
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

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.)

300 Esplanade Drive, Suite 1860, Oxnard, California 93030
(Address of principal executive offices)

(805) 981-8655
(Registrant's telephone number, including area code)

Indicate by check mark whether Registrant (1) has filed all reports 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Shares of Registrant's common stock, \$.01 par value, outstanding at August 9, 2002—18,393,322

LTC PROPERTIES, INC.

FORM 10-Q

June 30, 2002

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

	June 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2002—\$62,551; 2001—\$58,583	\$ 394,327	\$ 410,202
Land	27,803	27,339
Mortgage loans receivable, net of allowance for doubtful accounts: 2002—\$1,280; 2001—\$1,250	84,841	93,611
REMIC Certificates	69,066	73,154
	<u>576,037</u>	<u>604,306</u>
Other Assets:		
Cash and cash equivalents	14,701	6,322
Debt issue costs, net	3,043	3,578
Interest receivable	3,645	3,258
Prepaid expenses and other assets	2,908	2,423
Notes receivable (includes \$3,095 due from CLC Healthcare, Inc. in 2002 and 2001)	15,108	14,584
Marketable debt securities	8,781	8,755
Line of credit due from CLC Healthcare, Inc.	5,478	5,342
	<u>53,664</u>	<u>44,262</u>
Total Assets	\$ 629,701	\$ 648,568
LIABILITIES AND STOCKHOLDERS' EQUITY		
Convertible subordinated debentures	\$ —	\$ 2,408
Bank borrowings	96,000	104,000
Mortgage loans and notes payable	146,283	162,232
Bonds payable and capital lease obligations	15,528	15,994
Accrued interest	1,336	1,210
Accrued expenses and other liabilities	6,158	7,138
Distributions payable	981	1,803
	<u>266,286</u>	<u>294,785</u>
Total Liabilities	266,286	294,785
Minority interest	13,404	13,404
Stockholders' equity:		
Preferred stock \$0.01 par value: 10,000 shares authorized; shares issued and outstanding: 2002—7,062; 2001—7,062	165,183	165,183
Common stock: \$0.01 par value; 40,000 shares authorized; shares issued and outstanding: 2002 —18,393; 2001—18,393	185	185
Capital in excess of par value	254,976	254,930
Cumulative net income	239,369	218,826
Notes receivable from stockholders	(7,822)	(8,042)
Accumulated comprehensive income	2,465	2,437
Cumulative distributions	(304,345)	(293,140)
	<u>350,011</u>	<u>340,379</u>
Total Stockholders' Equity	350,011	340,379
Total Liabilities and Stockholders' Equity	\$ 629,701	\$ 648,568

See accompanying notes.

LTC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
Rental income	\$ 10,730	\$ 10,139	\$ 21,598	\$ 20,313
Interest income from mortgage loans and notes receivable	2,525	3,174	5,118	6,608
Interest income from REMIC Certificates	3,219	4,010	6,486	8,036
Interest and other income	766	758	1,511	1,402
Total revenues	17,240	18,081	34,713	36,359
Expenses:				
Interest expense	5,310	5,582	10,736	11,636
Depreciation and amortization	3,671	3,376	7,384	7,115
Minority interest	335	235	656	470
Impairment charge	4,882	18,366	4,882	22,866
Operating and other expenses	1,872	2,054	3,632	3,682
Total expenses	16,070	29,613	27,290	45,769
Operating income (loss)	1,170	(11,532)	7,423	(9,410)
Gain (loss) on sale of assets, net	13,192	(100)	13,120	1,844
Net income (loss)	14,362	(11,632)	20,543	(7,566)
Less: Preferred dividends	3,761	3,771	7,519	7,543
Net income (loss) available to common stockholders	\$ 10,601	\$ (15,403)	\$ 13,024	\$ (15,109)
Net Income (Loss) per Common Share:				
Basic	\$ 0.58	\$ (0.61)	\$ 0.71	\$ (0.59)
Diluted	\$ 0.55	\$ (0.61)	\$ 0.70	\$ (0.59)
Comprehensive Income (Loss)				
Net income (loss) available to common stockholders	\$ 10,601	\$ (15,403)	\$ 13,024	\$ (15,109)
Unrealized gain (loss) on available-for-sale securities	—	74	28	(332)
Reclassification adjustment	—	—	—	366
Total comprehensive income (loss)	\$ 10,601	\$ (15,329)	\$ 13,052	\$ (15,075)

See accompanying notes.

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

	Six Months Ended June 30,	
	2002	2001
OPERATING ACTIVITIES:		
Net income (loss)	\$ 20,543	\$ (7,566)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,384	7,115
Impairment charge	4,882	22,866
Other non-cash charges	2,278	2,422
Loss on the sale of other assets	—	456
Gain on sale of real estate investments, net	(13,120)	(2,300)
Increase in accrued interest	162	31
Net change in other assets and liabilities	(1,743)	(1,898)
Net cash provided by operating activities	20,386	21,126
INVESTING ACTIVITIES:		
Investment in real estate properties and capital improvements, net	(1,091)	(1,084)
Proceeds from sale of real estate investments and other assets, net	9,520	12,671
Principal payments on mortgage loans receivable	5,356	3,325
Advances under line of credit to CLC Healthcare, Inc.	(792)	(1,650)
Payments on line of credit to CLC Healthcare, Inc.	656	—
Other	1,565	2,799
Net cash provided by investing activities	15,214	16,061
FINANCING ACTIVITIES:		
Borrowings under the line of credit	—	12,000
Repayments of bank borrowings under line of credit	(8,000)	(15,000)
Principal payments on mortgage loans payable and capital lease obligations	(5,058)	(981)
Redemption of convertible subordinated debentures	(2,408)	(12,120)
Repurchase of common stock	—	(4,703)
Distributions paid	(12,027)	(7,544)
Other	272	(904)
Net cash used in financing activities	(27,221)	(29,252)
Increase in cash and cash equivalents	8,379	7,935
Cash and cash equivalents, beginning of period	6,322	1,870
Cash and cash equivalents, end of period	\$ 14,701	\$ 9,805
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 10,051	\$ 11,128
Non-cash investing and financing transactions:		
Conversion of mortgage loans into owned properties	2,332	3,502
Increase in short term notes receivable related to the disposition of real estate properties	2,631	5,183
Assumption of mortgage loans payable related to acquisitions of real estate properties	1,357	—

See accompanying notes.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

LTC Properties, Inc. (the "Company"), a Maryland corporation, is a real estate investment trust ("REIT") that invests primarily in long term care facilities through mortgage loans, facility lease transactions and other investments.

The consolidated financial statements included herein have been prepared by the Company without audit and in the opinion of management include all adjustments necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2002 and 2001 pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and controlled partnerships. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading. The results of operations for the three and six months ended June 30, 2002 are not necessarily indicative of the results for a full year.

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

2. Real Estate Investments

Owned Properties. At June 30, 2002, the Company owned 66 skilled nursing facilities with a total of 8,003 beds, 89 assisted living facilities with 4,222 units and one school located in 24 states. During the six months ended June 30, 2002, the Company sold five skilled nursing facilities in Alabama for approximately \$9,824,000 in cash, a 10-year \$3,550,000 note with a face rate of 7.0% which the Company discounted to \$2,631,000 for an effective rate of 13.0% and a reduction of \$10,247,000 in mortgage debt due to a REMIC pool originated by the Company. The Company recognized a gain of approximately \$13,192,000. Net proceeds from the sale will be used to meet debt maturities in the third quarter of 2002. Annual rental revenue to the Company from these five properties was approximately \$2,100,000 before net interest expense of approximately \$800,000. Also during the six months ended June 30, 2002, the Company sold, in one transaction, two skilled nursing facilities in Illinois for approximately \$2,100,000 in cash and used the proceeds and available cash to pay off \$2,562,000 in mortgage debt due to REMIC pools originated by the Company. The Company recognized a loss of approximately \$72,000 from this sale.

During the six months ended June 30, 2002, the Company purchased one skilled nursing facility in Grapevine, Texas for a total cost of \$1,862,000. The Company paid approximately \$505,000 in cash and assumed \$1,357,000 in mortgage debt due to a REMIC pool originated by the Company. This facility was leased to CLC Healthcare, Inc.

During the six months ended June 30, 2002, one mortgage loan on a skilled nursing facility in Jacksonville, Florida was reclassified to an owned property as a result of a deed-in-lieu of foreclosure transaction. A new operator began operating this facility in May 2002.

Subsequent to June 30, 2002, the Company sold (in separate transactions) two closed, previously impaired skilled nursing facilities in Arizona and Texas resulting in net proceeds of approximately \$1,899,000 and a

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

combined gain of approximately \$368,000. Proceeds from these sales were used to reduce amounts outstanding and \$930,000 of the proceeds was used to reduce commitments under the Senior Secured Revolving Line of Credit.

Mortgage Loans. At June 30, 2002 the Company had 40 mortgage loans secured by first mortgages on 37 skilled nursing facilities with a total of 4,185 beds and eight assisted living residences with a total of 369 units located in 20 states. At June 30, 2002, the mortgage loans had interest rates ranging from 9.3% to 13.7% and maturities ranging from 2003 to 2018. In addition, the loans contain certain guarantees, provide for certain facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

Subsequent to June 30, 2002 the Company sold, to a private bank, a non-recourse senior participation interest in 22 of the Company's first mortgages with a total balance outstanding of approximately \$58,627,000. The sales agreement provides that the private bank will receive 9.25% per annum interest and all principal payments from these mortgages until the senior participation is retired. There is no specific principal maturity date for the senior participation other than the principal maturity dates of the underlying mortgages. The Company will continue to receive interest from these mortgages above the 9.25% paid to the private bank and will resume collecting principal once the senior participation is repaid in full. The weighted average interest rate of these mortgages is approximately 11.6%. The Company sold the senior participation interest for \$30,000,000 and received \$29,750,000 in net proceeds, which it used to reduce commitments and amounts outstanding under the Senior Secured Revolving Line of Credit.

REMIC Certificates. As of June 30, 2002 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was \$251,562,000 and 7.36%. As of June 30, 2002, the carrying value of the subordinated REMIC Certificates held by the Company was \$69,066,000. The effective yield on the subordinated REMIC Certificates held by the Company, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses was 17.55% at June 30, 2002.

Interest only certificates and certificates with an investment rating of "BB" or higher are classified as available-for-sale and unrated certificates and certificates with an investment rating of "B" or lower are classified as held-to-maturity. As of June 30, 2002, available-for-sale certificates were recorded at their fair value of approximately \$17,559,000. An unrealized holding gain on available-for-sale certificates of \$28,000 was included in comprehensive income for the six months ended June 30, 2002. An unrealized holding loss of \$332,000 was included in comprehensive loss for the same period in 2001. At June 30, 2002 held-to-maturity certificates had a book value of \$51,507,000 and a fair value of \$32,907,000. As of June 30, 2002, the effective yield on the available-for-sale certificates and the held-to-maturity certificates, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses was 33.81% and 11.94%, respectively.

3. Impairment Charge

The Company periodically performs an evaluation of its real estate investment portfolio. Impairment losses are recorded when events or changes in circumstances indicate the asset is impaired and the estimated undiscounted cash flows to be generated by the asset are less than its carrying amount. Management assesses the impairment of properties individually and impairment losses are calculated as the excess of the carrying amount of the real estate over its fair value less cost to sell as per Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." In

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

determining fair value, the Company uses current appraisals or other third party opinions of value and other estimates of fair value such as estimated undiscounted future cash flows. During the six months ended June 30, 2002, the Company recorded an impairment charge of \$4,882,000. Of this charge, \$1,600,000 related to loans on two skilled nursing facilities, \$1,000,000 related to a valuation adjustment on one skilled nursing facility and \$2,282,000 related to two loans in two separate REMIC pools originated by the Company. Relative to the \$2,282,000 charge and as more fully described in *Note 2—Summary of Significant Accounting Policies* of the Company's 10-K for the year ending December 31, 2001, to the extent there are defaults or unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the subordinated REMIC Certificates held by the Company would bear the first risk of loss. During management's periodic evaluation of the realizability of expected future cash flows from the mortgages underlying the Company's REMIC Certificates, there were indications that a portion of the underlying mortgage collateral would not be realized by the REMIC Trust. Accordingly, the Company recorded a permanent impairment in current period earnings related to the valuation adjustment of the subordinated REMIC Certificates held by the Company.

