rental income will decrease from a projected \$2.2 million in 2014 to a projected \$1.7 million in 2015 and our cash rental income is projected to decrease from a projected \$97.5 million in 2014 to a projected \$85.1 million in 2015 for leases in place at March 31, 2014, excluding leases on non-accrual status and no modification or replacement of existing leases, no lease renewals including the Extencicare/Enlivant lease, and no new leased investments are added to our portfolio. During the three months ended March 31, 2014, we received \$24.8 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.2 million. During the first quarter of 2014, no leases were renewed. At March 31, 2014, the straight-line rent receivable balance, net of reserves, on the balance sheet was \$30.4 million.

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 health 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, a primary component of our strategy is to invest in new or modernized properties operated by experienced, regionally-based operators demonstrating established relationships with local health care systems and managed care provider networks. 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.

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- For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels.
- 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 owned properties and mortgage loans 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 revolving 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 revolving 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 March 31, 2014, we had \$7.5 million of cash on hand, \$199.0 million available under our unsecured revolving line of credit, and \$30.0 million available under the uncommitted private shelf agreement for our senior unsecured notes. We also have the 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,

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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.

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Health Care 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 6, 2013, CMS published its final Medicare skilled nursing facility payment rate update for fiscal year 2014, which began on October 1, 2013. CMS estimates that the final rule will increase aggregate Medicare skilled nursing facility payments by \$470 million, or 1.3%, compared to fiscal year 2013 levels. Specifically, under the final rule, Medicare rates are updated to reflect a 2.3% market basket increase that is reduced by a 0.5 percentage point multifactor productivity adjustment (described below), and that is further reduced by a 0.5 percentage point forecast error correction. CMS also rebased the SNF market basket to reflect fiscal year 2010 data and made other policy changes. 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 multifactor productivity adjustment based on economy-wide productivity gains; 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 health 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. On December 26, 2013, President Obama signed into law H.J. Res. 59, the Bipartisan Budget Act of 2013, which among other things, extended the Medicare sequestration cuts for another two years through 2023, 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, encouraging home and community-based long term care services as an alternative to institutional settings, 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.

Additional 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.

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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.

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

| | 3/31/14 | 12/31/13 | 9/30/13 | 6/30/13 | 3/31/13 |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| Asset mix: | | | | | |
| Real property | \$951,491 | \$937,617 | \$911,096 | \$913,042 | \$906,582 |
| Loans receivable | 169,163 | 167,115 | 41,079 | 39,668 | 40,142 |
| Investment mix: | | | | | |
| Skilled nursing properties(1) | \$613,915 | \$611,160 | \$470,008 | \$478,751 | \$478,311 |
| Assisted living properties(1) | 419,298 | 412,024 | 409,285 | 406,785 | 402,913 |
| Range of care properties | 46,439 | 46,509 | 46,577 | 46,643 | 46,707 |
| Under development(1) | 27,395 | 21,432 | 13,861 | 8,087 | 6,349 |
| Other(2) | 13,607 | 13,607 | 12,444 | 12,444 | 12,444 |
| Operator mix: | | | | | |
| Prestige Healthcare(3) | \$137,739 | \$137,739 | \$ 12,189 | \$ 12,189 | \$ 12,189 |
| Senior Care Centers, LLC | 114,539 | 114,539 | 114,539 | 114,539 | 114,539 |
| Brookdale Communities(4) | 91,089 | 84,219 | 84,216 | 84,212 | 84,211 |
| Extencare & Enlivant | 88,034 | 88,034 | 88,034 | 88,034 | 88,034 |
| Juniper Communities, LLC | 87,088 | 87,088 | 87,088 | 87,088 | 87,088 |
| Remaining operators | 602,165 | 593,113 | 566,109 | 566,648 | 560,663 |
| Geographic mix: | | | | | |
| Texas | \$239,158 | \$238,750 | \$238,036 | \$236,100 | \$233,865 |
| Michigan(3) | 125,550 | 125,550 | | | |
| Ohio | 98,647 | 98,647 | 98,647(5) | 110,804 | 110,804 |
| Florida | 82,046 | 82,079 | 67,710 | 67,742 | 67,772 |
| Colorado | 78,258 | 67,416 | 63,416 | 59,725 | 59,009 |
| Remaining states | 496,995 | 492,290 | 484,366 | 478,339 | 475,274 |

