

## Section 1: 10-Q (10-Q)

[Table of Contents](#)

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

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### FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the Transition period from \_\_\_\_ to \_\_\_\_

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

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

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

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 November 1, 2018 was 39,656,737.

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**LTC PROPERTIES, INC.**

**FORM 10-Q**

**September 30, 2018**

**INDEX**

<b>PART I -- Financial Information</b>		<b><u>Page</u></b>
Item 1.	Financial Statements	
	<a href="#">Consolidated Balance Sheets</a>	3
	<a href="#">Consolidated Statements of Income and Comprehensive Income</a>	4
	<a href="#">Consolidated Statements of Equity</a>	5
	<a href="#">Consolidated Statements of Cash Flows</a>	6
	<a href="#">Notes to Consolidated Financial Statements</a>	7
<a href="#">Item 2.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	24
<a href="#">Item 3.</a>	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	39
<a href="#">Item 4.</a>	<a href="#">Controls and Procedures</a>	39
<b><u>PART II -- Other Information</u></b>		
<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>	40
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	40
<a href="#">Item 2.</a>	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	40
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>	41

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**LTC PROPERTIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(amounts in thousands, except per share)*

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>ASSETS</b>		
Investments:		
Land	\$ 125,533	\$ 124,041
Buildings and improvements	1,280,491	1,262,335
Accumulated depreciation and amortization	(304,337)	(304,117)
Operating real estate property, net	1,101,687	1,082,259
Properties held-for-sale, net of accumulated depreciation: 2018—\$2,887; 2017—\$1,916	5,356	3,830
Real property investments, net	1,107,043	1,086,089
Mortgage loans receivable, net of loan loss reserve: 2018—\$2,444; 2017—\$2,255	242,609	223,907
Real estate investments, net	1,349,652	1,309,996
Notes receivable, net of loan loss reserve: 2018—\$128; 2017—\$166	12,642	16,402
Investments in unconsolidated joint ventures	30,511	29,898
Investments, net	1,392,805	1,356,296
Other assets:		
Cash and cash equivalents	20,408	5,213
Restricted cash	2,163	—
Debt issue costs related to bank borrowings	3,202	810
Interest receivable	19,290	15,050
Straight-line rent receivable, net of allowance for doubtful accounts: 2018—\$739; 2017—\$814	73,114	64,490
Lease incentives	21,102	21,481
Prepaid expenses and other assets	3,767	2,230
Total assets	<u>\$ 1,535,851</u>	<u>\$ 1,465,570</u>
<b>LIABILITIES</b>		
Bank borrowings	\$ 120,000	\$ 96,500
Senior unsecured notes, net of debt issue costs: 2018—\$981; 2017—\$1,131	550,986	571,002
Accrued interest	3,468	5,276
Accrued incentives and earn-outs	9,292	8,916
Accrued expenses and other liabilities	28,812	25,228
Total liabilities	712,558	706,922
<b>EQUITY</b>		
Stockholders' equity:		
Common stock: \$0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2018—39,657; 2017—39,570	397	396
Capital in excess of par value	861,226	856,992
Cumulative net income	1,224,998	1,100,783
Cumulative distributions	(1,270,779)	(1,203,011)
Total LTC Properties, Inc. stockholders' equity	815,842	755,160
Non-controlling interests	7,451	3,488
Total equity	823,293	758,648
Total liabilities and equity	<u>\$ 1,535,851</u>	<u>\$ 1,465,570</u>

*See accompanying notes.*

**LTC PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
*(amounts in thousands, except per share, unaudited)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>2017</b>	<b>September 30, 2018</b>	<b>2017</b>
<b>Revenues:</b>				
Rental income	\$34,211	\$33,233	\$102,646	\$103,533
Interest income from mortgage loans	7,087	6,677	20,910	20,050
Interest and other income	478	1,336	1,502	2,753
<b>Total revenues</b>	<b>41,776</b>	<b>41,246</b>	<b>125,058</b>	<b>126,336</b>
<b>Expenses:</b>				
Interest expense	7,497	7,644	22,981	22,266
Depreciation and amortization	9,447	9,519	28,159	28,186
Impairment charges	—	—	—	1,880
Provision (recovery) for doubtful accounts	106	(96)	76	(139)
Transaction costs	9	34	19	56
General and administrative expenses	4,879	4,144	14,392	13,270
<b>Total expenses</b>	<b>21,938</b>	<b>21,245</b>	<b>65,627</b>	<b>65,519</b>
<b>Operating income</b>	<b>19,838</b>	<b>20,001</b>	<b>59,431</b>	<b>60,817</b>
Income from unconsolidated joint ventures	746	615	2,103	1,635
Gain on sale of real estate, net	14,353	—	62,698	5,054
<b>Net income</b>	<b>34,937</b>	<b>20,616</b>	<b>124,232</b>	<b>67,506</b>
Income allocated to non-controlling interests	(17)	—	(17)	—
<b>Net income attributable to LTC Properties, Inc.</b>	<b>34,920</b>	<b>20,616</b>	<b>124,215</b>	<b>67,506</b>
Income allocated to participating securities	(138)	(80)	(504)	(281)
<b>Net income available to common stockholders</b>	<b>\$34,782</b>	<b>\$20,536</b>	<b>\$123,711</b>	<b>\$ 67,225</b>
<b>Earnings per common share:</b>				
Basic	<u>\$ 0.88</u>	<u>\$ 0.52</u>	<u>\$ 3.13</u>	<u>\$ 1.71</u>
Diluted	<u>\$ 0.88</u>	<u>\$ 0.52</u>	<u>\$ 3.12</u>	<u>\$ 1.70</u>
<b>Weighted average shares used to calculate earnings per common share:</b>				
Basic	<u>39,487</u>	<u>39,428</u>	<u>39,470</u>	<u>39,403</u>
Diluted	<u>39,865</u>	<u>39,748</u>	<u>39,845</u>	<u>39,738</u>
Dividends declared and paid per common share	<u>\$ 0.57</u>	<u>\$ 0.57</u>	<u>\$ 1.71</u>	<u>\$ 1.71</u>
<b>Comprehensive Income:</b>				
Net income	\$34,937	\$20,616	\$124,232	\$ 67,506
<b>Comprehensive income</b>	<b>\$34,937</b>	<b>\$20,616</b>	<b>\$124,232</b>	<b>\$ 67,506</b>

*See accompanying notes.*

**LTC PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**

(In thousands)

	Common Stock		Capital in	Cumulative	Cumulative	Total	Non-	Total
	Shares	Amount	Excess of Par Value	Net Income				
<b>Balance—December 31, 2016</b>	39,221	\$ 392	\$ 839,005	\$ 1,013,443	\$ (1,112,792)	\$ 740,048	\$ —	\$ 740,048
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,552)	(22,552)	—	(22,552)
Proceeds from common stock issued, net of issuance costs	313	3	14,526	—	—	14,529	—	14,529
Issuance of restricted stock	75	1	(7)	—	—	(6)	—	(6)
Stock-based compensation expense	—	—	1,259	—	—	1,259	—	1,259
Net income	—	—	—	21,513	—	21,513	—	21,513
Other	(36)	—	(1,651)	—	—	(1,651)	—	(1,651)
<b>Balance—March 31, 2017</b>	<b>39,573</b>	<b>\$ 396</b>	<b>\$ 853,132</b>	<b>\$ 1,034,956</b>	<b>\$ (1,135,344)</b>	<b>\$ 753,140</b>	<b>\$ —</b>	<b>\$ 753,140</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,558)	(22,558)	—	(22,558)
Issuance of restricted stock	8	—	—	—	—	—	—	—
Cancellation of restricted stock	(14)	—	—	—	—	—	—	—
Stock option exercises	3	—	79	—	—	79	—	79
Stock-based compensation expense	—	—	1,425	—	—	1,425	—	1,425
Net income	—	—	—	25,377	—	25,377	—	25,377
Other	(6)	—	(296)	—	—	(296)	—	(296)
<b>Balance—June 30, 2017</b>	<b>39,564</b>	<b>\$ 396</b>	<b>\$ 854,340</b>	<b>\$ 1,060,333</b>	<b>\$ (1,157,902)</b>	<b>\$ 757,167</b>	<b>\$ —</b>	<b>\$ 757,167</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,554)	(22,554)	—	(22,554)
Issuance of restricted stock	3	—	—	—	—	—	—	—
Cancellation of restricted stock	(1)	—	—	—	—	—	—	—
Stock option exercises	5	—	123	—	—	123	—	123
Stock-based compensation expense	—	—	1,283	—	—	1,283	—	1,283
Net income	—	—	—	20,616	—	20,616	—	20,616
<b>Balance—September 30, 2017</b>	<b>39,571</b>	<b>\$ 396</b>	<b>\$ 855,746</b>	<b>\$ 1,080,949</b>	<b>\$ (1,180,456)</b>	<b>\$ 756,635</b>	<b>\$ —</b>	<b>\$ 756,635</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,555)	(22,555)	—	(22,555)
Issuance of restricted stock	—	—	(14)	—	—	(14)	—	(14)
Stock-based compensation expense	—	—	1,282	—	—	1,282	—	1,282
Net income	—	—	—	19,834	—	19,834	—	19,834
Non-controlling interest contributions	—	—	—	—	—	—	3,488	3,488
Other	(1)	—	(22)	—	—	(22)	—	(22)
<b>Balance—December 31, 2017</b>	<b>39,570</b>	<b>\$ 396</b>	<b>\$ 856,992</b>	<b>\$ 1,100,783</b>	<b>\$ (1,203,011)</b>	<b>\$ 755,160</b>	<b>\$ 3,488</b>	<b>\$ 758,648</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,578)	(22,578)	—	(22,578)
Issuance of restricted stock	82	—	—	—	—	—	—	—
Stock option exercises	5	—	123	—	—	123	—	123
Stock-based compensation expense	—	—	1,376	—	—	1,376	—	1,376
Net income	—	—	—	20,359	—	20,359	—	20,359
Other	(28)	—	(1,065)	—	—	(1,065)	—	(1,065)
<b>Balance—March 31, 2018</b>	<b>39,629</b>	<b>\$ 396</b>	<b>\$ 857,426</b>	<b>\$ 1,121,142</b>	<b>\$ (1,225,589)</b>	<b>\$ 753,375</b>	<b>\$ 3,488</b>	<b>\$ 756,863</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,590)	(22,590)	—	(22,590)
Issuance of restricted stock	9	—	(8)	—	—	(8)	—	(8)
Stock-based compensation expense	—	—	1,521	—	—	1,521	—	1,521
Net income	—	—	—	68,936	—	68,936	—	68,936
Non-controlling interest contributions	—	—	—	—	—	—	1,081	1,081
Other	(3)	—	(107)	—	—	(107)	—	(107)
<b>Balance—June 30, 2018</b>	<b>39,635</b>	<b>\$ 396</b>	<b>\$ 858,832</b>	<b>\$ 1,190,078</b>	<b>\$ (1,248,179)</b>	<b>\$ 801,127</b>	<b>\$ 4,569</b>	<b>\$ 805,696</b>
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	(22,600)	(22,600)	—	(22,600)
Proceeds from common stock issued, net of issuance costs	22	1	928	—	—	929	—	929
Stock-based compensation expense	—	—	1,487	—	—	1,487	—	1,487
Net income	—	—	—	34,920	—	34,920	17	34,937
Non-controlling interest contributions	—	—	—	—	—	—	2,882	2,882
Non-controlling interest distributions	—	—	—	—	—	—	(17)	(17)
Other	—	—	(21)	—	—	(21)	—	(21)
<b>Balance—September 30, 2018</b>	<b>39,657</b>	<b>\$ 397</b>	<b>\$ 861,226</b>	<b>\$ 1,224,998</b>	<b>\$ (1,270,779)</b>	<b>\$ 815,842</b>	<b>\$ 7,451</b>	<b>\$ 823,293</b>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 124,232	\$ 67,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,159	28,186
Stock-based compensation expense	4,384	3,967
Impairment charges	—	1,880
Gain on sale of real estate, net	(62,698)	(5,054)
Income from unconsolidated joint ventures	(2,103)	(1,635)
Income distributions from unconsolidated joint ventures	1,727	1,236
Insurance proceeds for damaged property	2,619	—
Payment for remediation of damaged property	(455)	—
Straight-line rental income	(8,629)	(7,362)
Lease incentives funded	(1,272)	(5,713)
Amortization of lease incentives	1,651	1,681
Provision for doubtful accounts	76	(139)
Non-cash interest related to contingent liabilities	377	476
Non-cash income related to earn-out and related lease inducement write-off	—	(842)
Other non-cash items, net	923	958
Increase in interest receivable	(4,240)	(3,967)
Decrease in accrued interest payable	(1,808)	(567)
Net change in other assets and liabilities	495	(4,477)
Net cash provided by operating activities	<u>83,438</u>	<u>76,134</u>
<b>INVESTING ACTIVITIES:</b>		
Investment in real estate properties	(40,408)	(54,804)
Investment in real estate developments	(25,717)	(13,939)
Investment in real estate capital improvements	(2,063)	(2,308)
Capitalized interest	(850)	(627)
Proceeds from sale of real estate, net	82,340	14,106
Investment in real estate mortgage loans receivable	(20,530)	(9,333)
Principal payments received on mortgage loans receivable	1,636	17,351
Investments in unconsolidated joint ventures	(580)	(3,847)
Payment of working capital reserve	—	(439)
Advances and originations under notes receivable	(50)	—
Principal payments received on notes receivable	3,848	25
Net cash used in investing activities	<u>(2,374)</u>	<u>(53,815)</u>
<b>FINANCING ACTIVITIES:</b>		
Bank borrowings	96,500	64,500
Repayment of bank borrowings	(73,000)	(116,600)
Proceeds from issuance of senior unsecured notes	—	100,000
Principal payments on senior unsecured notes	(20,166)	(19,167)
Proceeds from common stock issued	1,005	14,578
Stock option exercises	123	202
Distributions paid to stockholders	(67,768)	(67,664)
Contribution from non-controlling interests	3,963	—
Financing costs paid	(3,162)	(363)
Other	(1,201)	(1,954)
Net cash used in financing activities	<u>(63,706)</u>	<u>(26,468)</u>
Increase (decrease) in cash, cash equivalents and restricted cash	17,358	(4,149)
Cash, cash equivalents and restricted cash, beginning of period	5,213	7,991
Cash, cash equivalents and restricted cash, end of period	<u>\$ 22,571</u>	<u>\$ 3,842</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 23,869	\$ 21,877