The Company believes it has recorded valuation adjustments on all assets for which there are permanent impairments. However, the long-term care industry has experienced significant adverse changes which have resulted in continued operating losses by certain of the Company's operators and in some instances the filing by certain operators for bankruptcy protection. Thus, the Company cannot predict what, if any, impairment charge may be needed in the future.

During the three and six months ended June 30, 2001 the Company recorded impairment charges of \$18,366,000 and \$22,866,000, respectively. The impairment charge recorded for the three months ended June 30, 2001 consisted of the following: a \$9,537,000 valuation adjustment on 10 skilled nursing facilities and an \$8,829,000 valuation adjustment on the Company's investment in the convertible subordinated debentures of Assisted Living Concepts, Inc. ("ALC"). The impairment charge recorded for the six months ended June 30, 2001 consisted of \$11,537,000 in valuation adjustments on 10 skilled nursing facilities, a \$1,500,000 write down of a note receivable and a \$9,829,000 valuation adjustment on the Company's investment in ALC convertible subordinated debentures.

4. CLC Healthcare, Inc.

As of June 30, 2002, 23 skilled nursing facilities with 2,617 beds and a gross carrying value of \$57,823,000 or 10.1% of the Company's direct real estate investment portfolio were operated by CLC Healthcare, Inc. ("CLC"). These facilities are leased to CLC under individual six-year leases that provided for total rents of \$3,000,000; \$4,000,000; \$4,750,000; \$5,350,000; \$5,900,000 and \$6,500,000 respectively, in years 2002 through 2007. The leases contain two five-year renewal options with increases of 2% annually. These leases have cross default provisions and a provision for acceleration should there be a change of control, as defined in the leases. Additionally, CLC owns and operates two skilled nursing facilities in New Mexico, discussed more fully below, that are financed with mortgage loans payable to a REMIC pool originated by the Company. During the three and six months ended June 30, 2002, the Company was due rental income of approximately \$750,000 and \$1,275,000, respectively, from CLC as compared to \$763,000 and \$1,615,000 during the same periods in 2001. For the three and six months ended June 30, 2002, the Company has classified the rents due from CLC as non-accrual rents but has not forgiven any current rents due and at this time has waived default under the leases provisions.

During the six months ended June 30, 2002, the Company sold a wholly owned subsidiary, LTC-Fort Tucum, Inc. to CLC for a \$500,000 note bearing no interest for one year and thereafter interest at 8% annually for two years. CLC has certain rights to extend the note at its maturity. The \$500,000 note is a full recourse obligation of LTC-Fort Tucum, Inc. and is secured by all the assets owned now or in the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

future by LTC-Fort Tucum, Inc. and contains a provision for acceleration should there be a change of control of LTC-Fort Tucum, Inc. LTC-Fort Tucum, now owned by CLC, has acquired two skilled nursing facilities in New Mexico, previously financed with debt from a REMIC pool originated by the Company. CLC began operating the two facilities during the second quarter of 2002.

During the six months ended June 30, 2001, the Company sold all 180,000 shares of CLC common stock it owned at December 31, 2000. The shares were sold to CLC for \$225,000, not including selling commissions, which was the fair market value as of the date of sale. The Company recognized a loss of \$386,000 on the sale of these shares. The Company sold these shares because the Tax Relief Extension Act of 1999 ("Act") provides that, subject to certain exceptions for taxable years commencing after December 31, 2000, a REIT may not own more than 10% of the total value of the securities of any corporation. Without qualifying as safe harbor debt, securities under the Act include the line of credit provided by the Company to CLC. In order to qualify as safe harbor debt and retain its REIT status, the Company was required to hold only such debt or the shares.

The Company has provided CLC with a \$20,000,000 secured line of credit that bears interest at 10% and matures on April 1, 2008. This agreement contains a provision for acceleration should there be a change of control of CLC. As of June 30, 2002 and December 31, 2001, \$5,478,000 and \$5,342,000, respectively, were outstanding under the line of credit. During the six months ended June 30, 2002, the Company advanced CLC \$792,000 under the line of credit and CLC repaid \$656,000 on the line of credit. Under the terms of the Senior Secured Revolving Credit, the Company is permitted to loan CLC up to \$25,000,000. The Company and CLC have not increased the \$20,000,000 secured line of credit between the companies. Should any such amendment be proposed, it would need approval of the independent Board members of each company's board. The Company reserved for, but has not forgiven, interest due from CLC under the line of credit during the first half of 2002. During the three and six months ended June 30, 2002 the Company recorded interest income of \$0 on the average outstanding principal balance under the line of credit as compared to \$0 and \$437,000, during the same periods in 2001. The Company has granted a waiver through July 31, 2002 for unpaid interest of \$269,000 for January through June 2002.

CLC has advised the Company that it no longer has general and professional liability insurance in Texas and Florida. CLC no longer operates in Florida; however, it has claims arising from operations prior to their exit from the Florida market. CLC does provide for a reserve for potential insurance losses based on an estimate of incurred but not reported losses; however, should CLC incur a significant uninsured loss, it may seek to draw against its line of credit with the Company to pay the loss. At this time, CLC has stated that given the current litigation environment and unpredictability of jury trials, the existing claims could develop in a way which may present a material adverse affect on CLC's financial position, results of operations or liquidity.

CLC further stated its insurance for those claims for which insurance exists and CLC's allowance for general and professional liability risk in an amount determined for reported claims and the incurred but not reported claims, CLC's management believes, at this time, that the existing claims do not present a material adverse affect on CLC's financial position or results of operations, however, such claims could have a material adverse effect on liquidity.

Additionally, the Company holds a Promissory Note ("Note") issued by Healthcare Holdings, Inc. ("Holdings"), a wholly owned subsidiary of CLC, in the face amount of \$7,000,000. The Note was received in December 2001 in exchange for the Company's right to receive 1,238,076 shares of Assisted Living Concepts, Inc. ("ALC") common stock distributed concurrently with ALC's emergence from bankruptcy on December 31, 2001. The Note is for a term of five years and bears interest at 5.0%

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

compounded annually and accruing to the principal balance plus interest at 2.0% on the original principal of \$7,000,000 payable in cash annually. The Company did not accrue any interest income on the Note during the first six months of 2002. The Note is a full recourse obligation of Holdings and is secured by all the assets owned now or in the future by Holdings and contains a provision for acceleration should there be a change of control of Holdings or CLC. At June 30, 2002 Holdings owned 1,452,794 shares of ALC common stock with a fair market value based on the closing price of the stock on June 30, 2002 of \$4,649,000 and \$1,382,000 face value of ALC Senior Subordinated Debentures and \$544,000 face value of Junior Subordinated Debentures. At June 30, 2002, the book value of the note was \$3,095,000 which represented the fair market value of the 1,238,076 shares acquired by Holdings on December 31, 2001.

In February 2002, the independent members of CLC's Board of Directors approved, in principle, an Administrative Services Agreement between CLC and the Company. This agreement would terminate on June 30, 2007 and provides that during its term, the Company will provide office space and certain management and administrative services to CLC for a fee of approximately \$1,000,000 per year beginning as of July 1, 2002. As of August 13, 2002 this agreement had not been signed by CLC or the Company. Additionally, the Company has an indemnification agreement covering four of the Company's officers who also serve as officers of CLC and one current CLC outside director.

5. Debt Obligations

At June 30, 2002, \$96,000,000 was outstanding under the Company's Senior Secured Revolving Line of Credit (the "Secured Revolving Credit"). During the three and six months ended June 30, 2002, pricing under the Secured Revolving Credit ranged between LIBOR plus 2.25% and LIBOR plus 3.00%. At June 30, 2002, the Company's weighted average interest rate was 4.48%.

Subsequent to June 30, 2002, the Company sold, to a private bank, a non-recourse senior participation interest in 22 of the Company's first mortgages with a total balance outstanding of approximately \$58,627,000. The sales agreement provides that the private bank will receive 9.25% per annum interest and all principal payments from these mortgages until the senior participation is retired. There is no specific principal maturity date for the senior participation other than the principal maturity dates of the underlying mortgages. The Company will continue to receive interest from these mortgages above the 9.25% paid to the private bank and will resume collecting principal once the senior participation is repaid in full. The weighted average interest rate of these mortgages is approximately 11.6%. The Company sold the senior participation interest for \$30,000,000 and received \$29,750,000 in net proceeds, which it used to reduce commitments and amounts outstanding under the Secured Revolving Credit.

During the six months ended June 30, 2002, the Company received three mortgage loan repayments totaling approximately \$4,282,000. Provisions of the credit facility required the Company to apply 50% of the Net Cash Proceeds, as defined in the credit facility, to reduce outstanding commitments, and therefore, commitments were reduced to \$117,300,000. Subsequent to June 30, 2002, the Company borrowed \$10,000,000 under the Secured Revolving Credit for general corporate purposes.

During the six months ended June 30, 2002 the Company paid off \$16,193,000 in mortgage notes payable to REMIC pools originated by the Company. Approximately \$12,809,000 of the pay-offs related to property sales as discussed in *Note 2—Real Estate Investments* and \$3,384,000 related to two loans that were repaid prior to maturity.

At maturity, January 2, 2002, the Company redeemed \$2,408,000 of convertible subordinated debentures.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

6. Stockholders' Equity

During the six months ended June 30, 2002, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling \$3,653,000, \$2,247,000 and \$2,454,000 (\$818,000 of which was accrued at December 31, 2001), respectively. During the first and second quarters of 2002 the Company declared and paid cash dividends of \$0.10 per share on its common stock totaling \$3,686,000.

Subsequent to June 30, 2002 the Company declared a cash dividend of \$0.10 per share on its common stock payable September 30, 2002 to stockholders of record on September 23, 2002.

During the six months ended June 30, 2002, the Company granted 30,000 stock options at an exercise price of \$7.63. The options vest over five years and expire the earlier of seven years from the date of vesting and ten years from the date of grant.

7. Major Operators

At June 30, 2002, Sun Healthcare Group, Inc. ("Sun") operated 14 facilities (13 leases and one loan to a party who in turn leased the facility to Sun) with 1,714 beds/units representing approximately 11.6%, or \$65,969,000, of the Company's "direct real estate investment portfolio" (properties that the Company owns or on which the Company holds promissory notes, secured by first mortgages). Additionally, at June 30, 2002 Sun operated 10 skilled nursing facilities securing eight mortgage loans payable to REMIC pools originated by the Company. During 1999, Sun filed for reorganization under Chapter 11 of the Bankruptcy Code and operated its business as a debtor-in-possession subject to the jurisdiction of the Bankruptcy Court until it emerged from bankruptcy in February 2002. Concurrently, 13 leases the Company had directly with Sun were affirmed; additionally the lease related to the loan was affirmed.

At June 30, 2002, ALC operated 37 assisted living facilities with 1,434 units representing approximately 15.4%, or \$88,105,000, of the Company's direct real estate investment portfolio. ALC filed for reorganization under Chapter 11 of the Bankruptcy Code in October 2001 and emerged from bankruptcy on December 31, 2001. The Company also has an investment in ALC's senior and junior subordinated debentures with a net book value of \$8,755,000 at June 30, 2002. Additionally, as more fully described in *Note 4—CLC Healthcare, Inc.*, the Company has a \$7,000,000 note from CLC that is secured by 1,452,794 shares of ALC common stock and \$1,926,000 face value ALC senior and junior debentures.

At June 30, 2002, Alterra Healthcare Corporation ("Alterra") operated 35 assisted living facilities with 1,416 units representing 14.8%, or \$84,194,000 of the Company's direct real estate investment portfolio. Alterra has announced that it has engaged financial advisors to assist Alterra in a restructuring of its debt and equity. The Company cannot, at this time predict or quantify what, if any, impact any ultimate restructuring could have on the Company. As of August 2002, Alterra was current on all rent due the Company.