(1) During 2013, we completed the construction of a 60-unit memory care property, a 120-bed skilled nursing property and a combination assisted living and memory care property with 77 units. Accordingly, these properties were reclassified from Under development to either Skilled nursing property or Assisted living property, depending on the property type, for all periods presented.

(2) Includes two school properties and four parcels of land located adjacent to properties securing the Prestige Healthcare mortgage loan and are managed by Prestige Healthcare.

(3) During the fourth quarter of 2013, we funded a \$124,387 mortgage loan with Prestige Healthcare secured by 15 skilled nursing properties with a total of 2,092 beds in Michigan. Additionally, we purchased four parcels of land located adjacent to properties securing this mortgage loan. These land parcels are managed by Prestige Healthcare.

(4) On February 20, 2014, Brookdale Senior Living, Inc. (or Brookdale), parent company of Brookdale Senior Living Communities, Inc. (or Brookdale Communities), and Emeritus Corporation (or Emeritus) announced the signing of a definitive merger

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agreement to expand Brookdale's unit capacity to a total of 112,700 units in 1,161 communities in 46 states. This transaction is expected to close in the third quarter of 2014.

- (5) Decrease due to the sale of six skilled nursing properties with a total of 230 beds.

Our master lease with Extencicare and Enlivant covering 37 assisted living properties will expire on December 31, 2014. For the three months ended March 31, 2014, this portfolio generated approximately \$2.7 million or 9.3% of our combined rental revenue and interest income from mortgage loans. There can be no assurance that we will be able to re-lease these communities on a timely basis, if at all, or that the new rents will be the same as the current rents. In January 2014, we retained CS Capital Advisors, LLC, as our advisors, to assist in the marketing and re-leasing process of these properties.

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Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to 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**

| | 3/31/14 | 12/31/13 | Quarter Ended 9/30/13 | 6/30/13 | 3/31/13 |
|---|----------|----------|--------------------------|----------|---------|
| Debt to gross asset value | 25.2%(1) | 24.2%(2) | 17.8% | 17.8%(6) | 30.6% |
| Debt & preferred stock to gross asset value | 28.5%(1) | 27.6%(2) | 21.5% | 21.4%(6) | 34.5% |
| Debt to market capitalization ratio | 17.9% | 18.0%(3) | 12.1% | 11.9%(7) | 19.1% |
| Debt & preferred stock to market capitalization ratio | 20.2% | 20.5%(3) | 14.6% | 14.3%(7) | 21.6% |
| Interest coverage ratio(9) | 8.3x | 8.3x(4) | 9.1x(5) | 8.2x(8) | 7.1x |
| Fixed charge coverage ratio(9) | 6.6x | 6.5x(4) | 6.9x(5) | 6.3x(8) | 5.6x |

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

(2) Increase primarily due to the increase in outstanding debt due to the sale of senior unsecured notes partially offset by the increase in gross asset value from acquisitions, additional development and capital improvement funding.

(3) Increase due to the increase in outstanding debt due to the sale of senior unsecured notes.

(4) Decrease primarily due to the increase in interest expense resulting from the sale of senior unsecured notes.

(5) Increase primarily due to the increased rental income from completed construction projects and the decrease in interest expense resulting from lower outstanding debt.

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

(7) Decrease primarily due to the decrease in outstanding debt and the increase in market capitalization resulting from the sale of 4,025,000 shares of common stock in a public offering.