*See accompanying notes.*





**LTC PROPERTIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

LTC Properties, Inc., a health care real estate investment trust (“REIT”), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in seniors housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. 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 seniors housing and health care properties managed by experienced operators. Our primary seniors housing and health care property classifications include skilled nursing centers (“SNF”), assisted living communities (“ALF”), independent living communities (“ILF”), memory care communities (“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 classification 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 (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“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 and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2018 and 2017 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.

*Restricted Cash*

During the third quarter of 2017, a 170-bed skilled nursing center in our portfolio was evacuated due to damages caused by Hurricane Harvey. This property is located in Texas and operated under a triple net master lease agreement. We periodically evaluate properties for impairment when events or changes in circumstances indicate that the asset may be impaired or the carrying amount of the asset may not be recoverable through future undiscounted cash flows. Based upon a quarterly assessment of this property using the recoverability test, we concluded the property has not been impaired.

As of September 30, 2018, the gross value and the carrying value of the property were \$2,021,000 and \$1,146,000, respectively.

The provisions of our triple net lease agreements impose certain obligations on our operators including:

- Acquire property insurance, subject to certain criteria;
- Continue paying rent in the event of any property damage or destruction; and
- Return the leased property back to us at the end of the lease term, in the same condition originally received.

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

During the second quarter of 2018, our operator provided us with insurance proceeds of \$2,619,000 to be used for remediation of the property as noted in the provisions of our master lease agreement. Accordingly, we have classified the insurance proceeds as restricted cash on our consolidated financial statements.

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While this ASU specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate. Additionally, the FASB has issued targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*. The new standard and its amendments were effective on January 1, 2018 and permitted reporting entities to apply the standard using either a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or full retrospective approach. We assessed our revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. We evaluated the provisions of ASU 2014-09 and its related additional guidance to determine the potential impact of the new standard. We concluded that adoption of this standard did not have an impact on our results of operations or financial condition, as our revenue consists of rental income from leasing arrangements and interest income from loan arrangements, both of which are specifically excluded from ASU 2014-09. We adopted this standard using the modified retrospective adoption method on January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), *Leases (Topic 842)*. The objective of this ASU is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 modifies existing guidance by requiring lessees to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance of operating leases. ASU 2016-02 requires the lessors to identify lease and non-lease components of a lease agreement. ASU 2016-02 will govern the recognition of revenue for lease components. Revenue related to non-lease components under lease agreements will be subject to the revenue recognition standard, upon adoption of this ASU. Entities are required to use a modified retrospective approach for leases that exist or are entered into after January 1, 2017, the beginning of the earliest comparative period presented in the 2019 consolidated financial statements with a cumulative adjustment to the opening balance of retained earnings.

Additionally, in July 2018, the FASB issued ASU No. 2018-11, *Leases - Targeted Improvements* (“ASU 2018-11”), which provides lessors with the option to elect a practical expedient allowing them to not separate lease and non-lease components and instead, to account for those components as a single lease component. This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the non-lease component and the related lease component and (ii) the lease

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

component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease-based or service-based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASU 2016-02 and predominantly service-based would be accounted for under the Revenue ASUs). This practical expedient option is available as a single election that must be consistently applied to all existing leases at the date of adoption. ASU 2018-11 also provides a practical expedient that allows companies to use an optional transition method. Under the optional transition method, a cumulative adjustment to retained earnings during the period of adoption is recorded and prior periods would not require restatement. Consequently, entities that elect both the practical expedient and the optional transitional method will apply the new lease ASU prospectively to leases commencing or modified after January 1, 2019, and will not be required to apply the disclosures under the new lease ASU to comparative periods.

Consistent with present standards, we will continue to account for lease revenue on a straight-line basis when applicable. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements from both the lessee and lessor perspective. As a result of the adoption of this guidance, we may be required to increase our revenue and expense for lessor costs paid directly by lessees under triple-net leases, if the amount paid is readily determinable (i.e. real estate taxes). Additionally, we have begun our process for implementing this guidance, including identifying any non-lease components in our lease arrangements. We plan to finalize our assessment during the fourth quarter of 2018.

In August 2016, FASB issued ASU No. 2016-15 (“ASU 2016-15”), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the Emerging Issues Task Force)*. ASU 2016-15 provides guidance that reduces the diversity in practice of the classification of certain cash receipts and cash payments within the statement of cash flows. This guidance is effective for fiscal periods beginning after December 15, 2017. We adopted this standard on January 1, 2018. The adoption of this guidance did not have a material impact on our financial statements.

In January 2017, the FASB issued ASU No. 2017-01 (“ASU 2017-01”), *Business Combinations (Topic 805): Clarifying Definition of a Business*. ASU 2017-01 clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued (or available to be issued) financial statements. We adopted ASU 2017-01 during the second quarter of 2017. Historically, our acquisitions qualified as either a business combination or asset acquisition. The adoption of this ASU did not have a material impact on the company’s results of operations or financial condition as most of our acquisitions of investment properties will continue to qualify as asset acquisitions.

In February 2017, the FASB issued ASU No. 2017-05 (“ASU 2017-05”), *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 defines an in-substance nonfinancial asset and clarifies guidance related to partial sales of nonfinancial assets. This standard is



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

effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU did not have a material impact on the consolidated financial statements and related notes.

In 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). This standard requires a new forward looking “expected loss” model to be used for receivables, held-to-maturity debt, loans, and other instruments. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

**2. Real Estate Investments**

Assisted living communities, independent living communities, memory care communities and combinations thereof are included in the assisted living property classification (or collectively ALF).

Any reference to the number of properties or facilities, number of units, number of beds, number of operators 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 September 30, 2018 (*dollar amounts in thousands*):

<b>Type of Property</b>	<b>Gross Investment</b>	<b>Percentage of Investment</b>	<b>Number of Properties <sup>(1)</sup></b>	<b>Number of</b>		<b>Average Investment per Bed/Unit</b>
				<b>SNF Beds</b>	<b>ALF Units</b>	
Assisted Living	\$ 802,484	56.8 %	103	—	5,885	\$ 136.36
Skilled Nursing	569,141	40.2 %	73	8,919	261	\$ 62.00
Under Development <sup>(2)</sup>	31,602	2.2 %	—	—	—	—
Other <sup>(3)</sup>	11,040	0.8 %	1	118	—	—
<b>Total</b>	<b>\$ 1,414,267</b>	<b>100.0 %</b>	<b>177</b>	<b>9,037</b>	<b>6,146</b>	

(1) We own properties in 28 states that are leased to 29 different operators.

(2) Represents three development projects, consisting of a 143-bed SNF in Kentucky, a 78-unit ALF/MC located in Oregon and a 110-unit ILF/ALF/MC in Wisconsin.

(3) Includes three parcels of land held-for-use, and one behavioral health care hospital.

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



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

(iv) specific dollar increases.