At June 30, 2002, Sunwest Management, Inc. ("Sunwest") operated 7 assisted living facilities with 693 units representing 10.9%, or \$62,294,000, of the Company's direct real estate investment portfolio.

CLC Healthcare, Inc. (See *Note 4—CLC Healthcare, Inc.*)

All of these companies, except Sunwest, are publicly traded companies, and as such are subject to the filing requirements of the Securities and Exchange Commission. The Company's financial position and its ability to make distributions may be adversely affected by further financial difficulties experienced by

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

ALC, Alterra, CLC and Sun, or financial difficulties experienced by Sunwest, or any of the Company's other major operators, including additional 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 the Company or the Company's borrowers when it expires.

8. Contingencies

It is the Company's policy to require, all borrowers of funds from the Company and lessees of any of the Company's properties to secure comprehensive property and general and professional liability insurance that covers the Company, as well as the borrower and/or lessee. Even though that is the policy of the Company, certain borrowers and lessees have been unable to obtain general and professional liability insurance because the cost of such insurance has increased substantially and some insurers have stopped offering such insurance for long term care facilities. Additionally, insurance companies have filed for bankruptcy protection leaving certain of the Company's borrowers and/or lessees without coverage for periods that were believed to be covered prior to such bankruptcies. The unavailability and associated exposure as well as increased cost of such insurance could have a material adverse effect on the lessees and operators, including their ability to make lease or mortgage payments. Although the Company contends that as a non-possessory landlord it is not generally responsible for what takes place on real estate it does not possess, claims including general and professional liability claims, may still be asserted against it which may result in costs and exposure for which insurance is not available. Certain risks may be uninsurable, not economically insurable or insurance may not be available and there can be no assurance that the Company, a borrower or lessee will have adequate funds to cover all contingencies. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of the Company's properties, the Company could be subject to an adverse claim including claims for general or professional liability; could lose the capital that it has invested in the properties, as well as the anticipated future revenue for the properties and, in the case of debt which is with recourse to the Company, the Company would remain obligated for any mortgage debt or other financial obligations related to the properties. Certain losses such as losses due to floods or seismic activity if insurance is available may be insured subject to certain limitations including large deductibles or co-payments and policy limits.

The Company and one of its subsidiaries are parties to an action which attempts to present a legal basis to hold the Company and its subsidiaries responsible for an incident occurring in February 2001 in connection with resident care at a facility where the subsidiary was the non-possessory landlord and had a long term lease to a third party operator. While the operator of this facility is the only entity licensed to provide care, the litigants have included the Company as a defendant. The operator's insurance company has filed for bankruptcy. The Company has tendered this matter to its insurer for general and professional liability. At renewal in August of 2001, the insurer elected to not renew this policy. The Company has been unable to replace coverage for this type of contingent liability insurance. The Company is and intends to continue to vigorously defend itself against the claims that a non-possessory landlord has liability for the actions of the operators in this action and other similar asserted claims.

In accordance with Statement of Financial Accounting Standards No. 5, "*Accounting for Contingencies*", an accrual for a loss contingency "shall be accrued by a charge to income if both of the following conditions are met: a) Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss, and b) The amount of the loss can be reasonably estimated."

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

At this time the Company, in reliance on the law and discussions with its outside counsel, does not believe that this type of case has merit and will continue to vigorously defend this and any other such action, nor does the Company believe that a measurable loss is probable or estimatable at this time.

9. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 14,362	\$ (11,632)	\$ 20,543	\$ (7,566)
Preferred dividends	(3,761)	(3,771)	(7,519)	(7,543)
Net income (loss) for basic net income per share	10,601	(15,403)	13,024	(15,109)
Effect of dilutive securities:				
8.25% convertible debentures due 2001	—	—	—	—
8.50% convertible debentures due 2001	—	—	—	—
7.75% convertible debentures due 2002	—	—	—	—
Other dilutive securities	1,154	—	127	—
Net income (loss) for diluted net income per share	\$ 11,755	\$ (15,403)	\$ 13,151	\$ (15,109)
Shares for basic net income per share	18,393	25,340	18,393	25,688
Effect of dilutive securities:				
Stock options	180	—	153	—
8.25% convertible debentures due 2001	—	—	—	—
8.50% convertible debentures due 2001	—	—	—	—
7.75% convertible debentures due 2002	—	—	—	—
Other dilutive securities	2,873	—	195	—
Shares for diluted net income per share	21,446	25,340	18,741	25,688
Basic net income (loss) per share	\$ 0.58	\$ (0.61)	\$ 0.71	\$ (0.59)
Diluted net income (loss) per share	\$ 0.55	\$ (0.61)	\$ 0.70	\$ (0.59)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Results

Three months ended June 30, 2002 compared to three months ended June 30, 2001

Revenues for the three months ended June 30, 2002 decreased to \$17.2 million from \$18.1 million for the same period in 2001. Rental income for the three months ended June 30, 2002 increased \$0.6 million compared to the same period of 2001 primarily as a result of the acquisition of properties in December 2001, new leases and rental increases provided for in existing lease agreements, partially offset by the elimination of rents from sold properties and closed facilities. Same store rental income, properties owned for the three months ended June 30, 2002 and the three months ended June 30, 2001, decreased \$0.1 million primarily due to the reduction of rents due from Assisted Living Concepts, Inc. Interest income from mortgage loans and notes receivable decreased \$0.6 million primarily as a result of the early payoff of five mortgage loans (three in 2002 and two in the second half of 2001), the conversion of one mortgage loan to an owned property, a receipt of delinquent interest related to a bankruptcy order in the prior year and the effect of not accruing interest on one mortgage loan. Interest income from REMIC Certificates for the three months ended June 30, 2002 decreased \$0.8 million compared to the same period of 2001 due to the amortization of the related asset, the early payoff of certain mortgage loans underlying the Company's REMIC Certificates and the sale of REMIC Certificates in the third quarter of 2001. Interest and other income for the three months ended June 30, 2002 was comparable to the same period in 2001.

Interest expense decreased by \$0.3 million to \$5.3 million for the three months ended June 30, 2002 from \$5.6 million during the same period in 2001, due to lower debt outstanding along with a decrease in interest rates. Depreciation and amortization expense for the second quarter of 2002 increased \$0.3 million from the second quarter of 2001 due to the conversion of mortgage loans into owned properties and the acquisition of properties in December 2001 partially offset by properties sold and a lower basis of certain assets due to impairment charges taken in 2001. The Company recorded a \$4.9 million impairment charge during the second quarter of 2002 (as discussed in *Note 3.—Impairment Charge*) compared to an \$18.4 million impairment charge taken in the same quarter of the prior year. Operating and other expenses for the three months ending June 30, 2002 were comparable to the same period in 2001.

During the three months ended June 30, 2002, the Company sold five skilled nursing facilities in Alabama for \$24.0 million resulting in a net gain of approximately \$13.2 million. The Company received approximately \$9.8 million in cash, a \$3.6 million note at 7.0% interest which the Company recorded at \$2.6 million to allow for a 13.0% discount, and a reduction of \$10.2 million in mortgage debt due to a REMIC pool originated by the Company. During the same period in 2001, the Company recorded a net loss of \$0.1 million related the sale of one office building and closing costs related to the sale of three schools in the first quarter of 2001.

Net income available to common stockholders increased to \$10.6 million for the three months ended June 30, 2002 from a net loss to common stockholders of \$15.4 million for the same period in 2001, due largely to the impairment in 2001 and the gain on sale of assets in 2002 as discussed above.

Six months ended June 30, 2002 compared to six months ended June 30, 2001

Revenues for the six months ended June 30, 2002 decreased to \$34.7 million from \$36.4 million for the same period in 2001. Rental income for the six months ended June 30, 2002 increased \$1.3 million compared to the same period of 2001 primarily as a result of the acquisition of properties in December 2001, new leases and rental increases provided for in existing lease agreements, partially offset by the elimination of rents from sold properties and closed facilities. Same store rental income, properties owned for the six months ended June 30, 2002 and the six months ended June 30, 2001, decreased \$0.4 million primarily due to the reduction of rents due from Assisted Living Concepts, Inc. Interest income from mortgage loans and notes receivable decreased \$1.5 million primarily as a result of the early payoff of five mortgage loans (three in 2002 and two in the second half of 2001), the

conversion of one mortgage loan to an owned property, a receipt of delinquent interest related to a bankruptcy order in the prior year and the effect of not accruing interest on one mortgage loan and the line of credit with CLC as discussed in *Note 4—CLC Healthcare, Inc.* Interest income from REMIC Certificates for the six months ended June 30, 2002 decreased \$1.6 million compared to the same period of 2001 due to the amortization of the related asset, the early payoff of certain mortgage loans underlying the Company's REMIC Certificates and the sale of REMIC Certificates in the third quarter of 2001. Interest and other income increased \$0.1 million for the six months ended June 30, 2002 which was comparable to the same period in 2001.

Interest expense decreased by \$0.9 million to \$10.7 million for the six months ended June 30, 2002 from \$11.6 million during the same period in 2001, due to lower debt outstanding along with a decrease in interest rates. Depreciation and amortization expense increased \$0.3 million due to the conversion of mortgage loans into owned properties and the acquisition of properties in December 2001 partially offset by properties sold and a lower basis of certain assets due to impairment charges taken in 2001. The Company recorded a \$4.9 million impairment charge during the six months ended June 30, 2002 (as discussed in *Note 3—Impairment Charge*) compared to a \$22.9 million impairment charge taken in the six months ended June 30, 2001. Operating and other expenses for the six months ending June 30, 2002 were comparable to the same period in 2001.

During the six months ended June 30, 2002, the Company sold two skilled nursing facilities in Illinois and five skilled nursing facilities in Alabama resulting in a net gain of approximately \$13.1 million. During the same period in 2001, the Company recorded a net gain of \$1.8 million related the sale of three schools, one skilled nursing facility and an office building.

Net income available to common stockholders increased to \$13.0 million for the six months ended June 30, 2002 from a net loss to common stockholders of \$15.1 million for the same period in 2001, due largely to the impairment in 2001 and the gain on sale of assets in 2002 as discussed above.

Liquidity and Capital Resources

At June 30, 2002 the Company's real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$484.7 million invested primarily in owned long-term care facilities, mortgage loans of approximately \$84.8 million (net of a \$1.3 million reserve) and subordinated REMIC Certificates of approximately \$69.1 million with a weighted average effective yield of 17.55%. At June 30, 2002 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was \$251.6 million and 7.36%. The Company's portfolio consists of direct investments (properties that the Company either owns or on which the Company holds promissory notes secured by first mortgages) in 103 skilled nursing facilities, 97 assisted living facilities and one school in 30 states.

For the six months ended June 30, 2002, the Company had net cash provided by operating activities of \$20.4 million. The Company acquired one skilled nursing facility in Texas for \$0.5 million cash and the assumption of \$1.4 million in mortgage debt payable to a REMIC pool originated by the Company. Additionally, the Company invested \$0.6 million for renovation of owned properties. The Company sold seven skilled nursing facilities resulting in a net gain of \$13.1 million. The sales resulted in net cash proceeds of \$9.5 million, a ten-year \$3.6 million note with a face rate of 7.0% which the Company discounted to \$2.6 million for an effective rate of 13.0% and the pay off of \$12.8 million of mortgage debt payable to REMIC pools originated by the Company. The Company received \$5.4 million in principal payments on mortgage loans receivable including \$4.3 million in prepayments of three loans on skilled nursing facilities. The Company also received \$1.6 million in repayments of two notes receivable related to properties sold in 2001. The Company provided CLC with an additional \$0.1 million in borrowings, net of payments, under the \$20.0 million secured line of credit that bears interest at 10% and matures in April 1, 2008. In addition, one mortgage loan on a skilled nursing facility in Florida with a principal balance of \$2.3 million was reclassified to an owned property as a result of a deed-in-lieu of foreclosure transaction.