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

(9) 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 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.

| | 3/31/14 | 12/31/13 | Quarter Ended 9/30/13 | 6/30/13 | 3/31/13 |
|---------------------------------|-----------|-----------|--------------------------|-----------|-----------|
| Net income | \$ 17,004 | \$ 14,650 | \$ 17,286 | \$ 12,903 | \$ 12,976 |
| (Less) Add: (Gain) loss on sale | | | (2,619) | 1,014 | |

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| | | | | | |
|--|----------|----------|----------|----------|-----------|
| Add: Interest expense | 3,187 | 2,852 | 2,581 | 2,798 | 3,133 |
| Add: Depreciation and amortization | 6,298 | 6,237 | 6,202 | 6,131 | 6,136 |
| Total adjusted EBITDA | \$26,489 | \$23,739 | \$23,450 | \$22,846 | \$ 22,245 |
| Interest expense | \$ 3,187 | \$ 2,852 | \$ 2,581 | \$ 2,798 | \$ 3,133 |
| Interest coverage ratio | 8.3x | 8.3x | 9.1x | 8.2x | 7.1x |
| Interest expense | \$ 3,187 | \$ 2,852 | \$ 2,581 | \$ 2,798 | \$ 3,133 |
| Preferred stock dividends (excludes preferred stock redemption charge) | 818 | 819 | 818 | 818 | 818 |
| Total fixed charges | \$ 4,005 | \$ 3,671 | \$ 3,399 | \$ 3,616 | \$ 3,951 |
| Fixed charge coverage ratio | 6.6x | 6.5x | 6.9x | 6.3x | 5.6x |

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

- The status of the economy;
- The status of capital markets, including prevailing interest rates;
- 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 March 31, 2014 compared to three months ended March 31, 2013 (amounts in thousands)*

| | 2014 | Three months ended March 31, 2013 | Increase/ (Decrease) |
|--|----------|---|-------------------------|
| Revenues: | | | |
| Rental income | \$25,252 | \$24,511 | \$741(1) |
| Interest income from mortgage loans | 4,093 | 1,059 | 3,034(2) |
| Interest and other income | 93 | 93 | |
| Total revenues | 29,438 | 25,663 | 3,775 |
| Expenses: | | | |
| Interest expense | 3,187 | 3,133 | 54(3) |
| Depreciation and amortization | 6,298 | 6,136 | 162(1) |
| General and administrative expenses | 2,949 | 3,418 | (469)(4) |
| Total expenses | 12,434 | 12,687 | (253) |
| Net income | 17,004 | 12,976 | 4,028 |
| Income allocated to participating securities | (103) | (98) | (5) |
| Income allocated to preferred stockholders | (818) | (818) | |
| Net income available to common stockholders | \$16,083 | \$12,060 | \$4,023 |

(1) Increase due to acquisitions, development and capital improvement investments partially offset by the sale of seven skilled nursing properties with a total of 277 beds during 2013.

(2) Increase primarily due to the origination of a \$124,387 mortgage loan during the fourth quarter of 2013 partially offset by normal amortization of existing mortgage loans.

(3) Increase primarily due to higher average bank borrowings outstanding and the sale of senior unsecured notes partially offset by an increase in capitalized interest related to development projects.

(4) Decrease primarily due to the one-time severance and accelerated restricted stock vesting charges related to the retirement of our former Senior Vice President, Marketing and Strategic Planning during the first quarter of 2013 partially offset by increased salaries and benefits reflective of increased staffing levels.

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.

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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.

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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 March 31, | |
|--|---------------------------------|----------|
| | 2014 | 2013 |
| Net income available to common stockholders | \$16,083 | \$12,060 |
| Add: Depreciation and amortization | 6,298 | 6,136 |
| FFO available to common stockholders | \$22,381 | \$18,196 |
| FFO available to common stockholders per share: | | |
| Basic | \$0.65 | \$0.60 |
| Diluted | \$0.63 | \$0.59 |
| Weighted average shares used to calculate FFO per share: | | |
| Basic | 34,586 | 30,365 |
| Diluted | 36,806 | 32,609 |

Liquidity and Capital Resources

Operating Activities. At March 31, 2014, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$951.5 million invested primarily in owned long-term health care properties and mortgage loans of approximately \$169.2 million (prior to deducting a \$1.7 million reserve). Our portfolio consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 101 skilled nursing properties, 106 assisted living properties, 9 range of care properties, two schools, five parcels of land under development and four parcels of land held-for-use. These properties are located in 30 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 three months ended March 31, 2014, we had net cash provided by operating activities of \$19.8 million.