*Acquisitions and Developments:* The following table summarizes our acquisitions for the nine months ended September 30, 2018 and 2017 (*dollar amounts in thousands*):

<u>Year</u>	<u>Type of Property</u>	<u>Purchase Price</u>	<u>Transaction Costs <sup>(1)</sup></u>	<u>Total Acquisition Costs</u>	<u>Number of Properties</u>	<u>Number of Beds/Units</u>
2018	Assisted Living <sup>(2)(3)</sup>	\$ 39,600	\$ 65	\$ 39,665	3	177
	Land <sup>(3)</sup>	695	48	743	—	—
	<b>Total</b>	<u>\$ 40,295</u>	<u>\$ 113</u>	<u>\$ 40,408</u>	<u>3</u>	<u>177</u>
2017	Assisted Living <sup>(4)</sup>	\$ 54,463	\$ 341	\$ 54,804	3	240
	<b>Total</b>	<u>\$ 54,463</u>	<u>\$ 341</u>	<u>\$ 54,804</u>	<u>3</u>	<u>240</u>

- (1) Represents cost associated with our acquisitions; however, upon adoption of ASU 2017-01, our acquisitions meet the definition of an asset acquisition resulting in capitalization of transaction costs to the properties' basis. For our land purchases with forward development commitments, transaction costs are capitalized as part of construction in progress. Transaction costs per our consolidated statements of income and comprehensive income represents current and prior year transaction costs due to timing and terminated transactions.
- (2) We acquired two MC in Texas.
- (3) We entered into a joint venture ("JV") to develop, purchase and own senior housing properties. During the second quarter of 2018, the JV purchased land for the development of a 78-unit ALF/MC in Oregon for a total anticipated project cost of \$18,108. The non-controlling partner contributed \$1,081 of cash and we committed to fund the remaining \$17,027 project cost. During the third quarter of 2018, in a sale-leaseback transaction, the JV purchased an existing operational 89-unit ILF adjacent to the 78-unit ALF/MC we are developing for \$14,400. The non-controlling partner contributed \$2,857 of equity and we contributed \$11,543 in cash. Upon completion of the development project, our combined economic interest in the JV will be approximately 88%. We account for the JV on a consolidated basis. See *Note 7. Equity* for further discussion related to our partnerships and non-controlling interests.
- (4) We acquired an ALF and a MC in California. Additionally, we acquired a MC in Ohio.

During the nine months ended September 30, 2018 and 2017, we invested the following in development and improvement projects (*in thousands*):

<u>Type of Property</u>	<u>Nine months ended September 30, 2018</u>		<u>Nine months ended September 30, 2017</u>	
	<u>Developments</u>	<u>Improvements</u>	<u>Developments</u>	<u>Improvements</u>
Assisted Living Communities	\$ 19,251	\$ 1,131	\$ 10,366	\$ 951
Skilled Nursing Centers	6,466	500	3,573	1,357
Other	—	432	—	—
Total	<u>\$ 25,717</u>	<u>\$ 2,063</u>	<u>\$ 13,939</u>	<u>\$ 2,308</u>

*Completed Developments.* The following table summarizes our completed developments during the nine months ended September 30, 2018 (*dollar amounts in thousands*):

<u>Type of Project</u>	<u>Number of Properties</u>	<u>Type of Property</u>	<u>Number of Beds/Units</u>	<u>State</u>	<u>Total Investment</u>
Development	1	MC	66	Illinois	\$ 13,974

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

*Properties held-for-sale.* The following table summarizes our properties held-for-sale as of September 30, 2018 (*dollar amounts in thousands*):

State	Type of Property	Number of Properties	Gross Investment	Accumulated Depreciation	Number of Beds/units
Florida <sup>(1)</sup>	SNF	1	\$ 2,497	\$ 971	60
Texas	ILF	1	5,746	1,916	140
<b>Totals</b>		<b>2</b>	<b>\$ 8,243</b>	<b>\$ 2,887</b>	<b>200</b>

(1) Subsequent to September 30, 2018, we sold this 60-bed SNF for \$5,000 and will recognize a gain of approximately \$3,400.

*Properties sold.* The following table summarizes property sales during the nine months ended September 30, 2018 and 2017 (*dollar amounts in thousands*):

Year	State	Type of Properties	Number of Properties	Number of Beds	Sales Price	Carrying Value	Net Gain
2018	Alabama	SNF	2	285	\$ 17,525	\$ 3,272	\$ 14,253
	Kansas	ALF <sup>(1)</sup>	—	—	350	346	—
	Ohio and Pennsylvania	ALF	6	320	67,500	16,352	48,445
	<b>Total 2018</b>		<b>8</b>	<b>605</b>	<b>\$ 85,375</b>	<b>\$ 19,970</b>	<b>\$ 62,698</b>
2017	Indiana and Iowa	ALF	4	175	\$ 14,250	\$ 8,726	\$ 5,054
<b>Total 2017</b>			<b>4</b>	<b>175</b>	<b>\$ 14,250</b>	<b>\$ 8,726</b>	<b>\$ 5,054</b>

(1) We sold land adjacent to an existing ALF community in Kansas.

*Mortgage Loans.* The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2018 (*dollar amounts in thousands*):

Interest Rate <sup>(1)</sup>	Maturity	Gross Investment	Type of Property	Percentage of Investment	Number of Loans	Number of Properties	Number of SNF Beds	Investment per Bed/Unit
9.5%	2043	\$ 186,495	SNF	76.1 %	1	15	2,029	\$ 91.91
9.2%	2045	33,028	SNF	13.5 %	1	4	501	\$ 65.92
9.4%	2045	14,797	SNF	6.0 %	1	1	157	\$ 94.25
9.5%	2020	10,733	SNF	4.4 %	1	2	205	\$ 52.36
<b>Total</b>		<b>\$ 245,053</b>		<b>100.0 %</b>	<b>4</b>	<b>22</b>	<b>2,892</b>	<b>\$ 84.73</b>

(1) The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 2.25%.

(2) Some loans contain certain guarantees, provide for certain facility fees and the majority of the mortgage loans have a 30-year term.

(3) We have investments in properties located in one state that includes mortgages to one operator.



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

The following table summarizes our mortgage loan activity for the nine months ended September 30, 2018 and 2017 (*in thousands*):

	Nine months ended September 30,	
	2018	2017
Originations and funding under mortgage loans receivable	\$ 20,530 <sup>(1)</sup>	\$ 9,333
Pay-offs received	(1,086)	(16,665)
Scheduled principal payments received	(550)	(686)
Net increase (decrease) in mortgage loans receivable	\$ 18,894	\$ (8,018)

- (1) During 2018, we funded an additional \$7,400 under an existing mortgage loan for the purchase of a 112-bed skilled nursing center in Michigan. The incremental funding bears interest at 8.7%, fixed for five years, and escalating by 2.25% thereafter. Also, we funded additional loan proceeds of \$7,125 under an existing mortgage loan for the purchase of a 126-bed skilled nursing center in Michigan. This incremental funding bears interest at 9.41%, fixed for five years, and escalating by 2.25% thereafter.

### 3. Investment in Unconsolidated Joint Ventures

Our investment in unconsolidated joint ventures consists of a preferred equity investment and two mezzanine loans which are accounted for as unconsolidated joint ventures in accordance with GAAP. The following table summarizes our investment in unconsolidated joint ventures (*dollar amounts in thousands*):

State	Type of Properties	Type of Investment	Total Preferred Return	Currently Paid in Cash	Number of Beds/ Units	Investment Commitment	Carrying Value
Arizona	ALF/MC/ILF	Preferred Equity <sup>(1)</sup>	15 %	7 %	585	\$ 25,650	\$ 23,942
Florida	ALF/IL/MC	Mezzanine <sup>(2)</sup>	15 %	12 %	99	2,900 <sup>(3)</sup>	3,169 <sup>(3)</sup>
Florida	UDP-ALF/MC	Mezzanine <sup>(2)</sup>	15 %	10 %	127	3,400	3,400
Total					811	\$ 31,950	\$ 30,511

- (1) We have concluded that the JV is a variable interest entity (“VIE”) in accordance with GAAP. However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the JV. Therefore, we account for the JV investment using the equity method.
- (2) We evaluated these acquisition, development and construction (“ADC”) arrangements and determined that the characteristics are similar to jointly-owned investments or partnerships, and accordingly, these investments are accounted for as unconsolidated joint ventures under the equity method of accounting instead of loan accounting.
- (3) Since interest payments were deferred and no interest was recorded for the first twelve months of the loan, we used the effective interest method in accordance with GAAP to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance.

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

The following table summarizes our capital contributions, income recognized, and cash interest received related to our investments in unconsolidated joint ventures (*in thousands*):

Type of Properties	Nine Months Ended September 30,					
	2018			2017		
	Capital Contribution	Income Recognized	Cash Interest Received	Capital Contribution	Income Recognized	Cash Interest Received
ALF/MC/ILF	\$ 580	\$ 1,490	\$ 1,436	\$ 1,100	\$ 1,134	\$ 1,020
ALF/IL/MC	—	383	291	—	383	216
UDP-ALF/MC	—	230	— <sup>(1)</sup>	2,747	118	— <sup>(1)</sup>
Total	<u>\$ 580</u>	<u>\$ 2,103</u>	<u>\$ 1,727</u>	<u>\$ 3,847</u>	<u>\$ 1,635</u>	<u>\$ 1,236</u>

<sup>(1)</sup> We withheld \$653 at the time of loan origination which is being applied to interest. As of September 30, 2018, we still hold \$257 which will be applied to future interest.

**4. Notes Receivable**

Notes receivable consists of mezzanine loans and other loan arrangements. The following table is a summary of our notes receivable components as of September 30, 2018 and December 31, 2017 (*in thousands*):

	At September 30, 2018	At December 31, 2017
Mezzanine loans	\$ 9,869	\$ 13,700
Other loans	2,901	2,868
Notes receivable reserve	(128)	(166)
Total	<u>\$ 12,642</u>	<u>\$ 16,402</u>

The following tables summarizes our notes receivable activity for the nine months ended September 30, 2018 and 2017 (*dollar amounts in thousands*):

	Nine months ended September 30,	
	2018	2017
Advances under notes receivable	\$ 50	\$ —
Principal payments received under notes receivable	(3,848)	(25)
Total	<u>\$ (3,798)</u>	<u>\$ (25)</u>

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

**5. Lease Incentives**

The following summarizes lease incentives by component as of September 30, 2018 and December 31, 2017 (*in thousands*):

	At September 30, 2018	At December 31, 2017
Non-contingent lease incentives	\$ 14,883	\$ 14,904
Contingent lease incentives	6,219	6,577
<b>Total</b>	<b>\$ 21,102</b>	<b>\$ 21,481</b>

The following table summarizes our lease incentive activity for the nine months ended September 30, 2018 and 2017 (*in thousands*):

	Nine months ended September 30,				
	2018		2017		
	Funding	Amortization	Funding	Amortization	Write off
Non-contingent lease incentives	\$ 1,272	\$ (1,292)	\$ 5,713	\$ (1,181)	\$ (1,205) <sup>(1)</sup>
Contingent lease incentives <sup>(3)</sup>	—	(359)	—	(500)	(2,634) <sup>(2)</sup>
<b>Total</b>	<b>\$ 1,272</b>	<b>\$ (1,651)</b>	<b>\$ 5,713</b>	<b>\$ (1,681)</b>	<b>\$ (3,839)</b>

- (1) Represents the write-off of lease incentives related to two MC communities due to negotiations to transition these properties to another operator in our portfolio.
- (2) Represents the write-off of lease incentive related to an ALF community due to change to the business model at the property that resulted in lower net operating income and the improbability of paying the earn-out.
- (3) Subsequent to September 30, 2018, we entered into an amended master lease agreement with Senior Lifestyle Management, LLC (“Senior Lifestyle”). Among the provisions of the amendment, the contingent lease incentive payable to Senior Lifestyle was removed. Therefore, subsequent to September 30, 2018, we will write-off the Senior Lifestyle contingent lease incentive of \$6,219 and the related earn-out liability of \$9,292 which will result in income of approximately \$3,000.