During the six months ended June 30, 2002, the Company repaid \$8.0 million of bank borrowings and redeemed \$2.4 million of convertible subordinated debentures at maturity. Subsequent to June 30, 2002 the Company borrowed an additional \$10.0 million on the Senior Secured Revolving Line of Credit for general corporate purposes. In addition to the \$12.8 million reduction in mortgage debt related to asset sales, the Company also repaid, at maturity, two loans payable to REMIC pools originated by the Company totaling \$3.4 million. During the six months ended June 30, 2002, the Company paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling \$3.7 million, \$2.2 million, and \$2.4 million (\$0.8 million of which was accrued at December 31, 2001), respectively. Additionally, the Company paid a cash dividend on its common stock totaling \$3.7 million. The Company has declared a \$0.10 dividend per share on its common stock payable on September 30, 2002; however, the Company is giving no assurances that this amount or any amount will be a continuing common dividend in the near future.

Subsequent to June 30, 2002 the Company sold a non-recourse senior participation interest in 22 of the Company's first mortgages with a total balance outstanding of approximately \$58.6 million to a private bank. The sales agreement provides that the private bank will receive 9.25% per annum interest and all principal payments from these mortgages until the senior participation is retired. There is no specific principal maturity date for the senior participation other than the principal maturity dates of the underlying mortgages. The Company will continue to receive interest from these mortgages above the 9.25% paid to the private bank and will resume collecting principal once the senior participation is repaid in full. The weighted average interest rate of these mortgages is approximately 11.6%. The Company sold the senior participation interest for \$30.0 million and received \$29.8 million in net proceeds, which it used to reduce commitments and amounts outstanding under the Senior Secured Revolving Line of Credit.

Also subsequent to June 30, 2002, the Company sold (in separate transactions) two closed, previously impaired skilled nursing facilities in Arizona and Texas resulting in net proceeds of approximately \$1.9 million and a combined gain of \$0.4 million. Proceeds from these sales were used to reduce amounts outstanding and \$0.9 million of the proceeds were used to reduce commitments under the Senior Secured Revolving Line of Credit.

The Company will continue to pursue sales of assets and alternative financings in 2002 in order to comply with the credit facility's commitment reductions and mortgage loan maturities. In the aggregate, the Company is required to make payments in 2002 of at least \$25.4 million to reduce various obligations. As of August 13, 2002, the Company had made approximately \$16.6 million of these payments.

Should an insufficient amount be raised to meet the Company's debt obligations through asset sales or financings, the Company would need to again suspend paying a common dividend and perhaps some of the preferred dividends in order to apply funds from operations to debt reductions.

Alterra Healthcare Corporation ("Alterra") operates 35 assisted living facilities with a total of 1,416 units owned by the Company representing approximately 14.8%, or \$84.2 million, of the Company's "direct real estate investment portfolio" (properties that the Company owns or on which the Company holds promissory notes secured by first mortgages). Alterra has announced that it has engaged financial advisors to assist Alterra in a restructuring of its debt and equity. The Company cannot, at this time, predict or quantify what, if any, impact any ultimate restructuring could have on the Company. As of August 2002, Alterra was current on all rent due the Company.

The Company expects its future income and ability to make distributions from cash flows from operations to depend on the collectibility of its mortgage loans receivable, REMIC Certificates and rents. The collection of these loans, certificates and rents will be dependent, in large part, upon the successful operation by the operators of the skilled nursing facilities and assisted living facilities owned by or pledged to the Company and the school owned by the Company. The operating results of the facilities will be impacted by various factors over which the operators/owners may have no control. Those factors include, without limitation, the status of the economy, changes in supply of or demand for competing long-term care facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term care industry. In addition, the Company's future growth in net income and cash flow may be adversely impacted by various proposals for changes in the governmental

regulations and financing of the long-term care industry. The Company cannot presently predict what impact these proposals may have, if any. The Company believes that an adequate provision has been made for the possibility of loans proving uncollectible but will continually evaluate the status of the operations of the skilled nursing facilities, assisted living facilities and the school. In addition, the Company will monitor its borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

The Company's investments, principally its investments in mortgage loans, REMIC Certificates, 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 the Company's costs of financing its operations and the fair market value of its financial assets. The Company generally made loans that have predetermined increases in interest rates and leases that have agreed upon annual increases. Inasmuch as the Company initially funded its investments with its Senior Secured Revolving Line of Credit, the Company is at risk of net interest margin deterioration if medium and long-term rates were to increase.

The REMIC Certificates retained by the Company are subordinate in rank and right of payment to the certificates sold to third-party investors and as such would, in most cases, bear the first risk of loss in the event of impairment to any of the underlying mortgages. The returns on the Company's investment in REMIC Certificates are subject to certain uncertainties and contingencies including, without limitation, the level of prepayments, estimated future credit losses, prevailing interest rates, and the timing and magnitude of credit losses on the underlying mortgages collateralizing the securities that are a result of the general condition of the real estate market or long-term care industry. As these uncertainties and contingencies are difficult to predict and are subject to future events that may alter management's estimations and assumptions, no assurance can be given that current yields will not vary significantly in future periods. To minimize the impact of prepayments, the mortgage loans underlying the REMIC Certificates generally prohibit prepayment unless the property is sold to an unaffiliated third party (with respect to the borrower).

The Company believes that its current cash flow from operations available for distribution or reinvestment and its current borrowing capacity are sufficient to provide for payment of its operating costs, meet debt obligations and provide funds for distribution to the holders of the Company's preferred stock. As a result of the Company's current inability to refinance its Senior Secured Revolving Line of Credit, the Company has continued to limit its investment activity in 2002. If prevailing interest rates or other factors at the time of refinancing, if any, (such as the reluctance of lenders to make commercial real estate loans) result in higher rates upon refinancing the interest expense relating to the refinanced indebtedness would increase and therefore adversely affect the Company's financial condition and results of operations.

Critical Accounting Policies

In October 2001, the Financial Accounting Standards Board issued Statement No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*", which is required to be adopted in fiscal years beginning after December 15, 2001. Statement No. 144 on asset impairment supercedes Statement No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*", and provides a single accounting model for long-lived assets to be disposed of. The Company adopted Statement No. 144 on January 1, 2002 and its adoption did not have a significant impact on the consolidated results of operations or financial position.

For further discussion of the Company's critical accounting policies, see the Company's Annual Report filed on Form 10-K for the year ended December 31, 2001.

Funds From Operations

Industry analysts generally consider funds from operations ("FFO") to be an alternative measure of performance of a REIT. The National Association of Real Estate Investment Trusts ("NAREIT") has defined FFO as net income applicable to common stockholders (computed in accordance with GAAP) excluding gain (or losses) from debt restructuring, sales of property and impairment charges, plus depreciation of real property and after adjustments for unconsolidated entities in which a REIT holds an interest.

The Company believes that FFO is an important supplemental measure of operating performance. FFO should not be considered as a alternative to net income or any other GAAP measurement of performance as an indicator of operating performance or as an alternative to cash flows from operations, investing or financing activities as a measure of liquidity. The Company believes that FFO is helpful in evaluating a REIT portfolio's overall performance considering the fact that historical cost accounting implicitly assumes that the value of real estate assets diminishes predictably over time. FFO provides an alternative measurement criteria, exclusive of certain non-cash charges included in GAAP income, by which to evaluate the performance of such investments. FFO, as used by the Company may not be comparable to similarly entitled items reported by other REITs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss) available to common stockholders	\$ 10,601	\$ (15,403)	\$ 13,024	\$ (15,109)
(Gain) loss on sale of assets, net	(13,192)	100	(13,120)	(1,844)
Impairment charge	4,882	18,366	4,882	22,866
Real estate depreciation	3,671	3,376	7,384	7,115
FFO available to common stockholders	\$ 5,962	\$ 6,439	\$ 12,170	\$ 13,028
Basic FFO per share	\$ 0.32	\$ 0.25	\$ 0.66	\$ 0.51
Diluted FFO per share	\$ 0.32	\$ 0.25	\$ 0.66	\$ 0.51

Statement Regarding Forward Looking Disclosure

Certain information contained in this report includes forward looking statements, which can be identified by the use of forward looking terminology such as “may”, “will”, “expect”, “should” or comparable terms or negatives thereof. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include (without limitation) the following: the effect of economic and market conditions and changes in interest rates, government policy changes relating to the health care industry including changes in reimbursement levels under the Medicare and Medicaid programs, changes in reimbursement by other third party payors, the financial strength of the operators of the Company's facilities as it affects the continuing ability of such operators to meet their obligations to the Company under the terms of the Company's agreements with its borrowers and operators, the amount and the timing of additional investments, access to capital markets and changes in tax laws and regulations.

PART II
LTC PROPERTIES, INC.
OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders was held on April 26, 2002 (Annual Meeting). At the Annual Meeting Andre C. Dimitriadis, Edmund C. King, Wendy L. Simpson, Timothy J. Triche, M.D. and Sam Yellen were re-elected as directors to serve for a one-year term until the 2003 Annual Meeting of Stockholders.

Voting at the Annual Meeting was as follows:

Matter	Votes Cast For	Votes Against	Abstentions
Election of Andre C. Dimitriadis	16,421,334		543,665
Election of Edmund C. King	16,814,573		150,425
Election of Wendy L. Simpson	16,438,513		526,485
Election of Timothy J. Triche, M.D.	16,811,064		153,935
Election of Sam Yellen	16,805,540		159,458

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

In accordance with Item 601(b)(4)(iii) of Regulation S-K, certain instruments pertaining to Registrant's long-term debt have not been filed; copies thereof will be furnished to the Securities and Exchange Commission upon request.

- 10.1 Promissory Note between LTC Properties, Inc. and LTC-Fort Tucum, Inc. dated January 30, 2002.
- 10.2 Security Agreement between LTC Properties, Inc. and LTC-Fort Tucum, Inc. dated January 30, 2002.
- 10.3 Stock Purchase Agreement between LTC Properties, Inc. and LTC-Fort Tucum, Inc. dated January 30, 2002.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the three months ended June 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LTC PROPERTIES, INC.

Registrant

By: /s/ WENDY L. SIMPSON

Wendy L. Simpson
Vice Chairman and Chief Financial Officer

Dated: August 13, 2002

PROMISSORY NOTE

\$500,000.00

DATE: January 30, 2002

Oxnard, California

THIS NOTE (THIS "NOTE"), IS MADE BY LTC-FORT TUCUM, INC., A DELAWARE CORPORATION, AS MAKER ("MAKER"), IN FAVOR OF LTC PROPERTIES, INC., A MARYLAND CORPORATION, AS PAYEE ("PAYEE") IN THE AMOUNT OF FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00).

At Maturity Date, as hereinafter defined, for value received, Maker hereby promises to pay to the order of Payee, at Payee's principal place of business in Oxnard, California, or such other place as Payee may from time to time designate, the principal sum of Five Hundred Thousand Dollars (\$500,000.00). The Note is to be non-interest bearing until January 29, 2003 and thereafter until the Maturity Date, as defined below, at 8% interest payable quarterly in arrears. Subject to Maker's Extended Maturity Date as defined below, all principal shall be due on or before January 29, 2005 (the "Maturity Date"). Principal due hereunder shall be payable in lawful money of the United States.

Subject to the limitations described herein, Maker desires to execute this Note in satisfaction of its obligations to Payee for acquisition services provided of the properties known as Pecos Valley Care Center, located at 519 N. 10th Street, Fort Sumner, New Mexico and Van Ark Care Center, located at 1005 S. Monroe, Tucumcari, New Mexico.

1. *Payments on Maturity Date.* Unless extended as set forth in this Section, assuming no acceleration by Payee and no prepayment in full of the Loan by Maker, on the Maturity Date, Maker shall pay to Payee the entire outstanding principal owing to Payee by Maker under this Note. Upon written notice to Payee prior to the Maturity Date, Maker shall have the right to extend the Note for a period of one year from the Date hereof at the rate of 9% compounded annually, with all principal and accrued Compound Interest due on or before January 29, 2006, (the "Extended Maturity Date").