For the three months ended March 31, 2014, we recorded \$0.6 million in straight-line rental income and a reserve of \$6,000 on our straight-line rent receivable. We currently expect that straight-line rental income will decrease from a projected \$2.2 million in 2014 to a projected \$1.7 million in 2015 and our cash rental income is projected to decrease from a projected \$97.5 million in 2014 to a projected \$85.1 million in 2015 for leases in place at March 31, 2014, excluding leases on non-accrual status and no modification or replacement of existing leases, no lease renewals including the Extendicare/Enlivant lease, and no new leased investments are added to our portfolio. During the three months ended March 31, 2014, we received \$24.8 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.2 million. During the first quarter of 2014, no leases were renewed.

Investing and Financing Activities. For the three months ended March 31, 2014, we used \$15.9 million of cash for investing activities. During the three months ended March 31, 2014, we received \$0.5 million in regularly scheduled principal payments on our mortgage loans. Additionally, we funded \$2.6 million under a \$10.6 million mortgage and construction loan and we have a remaining commitment of \$0.4 million at March 31, 2014. This mortgage and construction loan was secured by a skilled nursing property and a parcel of land upon which a 106-bed replacement property was being constructed. During the three months ended March 31, 2014, we completed the construction of the

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106-bed replacement skilled nursing property and relocated all the residents from the old property to the new property. The borrower is responsible for marketing and selling the old property.

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We have also committed to provide an existing borrower an additional \$12.0 million for capital improvements and additional loan proceeds of up to \$40.0 million, under certain conditions and based on certain operating metrics and valuation thresholds. At March 31, 2014, no funds have been requested under these commitments. In April 2014, we funded \$0.3 million in capital improvements. Accordingly, we have \$11.7 million remaining under this capital improvement commitment.

As of March 31, 2014, 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 March 31, 2014, no funds have been requested under this commitment.

Excluding the \$5.0 million per year commitment above, the following table summarizes our investment commitments as of March 31, 2014 and year-to-date funding on our development, redevelopment, renovation and expansion projects (*excludes capitalized interest, dollar amounts in thousands*):

| Type of Property | Investment Commitment | 2014 Funding (2) | Commitment Funded | Remaining Commitment | Number of Properties | Number of Beds/Units |
|---------------------|--------------------------|---------------------|----------------------|-------------------------|-------------------------|-------------------------|
| Skilled Nursing | \$30,150 | \$ 1,757 | \$14,514 | \$15,636 | 7 | 760 |
| Assisted Living (1) | 50,656 | 11,360 | 22,021 | 28,635 | 7 | 385 |
| Totals | \$80,806 | \$13,117 (3) | \$36,535 | \$44,271(3) | 14 | 1,145 |

(1) Includes the development of three MC properties for a total commitment of \$30,256 and one ALF/MC property for a total commitment of \$5,800, and the expansion of three ALFs for a total commitment of \$14,600.

(2) Excludes funding for completed development of \$450.

(3) Subsequent to March 31, 2014, we funded \$2,438 under investment commitments. Accordingly, we have a remaining commitment of \$41,833.

During the three months ended March 31, 2014, we did not receive or fund any principal under our note receivable loans. At March 31, 2014, we had eight notes receivable outstanding with a total commitment to fund \$2.8 million. As of March 31, 2014, we funded \$0.6 million under these commitments and we have a remaining commitment of \$2.2 million. The weighted average interest rate of these loans is 11.8%.