Non-contingent lease incentives represent payments made to our lessees for various reasons including entering into a new lease or lease amendments and extensions. Contingent lease incentives represent potential contingent earn-out payments that may be made to our lessees in the future, as part of our lease agreements. From time to time, we may commit to provide contingent payments to our lessees, upon our properties achieving certain rent coverage ratios. Once the contingent payment becomes probable and estimable, the contingent payment is recorded as a lease incentive. Lease incentives are amortized as a yield adjustment to rental income over the remaining life of the lease.

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

**6. Debt Obligations**

*Bank Borrowings.* During 2018, we amended and restated our unsecured credit agreement to replace the previous unsecured credit agreement, prior to its expiration on October 14, 2018. The amended credit agreement maintains the \$600,000,000 aggregate commitment of the lenders under the prior agreement and provides for the opportunity to increase the commitment size of the credit agreement up to a total of \$1,000,000,000. The amended credit agreement extends the maturity of the credit agreement to June 27, 2022 and provides for a one-year extension option at our discretion, subject to customary conditions. Additionally, the amended credit agreement decreases the interest rate margins and converts from the payment of unused commitment fees to a facility fee. Based on our leverage at September 30, 2018, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points. At September 30, 2018, we were in compliance with all covenants.

*Senior Unsecured Notes.* During 2017, we amended our shelf agreement with affiliates and managed accounts of Prudential Investment Management, Inc. (“Prudential”) to increase our shelf commitment to \$337,500,000.

The debt obligations by component as of September 30, 2018 and December 31, 2017 are as follows (*dollar amounts in thousands*):

Debt Obligations	Applicable Interest Rate <sup>(1)</sup>	At September 30, 2018		At December 31, 2017	
		Outstanding Balance	Available for Borrowing	Outstanding Balance	Available for Borrowing
Bank borrowings <sup>(2)</sup>	3.38%	\$ 120,000	\$ 480,000	\$ 96,500	\$ 503,500
Senior unsecured notes, net of debt issue costs	4.49%	550,986	79,833	571,002	63,667
<b>Total</b>	4.29%	<b>\$ 670,986</b>	<b>\$ 559,833</b>	<b>\$ 667,502</b>	<b>\$ 567,167</b>

(1) Represents weighted average of interest rate as of September 30, 2018.

(2) Subsequent to September 30, 2018, we paid down \$20,000 under our unsecured revolving line of credit. Accordingly, we have \$100,000 outstanding under our unsecured revolving line of credit with \$500,000 available for borrowing.

Our borrowings and repayments are as follows (*in thousands*):

Debt Obligations	Nine months ended September 30,			
	2018		2017	
	Borrowings	Repayments	Borrowings	Repayments
Bank borrowings	\$ 96,500	\$ (73,000)	\$ 64,500	\$ (116,600)
Senior unsecured notes	—	(20,166)	100,000 <sup>(1)</sup>	(19,167)
<b>Total</b>	<b>\$ 96,500</b>	<b>\$ (93,166)</b>	<b>\$ 164,500</b>	<b>\$ (135,767)</b>

(1) During 2017, we sold 15-year senior unsecured notes in the aggregate amount of \$100,000 to a group of investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual rate of 4.5%, have scheduled principal payments and mature on February 16, 2032.

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

**7. Equity**

*Common Stock.* We have an equity distribution agreement to issue and sell, from time to time, up to \$200,000,000 in aggregate offering price of our company common shares. During the nine months ended September 30, 2018 and 2017, under our equity distribution agreement, we sold 22,244 shares of common stock for \$1,005,000 in net proceeds and 312,881 shares of common stock for \$14,578,000 in net proceeds, respectively. In conjunction with the sale of common stock, during the nine months ended September 30, 2018 and 2017, we paid \$18,000 and \$260,000, respectively, as compensation to our sales agents and we reclassified \$76,000 and \$49,000, respectively, of accumulated costs associated with this agreement to capital in excess of par value. At September 30, 2018, and 2017, we had \$184,139,000 and \$185,162,000, respectively, available under our equity distribution agreement.

During the nine months ended September 30, 2018 and 2017, we acquired 31,326 shares and 41,592 shares, respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

*Non-controlling Interests.* During 2018 and 2017, we entered into partnerships to develop and/or own real estate. Given that our limited members do not have the substantive kick-out rights, liquidation rights, or participation rights, we have concluded that the partnerships are VIEs. And since we exercise power over and receive benefits from the VIEs, we are considered the primary beneficiary. Accordingly, we consolidate the VIEs and record the non-controlling interests at cost.

As of September 30, 2018, we have the following consolidated VIEs (*dollar amounts in thousands*):

Investment Year	Purpose	Property Type	State	Gross	
				Consolidated Assets	Non-Controlling Interests
2018	Owned real estate	ILF	OR	\$ 14,400 <sup>(1)</sup>	\$ 2,857 <sup>(1)</sup>
2018	Owned real estate and development	UDP	OR	2,881 <sup>(1)</sup>	1,081 <sup>(1)</sup>
2017	Owned real estate and development	UDP	WI	10,316 <sup>(2)</sup>	2,272 <sup>(2)</sup>
2017	Owned real estate	ALF	SC	10,571	1,241
Total				\$ 38,168	\$ 7,451

(1) We entered into a joint venture (“JV”) to develop, purchase and own senior housing properties. During the second quarter of 2018, the JV purchased land for the development of a 78-unit ALF/MC for a total anticipated project cost of \$18,108. The non-controlling partner contributed \$1,081 of cash and we committed to fund the remaining \$17,027 project cost. During the third quarter of 2018, in a sale-leaseback transaction, the JV purchased an existing operational 89-unit ILF adjacent to the 78-unit ALF/MC we are developing for \$14,400. The non-controlling partner contributed \$2,857 of equity and we contributed \$11,543 in cash. Upon completion of the development project, our combined economic interest in the JV will be approximately 88%. We account for the JV on a consolidated basis.

(2) We entered into a partnership to own the real estate and develop a 110-unit ILF/ALF/MC community in Wisconsin. The commitment totals approximately \$22,471.

*Available Shelf Registrations.* We have an automatic shelf registration statement on file with the SEC, and currently have the ability to file additional automatic shelf registration statements, to provide us with capacity to publicly offer an indeterminate amount of common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our automatic shelf registration statement 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.



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

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

	<u>Nine Months Ended September 30,</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Declared</u>	<u>Paid</u>	<u>Declared</u>	<u>Paid</u>
Common Stock	\$ 67,768 <sup>(1)</sup>	\$67,768 <sup>(1)</sup>	\$ 67,664 <sup>(1)</sup>	\$67,664 <sup>(1)</sup>

<sup>(1)</sup> Represents \$0.19 per share per month for the nine months ended September 30, 2018 and 2017.

In October 2018, we declared a monthly cash dividend of \$0.19 per share on our common stock for the months of October, November and December 2018, payable on October 31, November 30, and December 31, 2018, respectively, to stockholders of record on October 23, November 21, and December 21, 2018, respectively.

*Stock-Based Compensation.* Under our 2015 Equity Participation Plan (“the 2015 Plan”), 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion.

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

During the nine months ended September 30, 2018 and 2017, no stock options were granted. The stock options exercised during the nine months ended September 30, 2018 and 2017 were as follows:

	<b>Options Exercised</b>	<b>Weighted Average Exercise Price</b>	<b>Option Value</b>	<b>Market Value <sup>(1)</sup></b>
2018	5,000	\$ 24.65	\$123,000	\$205,000
2017	8,334	\$ 24.31	\$202,566	\$410,797

(1) As of exercise date.

At September 30, 2018, we had 20,000 stock options outstanding and exercisable. Compensation expense related to the vesting of stock options was \$0 and \$2,000 for the nine months ended September 30, 2018 and 2017, respectively.

The following table summarizes our restricted stock and performance-based stock units activity for the nine months ended September 30, 2018 and 2017:

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Outstanding, January 1	244,181	210,573
Granted	156,718	143,057
Vested	(75,149)	(84,363)
Cancelled	—	(24,106)
Outstanding, September 30	<u>325,750</u>	<u>245,161</u>

During the nine months ended September 30, 2018 and 2017, we granted restricted stock and performance-based stock units under the 2015 Plan as follows:

<b>Year</b>	<b>No. of Shares/Units</b>	<b>Price per Share</b>	<b>Vesting Period</b>
2018	81,819	\$ 38.18	ratably over 3 years
	66,171	\$ 38.18	TSR targets <sup>(1)</sup>
	8,728	\$ 41.25	ratably over 1 year
	<u>156,718</u>		
2017	74,760	\$ 45.76	ratably over 3 years
	57,881	\$ 45.76	TSR targets <sup>(1)</sup>
	7,416	\$ 48.55	ratably over 1 year
	3,000	\$ 50.55	ratably over 3 years
	<u>143,057</u>		

(1) Vesting is based on achieving certain total shareholder return (“TSR”) targets in 4 years with acceleration opportunity in 3 years.



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

Compensation expense recognized related to the vesting of restricted common stock and performance-based stock units for the nine months ended September 30, 2018 and 2017 were \$4,384,000 and \$3,965,000, respectively. At September 30, 2018, the remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock and performance-based stock units are as follows:

<u>Vesting Date</u>	<u>Remaining Compensation Expense</u>
2018	\$ 1,486,000
2019	4,250,000
2020	2,210,000
2021	238,000
Total	<u>\$ 8,184,000</u>

**8. Commitments and Contingencies**

At September 30, 2018, we had commitments as follows (*in thousands*):

	<u>Investment Commitment</u>	<u>2018 Funding</u>	<u>Total Commitment Funded</u>	<u>Remaining Commitment</u>
Real estate properties ( <i>Note 2. Real Estate Investments</i> )	\$ 77,882 <sup>(1)</sup>	\$ 17,973	\$ 35,417	\$ 42,465
Accrued incentives and earn-out liabilities	23,000 <sup>(3)</sup>	—	—	23,000
Mortgage loans ( <i>Note 2. Real Estate Investments</i> )	65,700 <sup>(2)</sup>	6,005	23,256	42,444
Joint venture investments ( <i>Note 3. Investments in Unconsolidated Joint Ventures</i> )	25,650	580	23,594	2,056
Notes receivable ( <i>Note 4. Notes Receivable</i> )	700	50	50	650
Total	<u>\$ 192,932</u>	<u>\$ 24,608</u>	<u>\$ 82,317</u>	<u>\$ 110,615</u>

- (1) Represents commitments to purchase land and improvements, if applicable, and to develop, re-develop, renovate or expand seniors housing and health care properties.
- (2) \$39,700 represents commitments to expand and renovate the seniors housing and health care properties securing the mortgage loans and \$26,000 represents contingent funding upon the borrower achieving certain coverage ratios.
- (3) Subsequent to September 30, 2018, we entered into an amended master lease agreement with Senior Lifestyle. Among the provisions of the amendment, the contingent lease incentive payable to Senior Lifestyle was removed. Therefore, subsequent to September 30, 2018, we wrote-off the Senior Lifestyle contingent lease incentive of \$6,219 and the related earn-out liability of \$9,292 which will result in income of approximately \$3,000.