2. *Prepayments.* Maker shall have the right to prepay all or any part of the principal and accrued interest balance of this Note any time without premium, penalty, or charge of any kind whatsoever; provided, however, there shall be no discount of any kind for any prepayment.

3. *Security Documents.* This Note is a full recourse obligation of the Maker and is secured by all of the assets of Maker, whether heretofore or hereafter acquired, and a security agreement and/or other security instruments given by Maker in favor of Payee, (collectively, the "Security Documents"). Reference is made to the Security Documents for a description of the collateral provided for therein and the rights of Payee with respect to such collateral.

4. *Restrictive Covenants.* Maker hereby covenants and agrees with Payee that, for so long as the obligations of Maker under this Note remain outstanding under the Note, Maker will comply with all of the following:

(a) Maker will not, and will not permit any subsidiary of Maker to, create, assume, incur or suffer to exist any lien or encumbrance of any kind, upon all or any portion of the Collateral (as defined in the Security Documents), except as permitted by Payee.

(b) Maker will not, and will not permit any subsidiary to pay a dividend, provide any loan guaranty, lend money or borrow any additional sums beyond this Note.

(c) Maker will not, and will not permit any subsidiary to (i) lease, assign or sell all or substantially all of its property or business to any other Person (as hereinafter defined), (ii) merge or consolidate with or into any other Person, (iii) purchase or lease or otherwise acquire all or substantially all of the assets of any

other Person, (iv) sell, transfer, pledge or otherwise dispose of capital stock of Maker or any of its subsidiaries, (v) liquidate, suspend or dissolve its business operations, (vi) change its name, identity or corporate, partnership or other structure, or (vii) change the current principal place of business or chief executive office, in each case without the prior written consent of Payee.

5. *Acknowledgement and Restrictive Covenant of CLC Healthcare, Inc., parent of Maker ("CLCH")*. CLCH hereby acknowledges that it has heretofore pledged as collateral all of the outstanding stock of Maker pursuant to that certain Second Amended and Restated Promissory Note and Security Agreement dated June 8, 2001, which obligation remains in effect, and hereby further covenants and agrees with Payee that, for so long as the obligations of Maker under this Note remain outstanding, CLCH will not pledge the stock of Maker, or otherwise encumber the stock of Maker, in any manner for any reason.

6. *Change of Control*. Notwithstanding anything to the contrary contained herein, upon a Change of Control (as hereinafter defined) Payee may, in its sole discretion, declare the entire balance of principal and interest hereon immediately due and payable, together with all applicable charges and payments due hereunder, all costs of collection, including reasonable attorneys' fees and all other costs and expenses incurred, and shall have all remedies available under the Security Documents, at law or in equity. For purposes of this Note, a "Change of Control" shall mean and include (i) the sale by Maker, or CLCH (each hereinafter referred to as "Party") and/or any subsidiary of either Party of all or substantially all of the assets of either Party and its subsidiaries taken as a whole, (ii) any Acquisition by any person or any persons acting together which would constitute a "group" for purposes of Section 13(d) of the Exchange Act (a "Group") of 30% or more of the total voting power of all classes of capital stock of either Party entitled to vote generally in the election of the Board of Directors of either Party, (iii) any Acquisition by any person or Group of the power to elect, appoint or cause the election or appointment of at least a majority of the members of the Board of Directors of either party, through beneficial ownership of the capital stock or otherwise, or, (iv) a majority of the members of the Boards of Directors of either Party cease to be Continuing Directors (as hereinafter defined). As used herein, "Continuing Directors" means, as of any date of determination, any member of the Board of Directors of either party, who (i) was a member of the Boards of Directors of either Party on the date of this Note, or (ii) was nominated for election or elected to such Board with the approval of a majority of the Continuing Directors who were members of such Boards at the time of such nomination or election. For the purposes of this definition, "Acquisition" of the power or properties and assets stated in the preceding sentence means the earlier of (a) the actual possession thereof and (b) the consummation of any transaction or series of related transactions which, with the passage of time, will give such Person or Persons that actual possession thereof. As used herein, "Person" shall mean an individual, corporation, trust, partnership, joint venture, unincorporated organization, government agency or any agency or political subdivision thereof, or other entity.

7. *Late Payment Charge; No Waiver*. MAKER ACKNOWLEDGES THAT LATE PAYMENT TO PAYEE OF ANY SUMS DUE HEREUNDER WILL CAUSE PAYEE TO INCUR COSTS NOT CONTEMPLATED HEREUNDER, THE EXACT AMOUNT OF WHICH WILL BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO ASCERTAIN. SUCH COSTS INCLUDE, BUT ARE NOT LIMITED TO, PROCESSING AND ACCOUNTING CHARGES. ACCORDINGLY, IF ANY INSTALLMENT IS NOT RECEIVED BY PAYEE WHEN DUE, OR IF ANY REMAINING PRINCIPAL AND ACCRUED BUT UNPAID INTEREST OWING UNDER THIS NOTE IS NOT PAID IN FULL ON THE MATURITY DATE, MAKER SHALL THEN PAY TO PAYEE AN ADDITIONAL SUM OF FIVE PERCENT (5%) OF THE OVERDUE AMOUNT AS A LATE CHARGE. THE PARTIES HEREBY AGREE THAT THE LATE CHARGE REPRESENTS A FAIR AND REASONABLE ESTIMATE OF THE COSTS PAYEE WILL INCUR BY REASON OF LATE PAYMENT. THIS PROVISION SHALL NOT, HOWEVER, BE CONSTRUED AS EXTENDING THE TIME FOR PAYMENT OF ANY AMOUNT HEREUNDER, AND ACCEPTANCE OF SUCH LATE CHARGE BY PAYEE SHALL IN NO EVENT CONSTITUTE A WAIVER OF MAKER'S DEFAULT WITH RESPECT TO SUCH OVERDUE AMOUNT NOR PREVENT PAYEE FROM EXERCISING ANY OF ITS OTHER RIGHTS AND REMEDIES WITH RESPECT TO SUCH DEFAULT.

INITIAL: _____
Maker

8. *Default.* The occurrence of any of the following shall constitute an event of default (“Event of Default”) under this Note:

- (a) failure to make any payment of principal, interest, or any other sums due hereunder within five (5) business days of the date due;
- (b) the occurrence of any breach or default of any other obligation of Maker, or any of their respective subsidiaries, monetary or otherwise, hereunder or otherwise, which breach or default (except as provided below) shall continue for more than ten (10) calendar days after Maker has received written notice thereof from Payee;
- (c) notwithstanding anything to the contrary contained in this Section 8, immediately upon the breach or default of any provision of Sections 4, 5 and 6 hereof; or
- (d) a breach or default under the Security Documents.

9. *Acceleration Rights; Remedies.* Upon the occurrence of an Event of Default or Change of Control hereunder, Payee may, in its sole discretion, declare the entire balance of principal and interest hereon immediately due and payable, together with all applicable charges and payments due hereunder, costs of collection, including reasonable attorneys’ fees and all other costs and expenses incurred, and shall have any and all remedies available under the Security Documents, at law or in equity.

10. *Attorneys’ Fees and Costs.* In the event it becomes necessary for Payee to utilize legal counsel for the enforcement of this Note or any of its terms, if Payee is successful in such enforcement by legal proceedings or otherwise, Payee shall be reimbursed immediately by Maker for all reasonable attorneys’ fees and other costs and expenses.

11. *Waivers.* Maker of this Note hereby waives diligence, demand, presentment for payment, exhibit of this Note, notice of non-payment or dishonor, protest and notice of protest, notice of demand, notice of election of any right of holder hereof, any and all exemption rights against this indebtedness, and expressly agrees that, at Payee’s election, the time for performance of any obligation under this note may be extended from time to time, without notice and that no such extension, renewal, or partial release shall release Maker from its obligation of payment of this Note or any installment hereof, and consents to offset of any sums owed to Maker by the holder hereof at any time.

12. *Assignment/Transfer by Payee.* Payee, in Payee’s sole and absolute discretion, and without notice to Maker, shall have the absolute right to sell, assign, gift, transfer, convey, encumber or otherwise dispose of all or a portion of the holder’s rights in this Note or any other agreement related thereto. Maker may not assign, gift, transfer, convey, encumber or otherwise dispose of all or a portion of its rights, nor delegate its duties or obligations under this Note or any other agreement related thereto.

13. *Governing Law.* This Note shall in all respects be interpreted, enforced, and governed by and under the internal law of the State of California without resort to choice of law principles.

14. *Severability.* Every provision hereof is intended to be several. If any provision of this Note is determined by a court of competent jurisdiction to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall not affect the other provisions hereof, which shall remain binding and enforceable.

15. *Compliance With Usury Laws.* It is the intention of the parties hereto to conform strictly to applicable usury laws regarding the use, forbearance or detention of the indebtedness evidenced by this Note, whether such laws are not or hereafter in effect, including the laws of the United States of America or any other jurisdiction whose laws are applicable, and including subsequent revisions to or judicial interpretations of those laws, in each case to the extent they are applicable to this Note (the “Applicable Usury Laws”); provided, however, if such laws shall hereafter permit higher rates of interest, then the Applicable Usury Laws shall be the laws allowing the higher rate of interest. Accordingly, the following shall apply:

(a) If any acceleration of the Maturity Date of this Note or any payment by maker or any other person or entity results in the amount of interest contracted for, charged, taken, reserved, received by or paid by Maker or such other person or entity on the principal amount outstanding, from time to time, on the Note being deemed to have been in excess of the Maximum Amount (as hereinafter defined) or if any transaction contemplated hereby would otherwise be usurious under any Applicable Usury Laws, then, in that event, notwithstanding anything to the contrary in this Note, it is agreed as follows: (i) the provisions of this Section shall govern and control; (ii) the aggregate of all interest under Applicable Usury Laws that is contracted for, charged, taken, reserved or received under this Note, or under any of the other aforesaid agreements or instruments or otherwise shall under no circumstances exceed the Maximum Amount, and any excess shall either be refunded to Maker or applied in reduction of principal, if permitted by California law, in the sole discretion of Payee; (iii) neither Maker nor any other person or entity shall be obligated to apply the amount of such interest to the extent it is in excess of the Maximum Amount; (iv) any interest contracted for, charge, reserved, taken or received in excess of the Maximum Amount shall be deemed an accidental or bona fide error and canceled automatically to the extent of such excess; and (v) the effective rate of interest on the Loan shall be ipso facto reduced to the Highest Lawful Rate (as hereinafter defined), and the provision of this Note shall be deemed reformed, without the necessity of the execution of any new document, so as to comply with all Applicable Usury Laws. All sums paid, or agreed to be paid, to Payee for the use, forbearance, or the detention of the indebtedness of Maker to payee evidenced by this Note shall, to the fullest extent permitted by the Applicable Usury Laws, be amortized, pro-rated, allocated and spread throughout the full term of the indebtedness evidenced by this Note so that the actual rate of interest does not exceed the Highest Lawful Rate in effect at any particular time during the full term thereof. As used herein, the term "Maximum Amount" means the maximum non-usurious amount of interest which may be lawfully contracted for, charged, reserved, taken or received by Payee in connection with the indebtedness evidenced by this Note under all applicable Usury Laws.

(b) If at any time interest on the Loan, together with any fees and additional amounts payable hereunder or under any other agreements or instruments that are deemed to constitute interest under Applicable Usury Laws (the "Additional Interest"), exceeds the Highest Lawful Rate, then the amount of interest to accrue pursuant to this Note shall be limited, notwithstanding anything to the contrary in this Note, or any other agreement or instrument, to the amount of interest that would accrue at the Highest Lawful Rate; provided, however, that to the fullest extent permitted by Applicable Usury Laws, any subsequent reductions in the interest rate shall not reduce the interest to accrue pursuant to this Note below the Highest Lawful Rate until the aggregate amount of interest actually accrued pursuant to this Note, together with all Additional Interest, equals the amount of Interest which would have accrued if the Highest Lawful Rate had at all times been in effect and such Additional Interest, if any, had been paid in full.