For the three months ended March 31, 2014, we used \$3.1 million of cash in financing activities. During the three months ended March 31, 2014, we paid \$0.6 million and \$4.2 million in scheduled principal payments on bonds payable and senior unsecured notes, respectively. Additionally, during the three months ended March 31, 2014, we borrowed \$20.0 million under our unsecured revolving line of credit. At March 31, 2014, we had \$41.0 million outstanding under our unsecured revolving line of credit with \$199.0 million available for borrowing. At March 31, 2014, we were in compliance with all our covenants.

During the three months ended March 31, 2014, we acquired 200 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Additionally, during the three months ended March 31, 2014, a total of 10,000 stock options were exercised at a total option value of \$0.2 million and a total market value on the date of exercise of \$0.4 million. During the quarter ended March 31, 2014, we granted 15,000 options to purchase common stock at an exercise price of \$38.43 per share. These stock options vest ratably over a three-year period from the grant date. At March 31, 2014, we had 78,334 stock options outstanding and 63,334 stock options were exercisable.

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At March 31, 2014, the total number of stock options that are scheduled to vest through December 31, 2014, 2015, 2016 and 2017 is 0; 5,000; 5,000 and 5,000, respectively. We have no stock options outstanding that are scheduled to vest beyond 2017. Compensation expense relating to the vesting of stock options for the three months ended March 31, 2014 was \$1,000. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2014, 2015, 2016 and 2017 is \$11,000; \$15,000; \$15,000 and \$2,000, respectively.

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During the three months ended March 31, 2014, we granted 59,000 shares of restricted common stock at \$36.81 per share and 3,000 shares of restricted common stock at \$38.43 per share. These shares vest ratably over a three-year period from the grant date. During the three months ended March 31, 2014, we recognized \$0.7 million of compensation expense related to the vesting of restricted common stock. At March 31, 2014, we had 224,349 restricted common shares outstanding. At March 31, 2014, the total number of restricted common stock that is scheduled to vest through December 31, 2014, 2015, 2016 and 2017 is 43,181; 94,711; 61,726 and 24,731, respectively. We have no restricted common stock that is scheduled to vest beyond 2017. The remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock for 2014, 2015, 2016 and 2017 is \$2.2 million; \$2.1 million; \$1.1 million and \$0.1 million, respectively.

We paid cash dividends on our 8.5% Series C Cumulative Convertible Preferred Stock totaling \$0.8 million. Additionally, we declared and paid cash dividends on our common stock totaling \$17.7 million. Subsequent to March 31, 2014, we declared a monthly cash dividend of \$0.17 per share on our common stock for the months of April, May and June, payable on April 30, May 30, and June 30, 2014, respectively, to stockholders of record on April 22, May 22, and June 20, 2014, 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. 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 health care facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term health care 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 health care 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 health 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 March 31, 2014, only \$1.4 million of our debt, excluding our unsecured revolving line of credit, was at a variable interest rate.

At March 31, 2014, we had \$7.5 million of cash on hand, \$199.0 million available under our unsecured revolving line of credit and \$30.0 million available under the uncommitted private shelf agreement for potential future senior unsecured notes. We also have the potential ability to access the capital markets through the issuance of debt and/or equity securities under our \$800.0 million effective shelf registration.

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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 2014.

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, 2013.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our market risk during the three months ended March 31, 2014. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The number of shares of our Common Stock purchased and the average prices paid per share for each month in the quarter ended March 31, 2014 are as follows:

| Period | | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|------------|-------------------|--|---------------------------------------|---|--|
| January 1 | January 31, 2014 | | \$ | | |
| February 1 | February 28, 2014 | | \$ | | |
| March 1 | March 31, 2014 | 200 | \$ 36.09 | | |
| Total | | 200 | | | |

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(1) During the three months ended March 31, 2014, we acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

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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)

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 March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2014 and December 31, 2013; (ii) Consolidated Statements of Income for the three ended March 31, 2014 and 2013; (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013; and (iv) Notes to Consolidated Financial Statements

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SIGNATURES

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

LTC PROPERTIES, INC.
Registrant

Dated: May 6, 2014

By:

/s/ PAMELA SHELLEY-KESSLER

Pamela Shelley-Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
(Principal Financial and Accounting Officer)