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.

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

**9. Major Operators**

We have four operators from each of which we derive approximately 10% or more of our combined rental revenue and interest income from mortgage loans. The following table sets forth information regarding our major operators as of September 30, 2018:

Operator	Number of		Number of		Percentage of	
	SNF	ALF	SNF Beds	ALF Units	Total Revenue	Total Assets
Prestige Healthcare	24	—	3,010	93	18.0 %	16.4 %
Senior Lifestyle Corporation	—	23	—	1,457	11.9 %	10.4 %
Brookdale Senior Living	—	37	—	1,702	10.1 %	4.6 %
Senior Care Centers	11	—	1,444	—	9.8 %	7.1 %
<b>Total</b>	<b>35</b>	<b>60</b>	<b>4,454</b>	<b>3,252</b>	<b>49.8 %</b>	<b>38.5 %</b>

(1) Includes rental income and interest income from mortgage loans and excludes income from properties sold and mortgage loans paid off during 2018.

Our financial position and ability to make distributions may be adversely affected if Prestige Healthcare, Senior Lifestyle Corporation, Brookdale Senior Living, Senior Care Centers, or any of our lessees and borrowers face financial difficulties, 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.

**10. Earnings per Share**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$ 34,937	\$ 20,616	\$ 124,232	\$ 67,506
Less net income allocated to non-controlling interests	(17)	—	(17)	—
Less net income allocated to participating securities:				
Non-forfeitable dividends on participating securities	(89)	(80)	(268)	(269)
Income allocated to participating securities	(49)	—	(236)	(12)
Total net income allocated to participating securities	(138)	(80)	(504)	(281)
Net income available to common stockholders	34,782	20,536	123,711	67,225
Effect of dilutive securities:				
Participating securities	138	80	504	281
Net income for diluted net income per share	\$ 34,920	\$ 20,616	\$ 124,215	\$ 67,506
Shares for basic net income per share	39,487	39,428	39,470	39,403
Effect of dilutive securities:				
Stock options	4	9	3	11
Performance-based stock units	217	170	217	170
Participating securities	157	141	155	154
Total effect of dilutive securities	378	320	375	335
Shares for diluted net income per share	39,865	39,748	39,845	39,738
Basic net income per share	\$ 0.88	\$ 0.52	\$ 3.13	\$ 1.71
Diluted net income per share	\$ 0.88	\$ 0.52	\$ 3.12	\$ 1.70



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

**11. Fair Value Measurements**

In accordance with the accounting guidance regarding the fair value option for financial assets and financial liabilities, entities are permitted to choose to measure certain financial assets and liabilities at fair value, with the change in unrealized gains and losses reported in earnings. We did not elect the fair value option for any of 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 September 30, 2018 and December 31, 2017 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	<u>At September 30, 2018</u>		<u>At December 31, 2017</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mortgage loans receivable	\$242,609	\$274,698 <sup>(1)</sup>	\$223,907	\$278,224 (1)
Bank borrowings	120,000	120,000 <sup>(2)</sup>	96,500	96,500 (2)
Senior unsecured notes, net of debt issue costs	550,986	529,805 <sup>(3)</sup>	571,002	577,126 (3)
Accrued incentives and earn-outs	9,292	9,292 <sup>(4)</sup>	8,916	8,916 (4)

- (1) Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable at September 30, 2018 and December 31, 2017 was 9.7% and 8.7%, respectively.
- (2) Our bank borrowings bear interest at a variable interest rate. The estimated fair value of our bank borrowings approximated their carrying values at September 30, 2018 and December 31, 2017 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 September 30, 2018, the discount rate used to value our future cash outflow of our senior unsecured notes was 5.00% for those maturing before year 2026 and 5.25% for those maturing at or beyond year 2026. At December 31, 2017, the discount rate used to value our future cash outflow of our senior unsecured notes was 4.10% for those maturing before year 2026 and 4.30% for those maturing at or beyond year 2026.
- (4) Our accrued incentives and earn-outs are classified as Level 3. We estimated the fair value of the accrued incentives and earn-out payments using a discounted cash flow analysis. The discount rate that we use consists of a risk-free U.S. Treasury rate plus a company specific credit spread which we believe is acceptable by willing market participants. The discount rate used to value our accrued incentives and earn-outs was 6.0% at September 30, 2018 and 6.2% at December 31, 2017.

**12. Subsequent Events**

Subsequent to September 30, 2018 the following events occurred:

*Real Estate:* We sold a 60-bed SNF in Florida for \$5,000,000 with a net book value of \$1,526,000 and will recognize a gain of approximately \$3,400,000 in the fourth quarter.

*Lease Incentives:* We entered into an amended master lease agreement with Senior Lifestyle. Among the provisions of the amendment, the contingent lease incentive payable to Senior Lifestyle was



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

removed. Therefore, subsequent to September 30, 2018, we will write-off the Senior Lifestyle contingent lease incentive of \$6,219,000 and the related earn-out liability of \$9,292,000 which will result in income of approximately \$3,000,000.

*Debt:* We paid down \$20,000,000 under our unsecured revolving line of credit. Accordingly, we have \$100,000,000 outstanding under our unsecured revolving line of credit with \$500,000,000 available for borrowing.

*Equity:* We declared a monthly cash dividend of \$0.19 per share on our common stock for the months of October, November and December 2018, payable on October 31, November 30, and December 31, 2018, respectively to stockholders of record on October 23, November 21, and December 21, 2018, respectively.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Statement Regarding Forward Looking Disclosure**

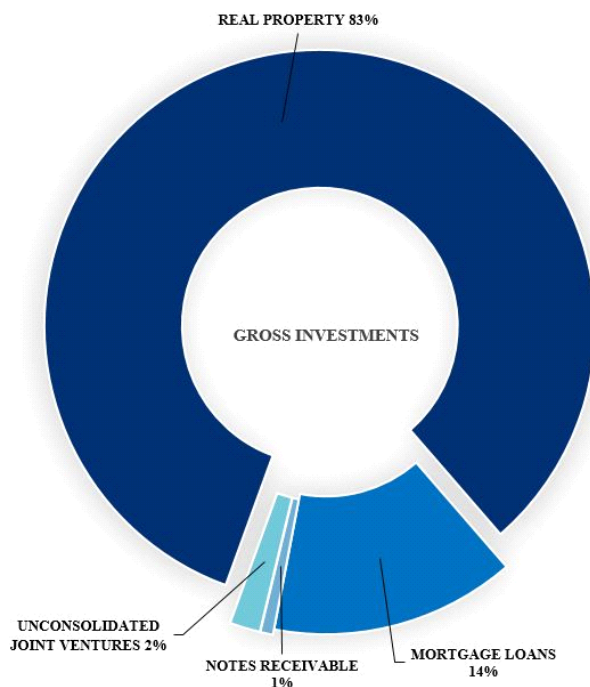
*This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not 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; 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, 2017 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 and Investment Strategy***

We are a self-administered health care real estate investment trust ("REIT") that invests in seniors housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. 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 seniors housing and health care properties managed by experienced operators.

The below graph summarizes our gross investments as of September 30, 2018:



Our seniors housing and health care property classifications include skilled nursing centers (“SNF”), assisted living communities (“ALF”), independent living communities (“ILF”), memory care communities (“MC”) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property classification. As of September 30, 2018, seniors housing and long-term health care properties comprised approximately 99.4% of our real estate investment portfolio. We have been operating since August 1992.

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 main 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 secured by multiple properties.



## Real Estate Portfolio Overview

The following tables summarize our real estate investment portfolio by owned properties and mortgage loans and by type, as of September 30, 2018 (*dollar amounts in thousands*):

	Gross Investments	Percentage of Investments	Nine Months Ended September 30, 2018			Number of Properties	Number of	
			Rental Income	Interest Income <sup>(6)</sup>	Percentage of Revenues		SNF Beds <sup>(2)</sup>	ALF Units
<b>Owned Properties</b>								
Assisted Living	\$ 802,484	48.4 %	\$49,053	\$ —	40.6 %	103	—	5,885
Skilled Nursing	569,141	34.3 %	50,111	—	41.5 %	73	8,919	261
Under Development <sup>(3)</sup>	31,602	1.9 %	—	—	— %	—	—	—
Other <sup>(4)</sup>	11,040	0.6 %	689	—	0.6 %	1	118	—
<b>Total Owned Properties</b>	<b>1,414,267</b>	<b>85.2 %</b>	<b>99,853</b>	<b>—</b>	<b>82.7 %</b>	<b>177</b>	<b>9,037</b>	<b>6,146</b>
<b>Mortgage Loans</b>								
Skilled Nursing	245,053	14.8 %	—	20,853	17.3 %	22	2,892	—
<b>Total Mortgage Loans</b>	<b>245,053</b>	<b>14.8 %</b>	<b>—</b>	<b>20,853</b>	<b>17.3 %</b>	<b>22</b>	<b>2,892</b>	<b>—</b>
<b>Total Portfolio</b>	<b>\$ 1,659,320</b>	<b>100.0 %</b>	<b>\$99,853</b>	<b>\$ 20,853</b>	<b>100.0 %</b>	<b>199</b>	<b>11,929</b>	<b>6,146</b>

Summary of Properties by Type	Gross Investments	Percentage of Investments	Nine Months Ended September 30, 2018			Number of Properties	Number of	
			Rental Income	Interest Income <sup>(6)</sup>	Percentage of Revenues		SNF Beds <sup>(2)</sup>	ALF Units
Skilled Nursing	\$ 814,194	49.1 %	\$50,111	\$ 20,853	58.8 %	95	11,811	261
Assisted Living	802,484	48.4 %	49,053	—	40.6 %	103	—	5,885
Under Development <sup>(3)</sup>	31,602	1.9 %	—	—	— %	—	—	—
Other <sup>(4)</sup>	11,040	0.6 %	689	—	0.6 %	1	118	—
<b>Total Portfolio</b>	<b>\$ 1,659,320</b>	<b>100.0 %</b>	<b>\$99,853</b>	<b>\$ 20,853</b>	<b>100.0 %</b>	<b>199</b>	<b>11,929</b>	<b>6,146</b>

- (1) We have investments in 28 states leased or mortgaged to 29 different operators.
- (2) See Item 1. Financial Statements – Note 2. *Real Estate Investments* for discussion of bed/unit count.
- (3) Represents three development projects consisting of a 143-bed SNF located in Kentucky, a 78-unit ALF/MC located in Oregon and a 110-unit ILF/ALF/MC located in Wisconsin.
- (4) Includes three parcels of land held-for-use and one behavioral health care hospital.
- (5) Excludes rental income from properties sold.
- (6) Represents interest income from mortgage loans and excludes interest income from paid-off mortgage loans.

As of September 30, 2018, we had \$1.3 billion in carrying value of net real estate investments, consisting of \$1.1 billion or 82.0% invested in owned and leased properties and \$0.2 billion or 18.0% invested in mortgage loans secured by first mortgages. Our investment in mortgage loans contain interest rates between 9.2% and 9.5%. Approximately 76.1% of those mortgage loans mature in 2043 and have an interest rate of 9.5%.