For purposes of this Note, the term "Highest Lawful Rate" means the maximum rate of interest and other charges (if any such maximum exists) for the forbearance of the payment of monies, if any that may be charged, contracted for, reserved, taken or received under all Applicable Usury Laws on the principal balance of this Note from time to time outstanding.

16. *Notices.* Any notice or other communication required or permitted to be given under this Note shall be in writing and sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, and addressed as follows:

If to Maker: LTC-Fort Tucum, Inc.
300 Esplanade Drive, Suite 1865
Oxnard, California 93030
Attention: Executive Vice President

with a copy to: LTC-Fort Tucum, Inc.
300 Esplanade Drive, Suite 1865
Oxnard, California 93030
Attention: Legal Department

If to Payee: LTC Properties, Inc.
300 Esplanade Drive, Suite 1860
Oxnard, California 93030
Attention: Chief Financial Officer

with a copy to: LTC Properties, Inc.
300 Esplanade Drive, Suite 1860
Oxnard, California 93030
Attention: Legal Department

or such other address as either party may from time to time specify in writing to the other in the manner aforesaid. If personally delivered, such notices or other communications shall be deemed delivered upon delivery. If sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, such notices or other communications shall be deemed delivered upon delivery or refusal to accept delivery as indicated on the return receipt.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Maker has caused this Note to be executed as of the date first above written.

MAKER:

**LTC-FORT TUCUM, INC.,
a Delaware corporation**

By: _____

**Christopher Ishikawa
Executive Vice President**

ACKNOWLEDGED AND AGREED:

**CLC HEALTHCARE, INC.
a Nevada corporation**

By: _____

**Wendy Simpson
Executive Vice President
and Chief Financial Officer**

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("*Agreement*") is made and entered into as of the 30th day of January, 2002 by LTC-Fort Tucum, Inc., a Delaware corporation ("*Debtor*"), in favor of LTC Properties, Inc., a Maryland corporation ("*Secured Party*"), with reference to the following facts and circumstances.

A. Secured Party has agreed to extend a Loan (the "*Loan*") to Debtor, which Loan is evidenced by that certain Promissory Note of even date herewith executed by Debtor in favor of Secured Party (the "*Note*").

B. To secure its obligations under the Loan, Debtor has agreed, among other things, to grant Secured Party a security interest in all assets of Maker, whether heretofore or hereafter acquired.

NOW, THEREFORE, IN CONSIDERATION of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Debtor and Secured Party hereby agree as follows:

1. *Grant of Security Interest.* As security for Debtor's due and punctual performance of the Obligations (as hereinafter defined), Debtor hereby pledges with and delivers to Secured Party the Collateral (as hereinafter defined), and grants, assigns, transfers and conveys to Secured Party a continuing security interest in all of Debtor's right, title and interest in and to the Collateral.

2. *Obligations.* This Agreement, and Debtor's pledge of and grant to Secured Party of a security interest in and to the Collateral, is made to secure: (i) due and punctual performance of Debtor's obligation to make any and all payments when and as due under the Note, and any other note or instrument executed by Debtor and payable to Secured Party which recites that it is secured hereby, including any and all amendments, modifications, renewals, extensions, substitutions or replacements hereof or thereof, including any future advances which are made pursuant to the terms of the Note or any such note or instrument and the performance and discharge of each and every obligation of Debtor set forth in the Note or any such note or notes; (ii) payment of all other sums, with interest thereon, herein or in the Note, or any such note or notes, or any part thereof; (iii) due, prompt and complete observance and performance of each and every obligation, covenant and agreement of Debtor contained herein, in the Note, or in any other instrument executed by Debtor for the purpose of further securing the indebtedness evidenced by the Note, or such note or notes, or any part thereof (collectively, the "*Obligations*").

3. *Collateral.* As used herein, the term "*Collateral*" shall collectively and severally mean all assets of Maker, including, but not limited to the following:

(a) All of the shares of common stock of Debtor and all the assets owned by Debtor, including the facilities known as Pecos Valley Care Center, 519 N. 10th Street, Fort Sumner, New Mexico and Van Ark Care Center, located at 1005 S. Monroe, Tucumcari, New Mexico.

(b) *Accounts.* All accounts, general intangibles, chattel paper, instruments (as defined in the California Uniform Commercial Code (the "*Code*")), and other obligations of any kind, now owned or held or hereafter acquired by the Debtor, including, without limitation, insurance claims, insurance settlement proceeds, tax refund claims and tax refunds arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, general intangibles, chattel paper, instruments or obligations, and all books and records relating to any of the foregoing (any and all of the foregoing being the "*Accounts*");

(c) *Instruments.* All notes and other instruments and any instrument which constitutes a part of chattel paper, and other evidences of indebtedness in which the Debtor now or hereafter has any interest, to the extent of that interest;

(d) *Documents.* All documents (as defined in the Code) in which the Debtor now or hereafter has any interest, to the extent of that interest;

(e) *Chattel Paper.* All chattel paper in which the Debtor now or hereafter has any interest;

(f) *General Intangibles.* All General Intangibles (as hereinafter defined) in which the Debtor now or hereafter has any interest, to the extent of that interest. “General Intangibles” means any “general intangibles,” as such term is defined in the Code, and shall include, without limitation, (i) all patents, patent applications, trademarks, trademark registrations, trade names and trademark applications; (ii) license agreements with any other party, whether the Debtor is a licensor or licenses under any such license agreement, and the right to prepare for sale, sell and advertise for sale all inventory now or hereafter covered by such licenses; (iii) all of the Debtor’s books, records and files, including computer software and tapes and all other forms of electronic information storage; (iv) copyrights and other rights in intellectual property; (v) interests in partnerships, joint ventures and other business associations; (vi) licenses and permits; (vii) trade secrets, proprietary or confidential information, customer lists, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records, and goodwill; (viii) claims in or under insurance policies, including unearned premiums; (ix) uncertificated securities; (x) deposit accounts; (xi) rights to receive tax refunds and other payments; (xii) rights of indemnification; and (xiii) all of the Debtor’s rights under any warranties or guaranties of any kind, including equipment, machinery or services;

(g) *Contracts.* All of the Debtor’s rights under all contracts undertakings or agreements (other than rights evidenced by chattel paper, documents or instruments) in or under which the Debtor may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof;

(h) *Money and Other Personal Property.* All money (as defined in the Code) and all other goods and personal property in which the Debtor has any interest, to the extent of that interest, whether now or hereafter owned or existing, leased, consigned by or to or acquired by the Debtor and wherever located; and

(i) *Stock.* All of the outstanding capital stock of Debtor and its subsidiaries now formed or to be formed.

(j) *Proceeds and Products.* All proceeds and products of the foregoing (including, without limitation, cash proceeds and noncash proceeds resulting from the sale or other voluntary or involuntary disposition thereof or any other realization in respect thereof) and including, but not limited to, all property of any type that is acquired with any cash proceeds, and all guarantees, insurance and rights against sureties the Debtor may have in connection therewith and all proceeds and products relating thereto or therefrom, and all the Debtor’s right, title and interest in and to additions, accessions, replacements and substitutions to and for the foregoing, and all documents, ledger sheets and files of the Debtor relating thereto. The term “proceeds” as used herein shall include, without limitation, all accounts, chattel paper, deposit accounts, instruments, equipment, inventory, documents, general intangibles and other proceeds that arise from the sale, lease, transfer or other use or disposition of any kind of any of the Collateral described in the foregoing paragraphs (a) through (j), inclusive, or proceeds, and all proceeds of any type described above acquired with cash proceeds.

4. *Delivery of Collateral.* Concurrently with the execution and delivery of this Agreement, Debtor shall deliver to Secured Party debentures and all stock certificates representing the Collateral set forth in Section 3 above. Debtor agrees to deliver to Secured Party stock certificates representing all the outstanding shares of any subsidiaries owned by Debtor and formed hereafter.

5. *Declaration of Trust.* If Debtor shall become entitled to receive or shall receive any goods, instruments, documents, accounts, general intangibles or other property of any kind or nature delivered to Debtor on account of or in connection with Debtor’s ownership of the Collateral, Debtor shall accept and hold the same as Secured Party’s agent, in trust for Secured Party, and shall forthwith, without notice or demand, endorse, transfer and deliver the same to Secured Party, accompanied, where necessary or appropriate, by assignments duly executed in blank, to be held by Secured Party as part of the Collateral.

6. *Powers of Secured Party.* Debtor appoints Secured Party its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Secured Party’s officers, employees or agents, or any of them, whether or not an Event of Default has occurred: (i) to liquidate any certificate of deposit pledged to Secured Party hereunder prior

to its maturity date and to apply the proceeds thereof to payment of the Obligations or hold such proceeds as part of the Collateral, notwithstanding the fact that such liquidation may give rise to penalties for early withdrawals of funds; (ii) to sell, exchange or otherwise dispose of any portion of the Collateral if Secured Party deems such transaction reasonably necessary to preserve the value of its security interest, and to apply the proceeds thereof to payment of the Obligations, to hold such proceeds as part of the Collateral or to use such proceeds to purchase similar items of Collateral that Secured Party, in its sole discretion, deems necessary or advisable to preserve the value of its security interest; (iii) to notify any person obligated on any security, instrument or other document subject to this Agreement of Secured Party's rights hereunder; (iv) to collect by legal proceedings or otherwise all dividends, interest, principal or other sums now or hereafter payable upon or on account of the Collateral; (v) to enter into any extension, reorganization, deposit, merger or consolidation agreement, or any other agreement relating to or affecting the Collateral or proceeds, and in connection therewith to deposit or surrender control of the Collateral, accept other property in exchange for the Collateral, and do and perform such acts and things as Secured Party may deem proper, and any money or property received in exchange for the Collateral may be applied to the Obligations or held by Secured Party under this Agreement; (vi) to make any compromise or settlement Secured Party deems necessary, desirable or proper in respect of the Collateral; (vii) to insure, process and preserve the Collateral; and (viii) to perform any obligation of Debtor under this Agreement, in Debtor's name or otherwise. To effect the purposes of this Agreement, or otherwise upon instructions of Debtor, Secured Party may cause the Collateral to be transferred to Secured Party's name or the name of Secured Party's nominee.

7. *Secured Party's Care and Delivery of Collateral.* Secured Party's obligation with respect to Collateral in its possession shall be strictly limited to the duty to exercise reasonable care in the custody and preservation of such Collateral, and such duty shall not include any obligation to ascertain or to initiate any action with respect to or to inform Debtor of maturity dates, conversion, call, or exchange rights, or offers to purchase the Collateral, or any similar matters, notwithstanding the Secured Party's knowledge of the same. Secured Party shall have no duty to take any steps necessary to preserve the rights of Debtor against prior parties, or to initiate any action to protect against the possibility of a decline in the market value of the Collateral. Secured Party shall not be obligated to take any action with respect to the Collateral requested by Debtor unless such request is made in writing, and Secured Party determines, in its sole discretion, that the requested actions would not unreasonably jeopardize the value of the Collateral as security for the Obligations. Secured Party may at any time deliver the Collateral, or any part thereof, to Debtor, and the receipt thereof by Debtor shall be a complete and full acquittance for the Collateral and proceeds so delivered, and Secured Party shall thereafter be discharged from any liability or responsibility therefor.

8. *Representations and Warranties.* Debtor represents and warrants to Secured Party as follows:

(a) Debtor is a Delaware corporation, duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Debtor is qualified to do business as a foreign corporation in every state in which Debtor is required to be so qualified.

(b) Debtor has all requisite capacity and power to execute, deliver and perform its obligations under this Agreement. This Agreement has been duly and validly executed and delivered by Debtor, and constitutes a valid and binding obligation of Debtor, enforceable in accordance with its terms.

(c) Debtor owns the Collateral free and clear of all liens, claims, encumbrances, security interests or equities, other than the security interest created hereby.

(d) Debtor has not sold, transferred, assigned or conveyed the Collateral, or any portion thereof, to any person other than Secured Party.