For the nine months ended September 30, 2018, rental income and interest income from mortgage loans represented 82.1% and 16.7%, 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. For those certain leases, the revenue is not recognized until the appropriate contingencies have been resolved.

During the nine months ended September 30, 2018, there were no lease renewals. During 2018, we transitioned two operating skilled nursing centers to another operator in our portfolio. This transition had no economic impact on us. For the nine months ended September 30, 2018, we recorded \$8.6 million in straight-line rental income and recovered a net of \$0.1 million in straight-line rent receivable reserve. During the nine months ended September 30, 2018, we received \$95.7 million of cash rental revenue and



recorded amortization of lease incentives cost of \$1.7 million. At September 30, 2018, the straight-line rent receivable balance, net of reserves, on the balance sheet was \$73.1 million.

*Update on Anthem Memory Care and Preferred Care*

During 2017, we issued a notice of default to Anthem Memory Care (“Anthem”) resulting from Anthem’s partial payment of minimum rent. Anthem operates 11 operational memory care communities under a master lease. We are currently not pursuing enforcement of our rights and remedies pertaining to known events of default under the master lease and our guarantees, with the stipulation that Anthem Memory Care achieve certain level of performance and pay a minimum of \$5.2 million of cash rent for these 11 properties through December 31, 2018. We receive regular financial performance updates from Anthem and continue to monitor Anthem’s performance obligations under the master lease agreement closely.

Also, during 2017, Preferred Care, Inc. (“Preferred Care”) and several affiliated entities filed for Chapter 11 bankruptcy as a result of a multi-million dollar judgement in a lawsuit in Kentucky against Preferred Care and certain affiliated entities. The affiliated entities named in the lawsuit operate properties in Kentucky and New Mexico. According to Preferred Care, it is subject to the judgement because it was included in the lawsuit. Preferred Care leases 24 properties under two master leases from us and none of the 24 properties are located in Kentucky or New Mexico. Those 24 properties are in Arizona, Colorado, Iowa, Kansas, Texas and Virginia. Additionally, the Preferred Care operating entities that sublease those properties did not file for bankruptcy. Our annual rental revenue from Preferred Care represented 6.5% of total rental and interest income as of September 30, 2018. Preferred Care is current on its rent due to us and provides us updates on the bankruptcy proceedings.

**2018 Activities Overview**

The following tables summarize our transactions during the nine months ended September 30, 2018 (*dollar amounts in thousands*):

Investment in Owned Properties

<u>State</u>	<u>Number of Properties</u>	<u>Type of Properties</u>	<u>Number of Beds/Units</u>	<u>Initial Cash Yield</u>	<u>Purchase Price</u>	<u>Total Transaction Costs</u>	<u>Total Acquisition Costs</u>
Oregon	1 <sup>(1)</sup>	ILF	89	6.75 %	\$ 14,400	\$ —	\$ 14,400
Oregon	— <sup>(1)</sup>	UDP	—	— %	600	36	636
Texas	2	MC	88	7.25 %	25,200	66	25,266
Wisconsin	—	UDP	—	— %	95	11	106
<b>Total</b>	<b>3</b>		<b>177</b>		<b>\$ 40,295</b>	<b>\$ 113</b>	<b>\$ 40,408</b>

- (1) During the second quarter of 2018, we entered into a partnership to develop and own real estate. Under the partnership agreement, we acquired a parcel of land to develop a 78-unit assisted living and memory care community in Medford, OR for a total commitment of \$18,108, and an existing operational 89-unit independent living community in Oregon for \$14,400, during the second and third quarter of 2018, respectively.

Investment in Development and Improvement projects

	<u>Developments</u>	<u>Improvements</u>
Assisted Living Communities	\$ 19,251	\$ 1,131
Skilled Nursing Centers	6,466	500
Other	—	432
<b>Total</b>	<b>\$ 25,717</b>	<b>\$ 2,063</b>

Completed Developments

<u>Type of Project</u>	<u>Number of Properties</u>	<u>Type of Property</u>	<u>Number of Beds/Units</u>	<u>State</u>	<u>Total Investment</u>
Development	1	MC	66	Illinois	\$ 13,974

Properties Sold

<u>State</u>	<u>Type of Properties</u>	<u>Number of Properties</u>	<u>Number of Beds/Units</u>	<u>Sales Price</u>	<u>Carrying Value</u>	<u>Net Gain</u>
Alabama	SNF	2	285	\$ 17,525	\$ 3,272	\$ 14,253
Kansas	ALF <sup>(1)</sup>	—	—	350	346	—
Ohio and Pennsylvania	ALF	6	320	67,500	16,352	48,445
<b>Total</b>		<b>8</b>	<b>605</b>	<b>\$ 85,375</b>	<b>\$ 19,970</b>	<b>\$ 62,698</b>

- (1) We sold land adjacent to an existing ALF community in Kansas.

Investment in Mortgage Loans

Originations and funding under mortgage loans receivable	\$ 20,530 <sup>(1)</sup>
Pay-offs received	(1,086)
Scheduled principal payments received	(550)
<b>Net increase in mortgage loans receivable</b>	<b>\$ 18,894</b>

- (1) During 2018, we funded an additional \$7,400 under an existing mortgage loan for the purchase of a 112-bed skilled nursing center in Michigan. The incremental funding bears interest at 8.7%, fixed for five years, and escalating by 2.25% thereafter. Also, we funded additional loan proceeds of \$7,125 under an existing mortgage loan for the purchase of a 126-bed skilled nursing center in Michigan. This incremental funding bears interest at 9.41%, fixed for five years, and escalating by 2.25% thereafter.

## Table of Contents

### Investment in Unconsolidated Joint Ventures

State	Type of Properties	Type of Investment	Total Preferred Return	Currently Paid in Cash	Number of Beds/Units	Investment Commitment	Carrying Value	Capital Contribution	Income Recognized	Cash Interest Received
		Preferred								
Arizona	ALF/MC/ILF	Equity	15 %	7 %	585	\$ 25,650	\$23,942	\$ 580	\$ 1,490	\$ 1,436
Florida	ALF/IL/MC	Mezzanine	15 %	12 %	99	2,900 <sup>(1)</sup>	3,169 <sup>(1)</sup>	—	383	291
		UDP-								
Florida	ALF/MC	Mezzanine	15 %	10 %	127	3,400	3,400	—	230	— <sup>(2)</sup>
					<u>811</u>	<u>\$ 31,950</u>	<u>\$30,511</u>	<u>\$ 580</u>	<u>\$ 2,103</u>	<u>\$ 1,727</u>

(1) Since interest payments were deferred and no interest was recorded for the first twelve months of the loan, we used the effective interest method in accordance with GAAP to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance.

(2) We withheld \$653 at the time of loan origination which is being applied to interest. As of September 30, 2018, we still hold \$257 which will be applied to future interest.

### Notes Receivable

Advances under notes receivable	\$	50
Principal payments received under notes receivable		(3,848)
Total	\$	<u>(3,798)</u>

### Debt Obligations

During 2018, we amended and restated our unsecured credit agreement to replace the previous unsecured credit agreement, prior to its expiration on October 14, 2018. The amended credit agreement maintains the \$600.0 million aggregate commitment of the lenders under the prior agreement and provides for the opportunity to increase the commitment size of the credit agreement up to a total of \$1.0 billion. The amended credit agreement extends the maturity of the credit agreement to June 27, 2022 and provides for a one-year extension option at our discretion, subject to customary conditions. Additionally, the amended credit agreement decreases the interest rate margins and converts from the payment of unused commitment fees to a facility fee.

### ***Health Care Regulatory Climate***

The Centers for Medicare & Medicaid Services (“CMS”) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 31, 2017, CMS released a final rule updating Medicare skilled nursing facility rates and policies for fiscal year 2018, which began on October 1, 2017. CMS expected the rule to increase overall payments to SNFs by \$370 million in fiscal year 2018, or 1.0%, compared to fiscal year 2017 levels. The 1% update for fiscal year 2018 was set by Congress in 2015 legislation.

On April 27, 2018, CMS released its proposed update to Medicare skilled nursing facility rates for fiscal year 2019, which CMS projected would increase overall payments to skilled nursing facilities by \$850 million in fiscal year 2019 relative to fiscal year 2018 levels. The proposed rate update for fiscal year 2019 was 2.4%, as mandated by the Bipartisan Budget Act of 2018. Furthermore, CMS proposed replacing the existing Resource Utilization Groups, Version IV (“RUG-IV”) case mix classification system with a new model beginning in fiscal year 2020. The new case mix classification system, called the “Patient-Driven Payment Model,” would base Medicare payment on resident needs rather than the amount of therapy a resident receives.

On July 31, 2018, CMS released a final rule updating skilled nursing facility rates and policies for fiscal year 2019. The final rule adopts the proposed 2.4% payment increase, which CMS projects will increase overall payments to skilled nursing facilities by \$820 million in fiscal year 2019 as compared to fiscal year 2018 levels (\$30 million less than projected in the proposed rule). CMS also finalized the Patient-Driven Payment Model, effective for fiscal year 2020. Finally, CMS confirm that, as required by statute, beginning October 1, 2018, the SNF Value-Based Purchasing (“VBP”) Program will go into effect. Under the VBP Program, CMS will reduce Medicare payments to skilled nursing facilities by 2%. CMS will then return approximately 60% of the withheld amount to skilled nursing facilities based on their relative performance on a readmission measure. The remaining portion of the withheld amount will be retained in the Medicare Trust Fund.

On September 28, 2016, CMS released a final rule revising the requirements that long-term care facilities must meet to participate in the Medicare and Medicaid programs. This major rule addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, infection control, and residents’ rights and compliance and ethics programs, among other key provisions. While the rule also banned pre-dispute arbitration agreements, that provision was stayed due to litigation challenging the requirement. On June 8, 2017, CMS published a proposed rule that would eliminate the prohibition on pre-dispute binding arbitration agreements and otherwise modify these requirements; this rule has not been finalized. There can be no assurance that these rules or future regulations modifying Medicare skilled nursing facility payment rates or other requirements for Medicare and/or Medicaid participation 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.

Congress periodically considers legislation revising Medicare and Medicaid policies, including legislation that could have the impact of reducing Medicare reimbursement for skilled nursing facilities and other Medicare providers, limiting state Medicaid funding allotments, 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. On February 9, 2018, President Trump signed into law the Bipartisan Budget Act of 2018, which, as noted, establishes a 2.4% increase to fiscal year 2019 Medicare skilled nursing facility rates; the update otherwise would have been based on the change in the skilled nursing facility market basket index, reduced by a productivity adjustment. There can be no assurances that enacted or future legislation 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 federal and state level and adopted by certain states. Increasingly, state Medicaid programs are providing coverage through managed care programs under contracts with private health plans, which is intended to decrease state Medicaid costs. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third-party payors.

**Key Performance Indicators, Trends and Uncertainties**

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

*Concentration Risk.* We evaluate by gross investment our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property or mortgage loans. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property classifications. 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.

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

	9/30/18	6/30/18	3/31/18	12/31/17	9/30/17
<b>Asset mix:</b>					
Real property	\$1,414,267	\$1,401,303	\$1,401,506	\$1,392,122	\$1,359,586
Loans receivable	245,053	236,178	235,734	226,162	224,095
<b>Investment mix:</b>					
Skilled nursing centers	\$ 814,194	\$ 814,208	\$ 813,542	\$ 803,691	\$ 803,853
Assisted living communities	802,484	787,373	795,036	789,520	759,896
Under development	31,602	25,077	17,922	14,465	9,716
Other <sup>(1)</sup>	11,040	10,823	10,740	10,608	10,216
<b>Operator mix:</b>					
Prestige Healthcare <sup>(1)</sup>	\$ 258,186	\$ 249,311	\$ 247,769	\$ 238,184	\$ 236,105
Senior Lifestyle Corporation	189,945	189,945	189,226	189,226	189,025
Senior Care Centers	138,109	138,109	138,109	138,109	138,109
Anthem Memory Care	135,946	135,342	131,527	126,120	121,138
Brookdale Senior Living	126,991	126,991	126,991	126,991	126,991
Remaining operators	810,143	797,783	803,618	799,654	772,313
<b>Geographic mix:</b>					
Texas	\$ 292,317	\$ 292,317	\$ 267,051	\$ 267,051	\$ 269,279
Michigan	245,996	237,121	235,579	225,994	223,916
Wisconsin	137,056	133,794	130,941	129,398	126,313
Colorado	114,923	114,923	114,923	114,923	114,923
California	102,254	102,254	102,254	102,254	102,254
Remaining states	766,774	757,072	786,492	778,664	746,996

(1) We have three parcels of land as of September 30, 2018. These parcels are located adjacent to properties securing the Prestige Healthcare mortgage loan and are managed by Prestige.





*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). The coverage ratios are based on earnings before interest, taxes, depreciation and amortization for real estate (“EBITDA<sub>re</sub>”) as defined by National Association of Real Estate Investment Trusts (“NAREIT”). EBITDA<sub>re</sub> is calculated as net income available to common stockholders (computed in accordance with GAAP) excluding (i) interest expense, (ii) income tax expense, (iii) real estate depreciation and amortization, (iv) impairment write-downs of depreciable real estate, (v) gains or losses on the sale of depreciable real estate, and (vi) adjustments for unconsolidated partnerships and joint ventures. 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:

### Balance Sheet Metrics

	Year to Date		Quarter Ended			
	9/30/18	9/30/18	6/30/18	3/31/18	12/31/17	9/30/17
Debt to gross asset value	36.4 %	36.4 %	36.1 % <sup>(1)</sup>	38.3 % <sup>(3)</sup>	37.6 % <sup>(3)</sup>	36.8 %
Debt to market capitalization ratio	27.7 %	27.7 %	27.8 % <sup>(2)</sup>	31.4 % <sup>(4)</sup>	27.9 % <sup>(4)</sup>	25.5 %
Interest coverage ratio <sup>(5)</sup>	4.7 x	4.8 x	4.7 x	4.7 x	4.8 x	4.8 x
Fixed charge coverage ratio <sup>(5)</sup>	4.7 x	4.8 x	4.7 x	4.7 x	4.8 x	4.8 x

- (1) Decreased due to decrease in outstanding debt and increase in gross asset value from acquisitions partially offset by sold properties and loan payoffs.
- (2) Decreased due to decrease in outstanding debt and increase in market capitalization.
- (3) Increased primarily due to increase in outstanding debt partially offset by the increase in gross asset value from acquisitions, additional development and capital improvement funding.
- (4) Increased primarily due to increase in outstanding debt and decrease in market capitalization.
- (5) In calculating our interest coverage and fixed charge coverage ratios above, we use EBITDA<sub>re</sub>, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (“GAAP”) (non-GAAP financial measure). EBITDA<sub>re</sub> is not an alternative to net income, operating income or cash flows from operating activities as calculated and presented in accordance with GAAP. You should not rely on EBITDA<sub>re</sub> as a substitute for any such 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 EBITDA<sub>re</sub>.

	Year to Date		Quarter Ended			
	9/30/18	9/30/18	6/30/18	3/31/18	12/31/17	9/30/17
Net income	\$124,232	\$ 34,937	\$ 68,936	\$ 20,359	\$ 19,834	\$ 20,616
(Less): gain on sale  Add: loss on sale	(62,698)	(14,353)	(48,345)	—	1,240	—
Add: Impairment charges	—	—	—	—	—	—
Add: Interest expense	22,981	7,497	7,655	7,829	7,683	7,644
Add: Depreciation and amortization	28,159	9,447	9,268	9,444	9,424	9,519
Total EBITDA <sub>re</sub>	<u>\$112,674</u>	<u>\$ 37,528</u>	<u>\$ 37,514</u>	<u>\$ 37,632</u>	<u>\$ 38,181</u>	<u>\$ 37,779</u>
Interest expense	\$ 22,981	\$ 7,497	\$ 7,655	\$ 7,829	\$ 7,683	\$ 7,644
Add: Capitalized interest	850	298	293	259	281	256
Interest incurred	<u>\$ 23,831</u>	<u>\$ 7,795</u>	<u>\$ 7,948</u>	<u>\$ 8,088</u>	<u>\$ 7,964</u>	<u>\$ 7,900</u>
Interest coverage ratio	4.7 x	4.8 x	4.7 x	4.7 x	4.8 x	4.8 x
Interest incurred	\$ 23,831	\$ 7,795	\$ 7,948	\$ 8,088	\$ 7,964	\$ 7,900
Total fixed charges	<u>\$ 23,831</u>	<u>\$ 7,795</u>	<u>\$ 7,948</u>	<u>\$ 8,088</u>	<u>\$ 7,964</u>	<u>\$ 7,900</u>
Fixed charge coverage ratio	4.7 x	4.8 x	4.7 x	4.7 x	4.8 x	4.8 x



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 seniors 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.

**Operating Results** (unaudited, in thousands)

	<b>Three Months Ended</b>		
	<b>September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Difference</b>
<b>Revenues:</b>			
Rental income	\$ 34,211	\$33,233	\$ 978 <sup>(1)</sup>
Interest income from mortgage loans	7,087	6,677	410 <sup>(2)</sup>
Interest and other income	478	1,336	(858) <sup>(3)</sup>
Total revenues	<u>41,776</u>	<u>41,246</u>	<u>530</u>
<b>Expenses:</b>			
Interest expense	7,497	7,644	147 <sup>(4)</sup>
Depreciation and amortization	9,447	9,519	72
Provision (recovery) for doubtful accounts	106	(96)	(202) <sup>(5)</sup>
Transaction costs	9	34	25
General and administrative expenses	4,879	4,144	(735) <sup>(6)</sup>
Total expenses	<u>21,938</u>	<u>21,245</u>	<u>(693)</u>
Operating income	19,838	20,001	(163)
Income from unconsolidated joint ventures	746	615	131 <sup>(7)</sup>
Gain on sale of real estate, net	14,353	—	14,353 <sup>(8)</sup>
Net income	34,937	20,616	14,321
Income allocated to non-controlling interests	(17)	—	(17)
Net income attributable to LTC Properties, Inc.	34,920	20,616	14,304
Income allocated to participating securities	(138)	(80)	(58)
Net income available to common stockholders	<u>\$ 34,782</u>	<u>\$20,536</u>	<u>\$ 14,246</u>

- (1) Increased due to acquisitions, capital improvement investments and higher cash rental income from Anthem partially offset by a reduction related to properties sold during 2017 and 2018.
- (2) Increased primarily due to mortgage originations and capital improvement funding partially offset by payoffs.
- (3) Decreased due to the net write-off of an earn-out liability and the related lease incentive asset during the third quarter of 2017 resulting from the lessee's business model change, which negatively impacted the lessee's operating results and caused the payment of the earn-out within the exercisable window improbable.
- (4) Decreased due to scheduled principal payments under our senior unsecured notes and an increase in capitalized interest related to development projects partially offset by a higher average outstanding balance on our line of credit and an increase in LIBOR rates.
- (5) Increased primarily due to (2) above and the reversal of straight-line rent reserve in 2017.
- (6) Increased primarily due to lower incentive compensation in the prior year related to a previously disclosed defaulted master lease.
- (7) Increased primarily due to income generated from additional funding under a preferred capital contribution commitment and income from a mezzanine loan accounted for as an unconsolidated joint venture in accordance with GAAP which was previously deferred.
- (8) Represents the net gain on sale of two senior living centers in Alabama during the third quarter of 2018.

## Table of Contents

	<b>Nine Months Ended</b>		
	<b>September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Difference</b>
<b>Revenues:</b>			
Rental income	\$102,646	\$103,533	\$ (887) <sup>(1)</sup>
Interest income from mortgage loans	20,910	20,050	860 <sup>(2)</sup>
Interest and other income	1,502	2,753	(1,251) <sup>(3)</sup>
Total revenues	<u>125,058</u>	<u>126,336</u>	<u>(1,278)</u>
<b>Expenses:</b>			
Interest expense	22,981	22,266	(715) <sup>(4)</sup>
Depreciation and amortization	28,159	28,186	27
Impairment charges	—	1,880	1,880 <sup>(5)</sup>
Provision (recovery) for doubtful accounts	76	(139)	(215) <sup>(6)</sup>
Transaction costs	19	56	37
General and administrative expenses	14,392	13,270	(1,122) <sup>(7)</sup>
Total expenses	<u>65,627</u>	<u>65,519</u>	<u>(108)</u>
Operating income	59,431	60,817	(1,386)
Income from unconsolidated joint ventures	2,103	1,635	468 <sup>(8)</sup>
Gain on sale of real estate, net	62,698	5,054	57,644 <sup>(9)</sup>
Net income	124,232	67,506	56,726
Income allocated to non-controlling interests	(17)	—	(17)
Net income attributable to LTC Properties, Inc.	124,215	67,506	56,709
Income allocated to participating securities	(504)	(281)	(223)
Net income available to common stockholders	<u>\$123,711</u>	<u>\$ 67,225</u>	<u>\$ 56,486</u>

- (1) Decreased due to Anthem's default, as previously discussed, and the reduction of rent related to properties sold during 2017 and 2018, partially offset by acquisitions and capital improvement investments.
- (2) Increased primarily due to mortgage originations and capital improvement funding partially offset by payoffs.
- (3) Decreased due to non-accrual of interest on a loan to Anthem and the net write-off of an earn-out liability and the related lease incentive asset during the third quarter of 2017 resulting from the lessee's business model change, which negatively impacted the lessee's operating results and caused the payment of the earn-out within the exercisable window improbable, partially offset by interest income from mezzanine loans.
- (4) Increased primarily due to a higher average outstanding balance on our line of credit and an increase in LIBOR rates, partially offset by scheduled principal payments under our senior unsecured notes and an increase in capitalized interest related to development projects.
- (5) Represents the write-off of straight-line rent and other receivables in 2017 related to two properties due to negotiations to transition these properties to another operator in our portfolio.
- (6) Increased primarily due to (2) above and the reversal of straight-line rent reserve in 2017.
- (7) Increased primarily due to lower incentive compensation in the prior year related to a previously disclosed defaulted master lease.
- (8) Increased primarily due to income generated from additional funding under a preferred capital contribution commitment and income from a mezzanine loan accounted for as an unconsolidated joint venture in accordance with GAAP which was previously deferred.
- (9) Represents the net gain on sale of six assisted living communities in Ohio and Pennsylvania and net gain on sale of two skilled nursing centers in Alabama during 2018 partially offset by a net gain on sale of four assisted living communities in Indiana and Iowa during 2017.