9. *Covenants and Agreements of Debtor.* Debtor covenants and agrees with Secured Party that from the date hereof and until payment and satisfaction in full of each and all of the Obligations, unless Secured Party shall otherwise consent in writing, Debtor will:

(a) Duly observe and perform each and every term and condition of any and all agreements, instruments and documents relating to the Collateral, and diligently protect and enforce its rights under all such agreements.

(b) Give Secured Party ten (10) days prior written notice before changing its principal residence or place of business or moving its books and records to a location other than that set forth in Section 17 hereof.

(c) Not sell, lease, assign, transfer, convey, pledge, hypothecate, mortgage or further encumber any of the Collateral, provided that Debtor may sell Inventory in the ordinary course of business.

(d) Promptly pay or otherwise cause to be discharged any lien, charge, security interest or other encumbrance that may attach to the Collateral, or any portion thereof, other than pursuant to this Agreement.

(e) Promptly notify Secured Party of any attachment or other legal process levied against any of the Collateral and any information received by Debtor relating to the Collateral, or to other persons obligated in connection therewith, and of any threatened or filed claims or proceedings, that might in any way affect or impair Secured Party's security interest in the Collateral or the rights and remedies of Secured Party with respect thereto.

(f) Defend the Collateral against all claims, liens, security interests, demands and other encumbrances of third parties at any time claiming an interest in the Collateral that is adverse to Secured Party's interest in the Collateral hereunder.

(g) Notify Secured Party in the event of any occurrence that may materially or adversely affect the security interest of Secured Party in the Collateral.

(h) At the request of Secured Party, execute and permit to be filed one or more financing statements, and amendments thereto, under the California Uniform Commercial Code and any other applicable state's Uniform Commercial Code naming Debtor as debtor and Secured Party as secured party and indicating therein the types or describing the Collateral.

(i) Not, without the prior written consent of Secured Party, execute, file or authorize or permit to be filed in any jurisdiction or with any governmental authority any financing or similar statement relating to the Collateral, or any portion thereof, in which any person other than Secured Party is named as a secured party thereunder.

(j) Reimburse Secured Party upon demand for any costs and fees, including reasonable attorneys' fees and accountants' fees and other expenses, incurred in collecting any sums payable by Debtor under any of the Obligations secured hereby, enforcing any term or provision of this Agreement or otherwise in the collection of the Collateral and the preparation and enforcement of any agreement relating thereto.

(k) Upon request of Secured Party, furnish within ten (10) days thereafter to Secured Party or to any proposed assignee of Secured Party, a written statement in form satisfactory to Secured Party, duly acknowledged, certifying the amount of the principal and interest then owing under the obligations and liabilities set forth in the Note, and stating that no claims, offsets or defenses exist with respect to the Note, this Agreement or any of the Loan Documents of any nature whatsoever.

(l) Execute and deliver to Secured Party any and all further agreements, instruments, or documents and take any and all such further action as Secured Party, in its sole discretion, may deem necessary or advisable in order to evidence, effectuate, perfect, protect, maintain, or realize upon Secured Party's security interest in the Collateral or the priority thereof.

10. *Events of Default.* The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(a) Failure to make prompt and punctual payment or performance when due of any of the Obligations, including without limitation, any Event of Default under the Note.

(b) Any representation or warranty herein, in the Note, or in any other instrument executed by Debtor in connection with its obligations hereunder, proves materially false or misleading in any way.

(c) Breach of any covenant or promise contained herein or in any other instrument executed by Debtor in connection with its obligations hereunder.

(d) Debtor becomes insolvent, generally is not paying its debts as such debts become due, or makes an assignment for the benefit of creditors.

(e) Any case is commenced by or against Debtor, under any bankruptcy, reorganization, arrangement, readjustment of debt or moratorium law or similar statute if, with respect to a case commenced against Debtor, such case is not dismissed within sixty (60) days.

(f) Any writ of attachment, garnishment, execution or other legal process is issued against any property of Debtor, if such writ, garnishment, execution or other process is not fully vacated within sixty (60) days.

(g) Debtor seeks, consents to, acquiesces in or fails to cause to be vacated or stayed within sixty (60) days (or vacated within sixty (60) days of any such stay) the appointment of a receiver, trustee or conservator of all or any substantial portion of Debtor's property.

11. *Secured Party's Remedies.* If an Event of Default or Change of Control (as defined in the Note) occurs hereunder, then, Secured Party may, at its option, but is not required to, do any one or more of the following without demand or notice to Debtor:

(a) Declare all of the Obligations immediately due and payable in full, notwithstanding the terms of any other writing or evidence of debt;

(b) Transfer the Collateral into Secured Party's name or that of its nominee;

(c) From time to time, proceed with the foreclosure of Secured Party's security interest and sale of the Collateral, or any portion of it, in any manner permitted by law or provided for herein;

(d) Take possession of and retain the Collateral in satisfaction of the Obligations; or

(e) Exercise any and all remedies of a secured party under the California Uniform Commercial Code or as otherwise provided by law.

12. *Application of Proceeds.* After the occurrence of an Event of Default, all income and distributions with respect to the Collateral and all proceeds from any sale of the Collateral pursuant hereto shall be applied as follows:

(a) First, in such order as Secured Party shall in its sole discretion determine, (i) to the payment of all costs and expenses incurred by Secured Party in connection with any sale of the Collateral, including, without limitation, all court costs and the reasonable fees and expenses of counsel for Secured Party in connection therewith; and (ii) the payment of any and all other costs and expenses paid or incurred by Secured Party in connection with this Agreement or otherwise in connection with the Obligations or the exercise of any right or remedy hereunder;

(b) Second, to the payment of interest on the Obligations;

(c) Third, to the payment or satisfaction of the Obligations; and

(d) Fourth, any amounts remaining after the foregoing applications shall be remitted to Debtor or as a court of competent jurisdiction may otherwise direct.

13. *Power of Attorney.*

(a) Debtor does hereby irrevocably make, constitute and appoint Secured Party or any of its officers or designees its true and lawful attorney-in-fact with full power in the name of Secured Party or Debtor to receive, open and dispose of all mail relating to the Collateral addressed to Debtor (provided, however, that Secured Party shall provide Debtor with a copy of any mail so received), and to endorse any notes, checks, drafts, money orders or other evidence of payment relating to the Collateral that may come into the possession of Secured Party, and to do any and all other acts necessary or proper to carry out the intent of this Agreement, and Debtor hereby ratifies and confirms all that Secured Party or its substitutes shall properly do by virtue hereof;

(b) Debtor does hereby further irrevocably make, constitute and appoint Secured Party or any of its officers or designees its true and lawful attorney-in-fact in the name of Secured Party or Debtor, (i) to enforce all Debtor's rights under and pursuant to all agreements with respect to the Collateral, all for the sole benefit of Secured Party, and to enter into such other agreements as may be necessary to protect Secured Party's rights and interest in and to the Collateral; (ii) to enter into and perform such agreements as may be necessary in order to carry out the terms, covenants and conditions of this Agreement that are required to be observed or performed by Debtor; (iii) to execute such other and further pledges and assignments of the Collateral as Secured Party may reasonably require for the purpose of protecting, maintaining or enforcing the security interest granted to the Secured Party herein; and (iv) to do any and all other things necessary or proper to carry out the intention of this Agreement; and Debtor ratifies and confirms all that Secured Party as such attorney-in-fact or its substitutes shall properly do by virtue of this power of attorney; and

(c) Each of the foregoing appointments shall be deemed coupled with an interest and irrevocable.

14. *Private Sale Authorized.*

(a) Debtor recognizes that Secured Party may be unable to effect a public sale of all or part of the Collateral. Debtor consents to a private sale even though such sale may be at prices and upon terms less favorable than if the Collateral were sold at public sales. Debtor agrees that private sales will be deemed to have been made in a commercially reasonable manner.

(b) Debtor recognizes that a sale, public or private, of the Collateral may not be able to be effected and Secured Party or its assignee are hereby expressly authorized at their election to retain the Collateral until a sale can be effected. Until such sale, Secured Party or its assignee may elect to hold the Collateral and be treated as the owner thereof, and shall be entitled to collect all income thereon.

(c) The purchaser or purchasers at any public or private sale of the Collateral shall take the Collateral free of any right or equity of redemption in Debtor, which rights and equities Debtor hereby expressly waives.

(d) Debtor agrees that written notice mailed to Debtor ten (10) business days prior to the date of public sale of the Collateral or ten (10) business days prior to the date after which private sale or any other disposition of the Collateral will be made shall constitute reasonable notice for such sales.

15. *Financing Statements and Payment Directions.* To the extent permitted by law, Debtor hereby authorizes Secured Party to file any amendments to or continuations of any financing statement filed with regard to the Collateral without the signature of Debtor. Debtor further authorizes Secured Party upon an Event of Default to notify any account custodian of the Collateral that all sums payable to Debtor relating to the Collateral shall be paid directly to Secured Party.

16. *Termination.* Upon satisfaction in full of all of the Obligations, and the satisfaction of all additional costs and expenses of Secured Party as provided herein, this Agreement shall terminate and Secured Party shall deliver to Debtor, at Debtor's expense, such of the Collateral as shall not have been sold or otherwise disposed

of or applied pursuant to this Agreement; provided that if Secured Party is required to return any amounts received by Secured Party on account of the Obligations, the security interests provided hereunder shall reattach.

17. *Notices.* Any notice or other communication required or permitted to be given under this Agreement shall be in writing and sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, and addressed as follows:

If to Debtor: LTC-Fort Tucum, Inc.
300 Esplanade Drive, Suite 1865
Oxnard, California 93030
Attention: President

with a copy to: LTC-Fort Tucum, Inc.
300 Esplanade Drive, Suite 1865
Oxnard, California 93030
Attention: Legal Department

If to Secured Party: LTC Properties, Inc.
300 Esplanade Drive, Suite 1860
Oxnard, California 93030
Attention: Chief Financial Officer

with a copy to: LTC Properties, Inc.
300 Esplanade Drive, Suite 1865
Oxnard, California 93030
Attention: Legal Department

or such other address as either party may from time to time specify in writing to the other in the manner aforesaid. If personally delivered, such notices or other communications shall be deemed delivered upon delivery. If sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, such notices or other communications shall be deemed delivered upon delivery or refusal to accept delivery as indicated on the return receipt.

18. *Survival of Representations.* All covenants, agreements or representations and warranties made herein and in any documents delivered pursuant hereto shall survive the execution hereof.

19. *Assignments.* Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of Debtor contained in this Agreement shall bind and inure to the benefit of the successors and assigns of Secured Party and Debtor.

20. *California Law.* This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without regard to conflict of laws principles.

21. *No Implied Waivers by Secured Party.* Neither any failure nor any delay on the part of Secured Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights, remedies and benefits of Secured Party herein expressly specified are cumulative and not exclusive of any other rights, remedies or benefits that Secured Party may have at law, in equity, by statute or otherwise. Without limiting the generality of the foregoing, Secured Party shall have all rights and remedies of a secured party under Division 9 of the California Uniform Commercial Code, as it may be amended or superseded from time to time.

22. *Modifications and Waivers.*

(a) No modification, amendment or waiver of any provision of this Agreement, nor consent to any departure of Debtor herefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(b) No notice or demand on Debtor in any case shall entitle Debtor to any other or further notice or demand in the same, similar or other circumstances.

(c) Debtor hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing the liability of Debtor in respect of the Obligations or the Collateral and any and all other notices and demands whatsoever, whether or not relating to such instruments.

(d) The Obligations shall not be affected by (i) the failure of Secured Party to assert any claim or demand or to enforce any right or remedy against Debtor; (ii) any extension or renewal thereof; (iii) any rescission, waiver, amendment or modification of any of the terms or provisions of this Agreement or of any other agreement; or (iv) the release of any collateral held by Secured Party for the Obligations or any of them.

23. *Severability.* In case any one or more of the provisions contained in this Agreement should be determined by a court of law to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. *Service of Process.*

(a) Debtor hereby irrevocably submits itself to the jurisdiction of the state courts of the State of California and to the jurisdiction of the United States District Court for the Central District of California, for the purpose of any suit, action or other proceedings arising out of or based upon this Agreement or the subject matter hereof brought by Secured Party or its successors or assigns.

(b) Debtor hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court.

(c) Debtor hereby waives any right to jury trial and any offsets or counterclaims in any such action, suit or proceeding (other than compulsory counterclaims).

(d) Debtor hereby consents to service of process by registered mail at the address to which notices are to be given. Debtor agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of Secured Party.

(e) Final judgment against Debtor in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the judgment, a certified or true copy of which shall be conclusive evidence of the fact and of the amount of any indebtedness or liability of Debtor therein described; or (ii) in any other manner permitted by applicable law, provided, however, that Secured Party may at its option bring suit, or institute other judicial proceedings against any of Debtor's assets in any state or federal court of the United States or of any country or place where such assets may be found.

25. *Indemnity and Reimbursement of Secured Party.*

(a) Debtor agrees (i) to indemnify and hold harmless Secured Party, to the fullest extent permitted by law, from and against any and all claims, demands, losses, judgments and liabilities (including liabilities for penalties) arising out of, resulting from or relating to any of the Collateral, this Agreement or the administration, enforcement, exercise or defense of any right or remedy granted to Secured Party herein; and (ii) to reimburse Secured Party for all costs and expenses, including legal fees and disbursements, incurred after the date

hereof and arising out of, resulting from or relating to any of the Collateral, this Agreement or the administration, enforcement, exercise or defense of any right or remedy granted to Secured Party herein. The foregoing indemnity includes any reasonable costs incurred by Secured Party in connection with any litigation relating to the Collateral whether or not Secured Party shall be a party to such litigation, including, but not limited to, the reasonable fees and disbursements of counsel to Secured Party and any out-of-pocket costs incurred by Secured Party in appearing as a witness or in otherwise complying with legal process served upon it. In no event shall Secured Party be liable to Debtor for any matter or thing in connection with this Agreement other than to account for moneys actually received by it in accordance with the terms hereof.

(b) If Debtor shall fail to do any act or thing that it has covenanted to do hereunder or under any of the Loan Documents or any representation of warranty of Debtor to Secured Party shall have been breached, Secured Party may, but shall not be obligated to, do the same or cause it to be done or remedy any such breach and there shall be added to the Obligations hereunder the cost of such expense incurred by Secured Party in so doing, and any and all amounts expended by Secured Party in taking any such action shall be repayable to it upon its demand therefor and shall bear interest at the applicable interest rate under the Note from the date such amounts are expended to the date of repayment.

26. *Captions.* The captions in this Agreement are inserted only as a matter of convenience and for reference and shall not be deemed to define, limit, enlarge, or describe the scope of this Agreement or the relationship of the parties, and shall not affect this Agreement or the construction of any provisions herein.

27. *Pronouns.* Whenever the context so requires, the masculine shall include the feminine and the neuter, and the singular shall include the plural, and conversely.

28. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

29. *Joint and Several Obligations.* Whenever Debtor comprises one or more persons or entities, the obligations and promises set forth herein shall be joint and several undertakings of each of the persons or entities executing this Agreement as Debtor, and Secured Party may proceed hereunder against any one or more of said persons or entities without waiving its right to proceed against any of the others.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

DEBTOR:

**LTC-FORT TUCUM, INC.,
A Delaware Corporation**

By: _____

**Andre C. Dimitriadis
Chairman and Chief Executive Officer**

SECURED PARTY:

**LTC PROPERTIES, INC.,
A Maryland Corporation**

By: _____

**Wendy Simpson
Vice Chairman and Chief Financial Officer**

STOCK PURCHASE AGREEMENT

THIS AGREEMENT ("Agreement") is made as of the 30th day of January, 2002 by and among LTC Properties, Inc., a Maryland corporation ("Seller") and CLC Healthcare, Inc., a Nevada corporation ("Buyer").

WHEREAS, Seller owns all of the outstanding shares (the "Shares") of common stock, par value \$.01 per share (the "Common Stock"), of LTC-Fort Tucum, Inc., a Delaware corporation (the "Corporation"), represented by Stock Certificate number 1 (the "Shares") and constituting one hundred percent (100%) of the outstanding shares of capital stock issued by the Corporation.

WHEREAS, Seller, on behalf of Buyer, provided services to Buyer for the acquisition of the properties known as Pecos Valley Care Center, located at 519 N. 10th Street, Fort Sumner, New Mexico and Van Ark Care Center, located at 1005 S. Monroe, Tucumcari, New Mexico.

WHEREAS, Seller desires to sell, transfer and convey the Shares of the Corporation to Buyer and Buyer desires to acquire and purchase the Shares from Seller on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the assumption of the Loan, Acquisition Services and the mutual promises, covenants and representations hereinafter contained, and subject to the conditions hereinafter set forth, it is agreed as follows:

1. *Sale and Transfer of Shares.* Subject to the terms and conditions set forth in this Agreement, Seller hereby transfers and conveys the Shares to Buyer, and Buyer hereby acquires the Shares from Seller for total consideration of One Thousand and NO/100 Dollars (\$1,000.00).
2. *Release of Interest.* Seller hereby releases and relinquishes any and all right, title and interest which Seller now has or may ever have had in the Shares.
3. *Representations of Seller.* Seller represents and warrants that:
 - (a) Seller is the owner, beneficially and of record, of all of the Shares, free and clear of all liens, encumbrances, security agreements, equities, options, claims, charges, and restrictions, other than the restrictions set forth on the Shares;
 - (b) the Shares are validly issued in the name of Seller, and are fully paid and non-assessable;
 - (c) Seller has full power and authority to transfer the Shares to Buyer; and
 - (d) this Agreement, when executed and delivered by Seller, will constitute a valid and legally binding obligation of Seller, enforceable in accordance with its terms.

4. *Representations of Buyer.* Buyer represents and warrants that:

- (a) Buyer is experienced in evaluating companies such as the Corporation and has such knowledge and experience in financial and business matters that Buyer is capable of evaluating the merits and risks of the prospective investment in the Corporation, and has the ability to bear the economic risks of the investment;
- (b) Buyer understands that the Shares have not been registered under the Securities Act of 1933 (the “Act”) and must be held indefinitely unless the Shares are registered under the Act or an exemption from registration is available, including the possible exemption available pursuant to Rule 144;
- (c) Buyer does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any third person with respect to any of the Shares;
- (d) Buyer is acquiring the Shares for investment for its own account and not with a view to, or for resale in connection with, any distribution of the Shares within the meaning of the Act; and
- (e) this Agreement, when executed and delivered by Buyer, will constitute a valid and legally binding obligation of Buyer, enforceable in accordance with its terms.

5. *Other Documents.* The transactions contemplated hereby shall be consummated upon the simultaneous delivery:

- (a) by Seller to the designated attorney-in-fact for the Corporation of the Stock Certificate for the Shares for cancellation;
- (b) by the Corporation to Buyer of a Stock Certificate for the Shares in the amount of Common Stock as described in the recitals above (which deliveries Seller shall cause to be made);
- (c) by Seller to Buyer of a stock power in the form attached hereto as **Exhibit “A”**;
- (d) by Buyer to Seller of the Purchase Price.

6. *Indemnification.*

- (a) Seller shall indemnify, save and hold harmless Buyer from and against any and all costs, losses, taxes, liabilities, obligations, damages, lawsuits, deficiencies, claims, demands, and expenses (whether or not arising out of third-party claims) (collectively, “*Damages*”) for such Damages in connection with the Corporation, including, but not limited to, the assets, facilities, properties, and management or operation thereof held by the Corporation, attributable to the period prior to the date of this Agreement; and for such Damages incurred in

connection with, arising out of, resulting from or incident to any breach of any representation, warranty, covenant or agreement made in or pursuant to this Agreement.

(b) Buyer shall indemnify, save and hold harmless Seller from and against any and all Damages incurred for Damages in connection with the Corporation, including, but not limited to, the assets, facilities, properties, and management or operation thereof held by the Corporation, attributable to the period after the date of this Agreement; and, for such Damages in connection with, arising out of, resulting from or incident to any breach of any representation, warranty, covenant or agreement made in or pursuant to this Agreement.

(c) All of the representations and warranties of the parties contained in this Agreement shall survive the date of execution hereof and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

7. *Miscellaneous.*

(a) *Governing Law.* The laws of the State of California applicable to contracts made in that State, without giving effect to its conflict of law rules, shall govern the validity, construction, performance and effect of this Agreement.

(b) *Consent to Jurisdiction.* Each party hereto consents to the jurisdiction of the courts of the State of California in the event any action is brought for declaratory relief or enforcement of any of the terms and provisions of this Agreement.

(c) *Attorneys' Fees.* Unless otherwise specifically provided for herein, each party hereto shall bear its own attorneys' fees incurred in the negotiation and preparation of this Agreement and any related documents. In the event that any action or proceeding is instituted to interpret or enforce the terms and provisions of this Agreement, however, the prevailing party shall be entitled to its costs and attorneys' fees, in addition to any other relief it may obtain or be entitled to.

(d) *Interpretation.* In the interpretation of this Agreement, the singular may be read as the plural, and *vice versa*, the neuter gender as the masculine or feminine, and *viceversa*, and the future tense as the past or present, and *viceversa*, all interchangeably as the context may require in order to fully effectuate the intent of the parties and the transactions contemplated herein. Syntax shall yield to the substance of the terms and provisions hereof. Paragraph headings are for convenience of reference only and shall not be used in the interpretation of the Agreement. Unless the context specifically states to the contrary, all examples itemized or listed herein are for illustrative purposes only.

(e) *Entire Agreement.* This Agreement sets forth the entire understanding of the parties, and supersedes all previous agreements, negotiations, memoranda, and understandings, whether written or oral. In the event of any conflict between any exhibits or schedules attached hereto, this Agreement shall control.

(f) *Modifications.* This Agreement shall not be modified, amended or changed in any manner unless in writing executed by the parties hereto.

(g) *Waivers.* No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver, and no waiver shall be binding unless evidenced by an instrument in writing and executed by the party making the waiver.

(h) *Invalidity.* If any term, provision, covenant or condition of this Agreement, or any application thereof, should be held by a court of competent jurisdiction to be invalid, void or unenforceable, that provision shall be deemed severable and all provisions, covenants, and conditions of this Agreement, and all applications thereof not held invalid, void or unenforceable, shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

(i) *Binding Effect.* This Agreement shall be binding on and inure to the benefit of the heirs, personal representatives, successors and permitted assigns of the parties hereto.

(j) *Counterparts.* This Agreement may be executed in multiple counterparts, which together shall constitute one and the same document.

(k) *Negotiated Agreement.* This is a negotiated Agreement. All parties have participated in its preparation. In the event of any dispute regarding its interpretation, it shall not be construed for or against any party based upon the grounds that the Agreement was prepared by any one of the parties.

(l) *Arbitration.* Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in the State of California in accordance with the Rules of the American Arbitration Association, and judgment upon the award may be entered in any court having jurisdiction thereof pursuant to the provisions of the State of California.

(m) *Time of Essence.* Time is of the essence of this Agreement and all of its provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement effective the day and year above written.

“SELLER”

LTC PROPERTIES, INC.,
a Maryland corporation

“BUYER”

CLC HEALTHCARE, INC.
a Nevada corporation

By:

Wendy Simpson
Chief Financial Officer

By:

Christopher Ishikawa
President

EXHIBIT “A”

STOCK POWER

FOR VALUE RECEIVED, the undersigned hereby assigns and transfers unto CLC Healthcare, Inc., all of its right, title and interest in and to One Thousand (1,000) shares of common stock, par value \$.01 per share (the “Shares”), of LTC-Fort Tucum, Inc., a Delaware corporation (the “Corporation”) subject to the terms and conditions of the Promissory Note; Security Agreement and any applicable security instrument, and do hereby irrevocably constitute and appoint any individual designated by the President of the Corporation as its attorney to transfer the Shares on the books of the Corporation, with full power of substitution in the premises.

DATED as of the 30th day of January, 2002.

LTC PROPERTIES, INC.
a Maryland corporation

By: _____

Wendy Simpson
Chief Financial Officer