### Funds From Operations Available to Common Stockholders

Funds from Operations ("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 GAAP. Real estate values historically rise and fall with market conditions, but cost accounting for real estate assets in accordance with 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 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 NAREIT. FFO, as defined by NAREIT, means net income available to common stockholders (computed in accordance with GAAP) excluding gains or losses on the sale of real estate and impairment write-downs of depreciable real estate plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our calculation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that have a different interpretation of the current NAREIT definition from us; therefore, caution should be exercised when comparing our FFO to that of other REITs.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
GAAP net income available to common stockholders	\$ 34,782	\$20,536	\$123,711	\$67,225
Add: Depreciation and amortization	9,447	9,519	28,159	28,186
Add: Impairment charges	—	—	—	1,880
Less: Gain on sale of real estate, net	(14,353)	—	(62,698)	(5,054)
NAREIT FFO attributable to common stockholders	<u>\$ 29,876</u>	<u>\$30,055</u>	<u>\$ 89,172</u>	<u>\$92,237</u>
NAREIT FFO attributable to common stockholders per share:				
Basic	<u>\$ 0.76</u>	<u>\$ 0.76</u>	<u>\$ 2.26</u>	<u>\$ 2.34</u>
Diluted	<u>\$ 0.75 <sup>(1)</sup></u>	<u>\$ 0.76 <sup>(1)</sup></u>	<u>\$ 2.25 <sup>(1)</sup></u>	<u>\$ 2.33 <sup>(1)</sup></u>
Weighted average shares used to calculate NAREIT FFO per share:				
Basic	<u>39,487</u>	<u>39,428</u>	<u>39,470</u>	<u>39,403</u>
Diluted	<u>39,865 <sup>(2)</sup></u>	<u>39,748 <sup>(2)</sup></u>	<u>39,845 <sup>(2)</sup></u>	<u>39,738 <sup>(2)</sup></u>

(1) Includes the effect of the participating securities.

(2) Includes the effect of stock option equivalents, participating securities and performance-based stock units.

## **Liquidity and Capital Resources**

### Sources and Uses of Cash

As of September 30, 2018, we had a total of \$20.4 million of cash and cash equivalents, \$480.0 million available under our unsecured revolving line of credit, \$79.8 million available under our senior unsecured note shelf agreement and the potential ability to access the capital markets through the issuance of \$184.1 million of common stock under our equity distribution agreement. Subsequent to September 30, 2018, we paid down \$20.0 million under our unsecured revolving line of credit. Accordingly, we have \$500.0 million available under our unsecured line of credit. Furthermore, we have the ability to access the capital markets through the issuance of debt and/ or equity securities under an automatic shelf registration statement.

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 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 used in financing and 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 2018 and 2019.

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 seniors housing and health care properties 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 seniors housing and health care facilities, ability to control rising operating costs, and the potential for significant reforms in the 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 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 seniors housing and 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.

Our primary sources of cash include rent and interest receipts, borrowings under our primary unsecured credit facility, public and private issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures and construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows as summarized below (*in thousands*):

	<b>Nine months ended</b>		<b>Change</b>
	<b>September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>\$</b>
Cash provided by (used in):			
Operating activities	\$ 83,438	\$ 76,134	\$ 7,304
Investing activities	(2,374)	(53,815)	51,441
Financing activities	(63,706)	(26,468)	(37,238)
Increase in cash and cash equivalents	17,358	(4,149)	21,507
Cash and cash equivalents, beginning of period	5,213	7,991	(2,778)
Cash and cash equivalents, end of period	<u>\$ 22,571</u>	<u>\$ 3,842</u>	<u>\$ 18,729</u>

### Debt Obligations

**Bank Borrowings.** During 2018, we amended and restated our unsecured credit agreement to replace the previous unsecured credit agreement, prior to its expiration on October 14, 2018. The amended credit agreement maintains the \$600.0 million aggregate commitment of the lenders under the prior agreement and provides for the opportunity to increase the commitment size of the credit agreement

## Table of Contents

up to a total of \$1.0 billion. The amended credit agreement extends the maturity of the credit agreement to June 27, 2022 and provides for a one-year extension option at our discretion, subject to customary conditions. Additionally, the amended credit agreement decreases the interest rate margins and converts from the payment of unused commitment fees to a facility fee. Based on our leverage at September 30, 2018, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points. At September 30, 2018, we were in compliance with all covenants.

*Senior Unsecured Notes.* We have a \$337.5 million shelf agreement with affiliates and managed accounts of Prudential Investment Management, Inc. (“Prudential”) with \$79.8 million available for borrowing.

The debt obligations by component as of September 30, 2018 are as follows (*dollar amounts in thousands*):

<b>Debt Obligations</b>	<b>Applicable</b>	<b>Outstanding</b>	<b>Available</b>
	<b>Interest Rate <sup>(1)</sup></b>	<b>Balance</b>	<b>for Borrowing</b>
Bank borrowings <sup>(2)</sup>	3.38%	\$ 120,000	\$ 480,000
Senior unsecured notes, net of debt issue costs	4.49%	550,986	79,833
<b>Total</b>	<b>4.29%</b>	<b>\$ 670,986</b>	<b>\$ 559,833</b>

(1) Represents weighted average of interest rate as of September 30, 2018.

(2) Subsequent to September 30, 2018, we paid down \$20,000 under our unsecured revolving line of credit. Accordingly, we have \$100,000 outstanding under our unsecured revolving line of credit with \$500,000 available for borrowing.

Our debt borrowings and repayments during the nine months ended September 30, 2018 are as follows (*in thousands*):

<b>Debt Obligations</b>	<b>Borrowings</b>	<b>Repayments</b>
Bank borrowings	\$ 96,500	\$ (73,000)
Senior unsecured notes	—	(20,167)
<b>Total</b>	<b>\$ 96,500</b>	<b>\$ (93,167)</b>

## Equity

At September 30, 2018, we had 39,656,737 shares of common stock outstanding, equity on our balance sheet totaled \$823.3 million and our equity securities had a market value of \$1.7 billion. During the nine months ended September 30, 2018, we declared and paid \$67.8 million of cash dividends.

Subsequent to September 30, 2018, we declared a monthly cash dividend of \$0.19 per share on our common stock for the months of October, November and December 2018, payable on October 31, November 30, and December 31, 2018, respectively, to stockholders of record on October 23, November 21, and December 21, 2018, respectively.

*At-The-Market Program.* We have an equity distribution agreement with sales agents to issue and sell, from time to time, up to \$200.0 million in aggregate offering price of our common shares. The equity distribution agreement provides that sales of common shares are to be made by means of ordinary brokers’ transactions, which may include block trades, or transactions that are deemed to be “at the market” offerings. During the nine months ended September 30, 2018, we sold 22,244 shares of common stock for \$1.0 million in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we paid \$18,000 as compensation to our sales agents and we reclassified \$76,000 of accumulated costs associated with this agreement to additional paid in capital. At September 30, 2018, we had \$184.1 million available under our equity distribution agreement.

*Available Shelf Registrations.* We have an automatic shelf registration statement on file with the SEC and currently have the ability to file additional automatic shelf registration statements to provide us with capacity to publicly offer an indeterminate amount of common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our automatic registration statement 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.

*Stock-Based Compensation.* During the nine months ended September 30, 2018, we granted restricted stock and performance-based stock units under the 2015 Plan as follows:

<b>No. of Shares</b>	<b>Price per Share</b>	<b>Vesting Period</b>
81,819	\$ 38.18	ratably over 3 years
66,171	\$ 38.18	TSR targets <sup>(1)</sup>
8,728	\$ 41.25	ratably over 1 year
<u>156,718</u>		

(1) Vesting is based on achieving certain total shareholder return (“TSR”) targets in 4 years with acceleration opportunity in 3 years.

### **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, 2017.

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

There were no material changes in our market risk during the nine months ended September 30, 2018. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2017.

### **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.

## **PART II**

### **OTHER INFORMATION**

#### **Item 1. LEGAL PROCEEDINGS**

We are and may become from time to time a party to various claims and lawsuits arising in the ordinary course of business, which in our opinion are not singularly or in the aggregate anticipated to be material to our results of operations or financial condition. Claims and lawsuits may include matters involving general or professional liability asserted against the lessees or borrowers related to our properties, 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 and lawsuits.

#### **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, 2017.

#### **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended September 30, 2018, we did not make any unregistered sales of equity securities.

During the three months ended September 30, 2018, we acquired shares of common stock held by employees who tendered shares to satisfy tax withholding obligations. Specifically, the number of shares of common stock acquired from employees and the average prices paid per share for each month in the quarter ended September 30, 2018 are as follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plan</b>
July 1- July 31, 2018	—	\$ —	—	—
August 1 - August 31, 2018	487	\$ 42.91	—	—
September 1 - September 30, 2018	—	\$ —	—	—
Total	<u>487</u>		<u>—</u>	<u>—</u>

**Item 6. Exhibits**

- 3.1 [LTC Properties, Inc. Articles of Restatement \(incorporated by reference to Exhibit 3.1.2 to LTC Properties Inc.'s Current Report on Form 8-K \(File No. 1-11314\) filed June 6, 2016\)](#)
- 3.2 [Bylaws of LTC Properties, Inc., as restated June 2, 2015 \(incorporated by reference to Exhibit 3.2 to LTC Properties Inc.'s Current Report on Form 8-K \(File No. 1-11314\) filed June 5, 2015\)](#)
- 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 September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (iv) Notes to Consolidated Financial Statements

## 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: November 5, 2018

By: /s/ Pamela Kessler  
Pamela Kessler  
Executive Vice President, Chief Financial  
Officer and Corporate Secretary  
(Principal Financial and Accounting Officer)

[\(Back To Top\)](#)

## Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wendy L. Simpson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Wendy L. Simpson

Wendy L. Simpson

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

November 5, 2018

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[\(Back To Top\)](#)

## Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

### CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Pam Kessler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other

employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Pam Kessler

Pam Kessler  
Executive Vice President, Chief Financial Officer  
and Corporate Secretary  
(Principal Financial and Accounting Officer)  
November 5, 2018

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[\(Back To Top\)](#)

## Section 4: EX-32 (EX-32)

Exhibit 32

**CERTIFICATIONS PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of LTC Properties, Inc. (the "Company") hereby certifies with respect to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission (the "Report") that to her knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2018

/s/ Wendy L. Simpson  
Wendy L. Simpson  
Chairman, Chief Executive Officer and President

Date: November 5, 2018

/s/ Pam Kessler  
Pam Kessler  
Executive Vice President, Chief Financial Officer  
and Corporate Secretary

*This certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.*

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[\(Back To Top\)](#)