

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20459

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001

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 /x/ No //

Shares of Registrant's common stock, \$.01 par value, outstanding at July 31, 2001 - 24,583,518

LTC PROPERTIES, INC.

FORM 10-Q

JUNE 30, 2001

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

	June 30, 2001	December 31, 2000
	(Unaudited)	
<b>ASSETS</b>		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2001—\$53,212; 2000—\$47,181	\$ 370,057	\$ 397,833
Land	22,603	23,484
Mortgage loans receivable, net of allowance for doubtful accounts: 2001—\$1,250; 2000—\$1,250	99,964	106,149
REMIC Certificates	93,273	94,962
	<u>585,897</u>	<u>622,428</u>
Real estate investments, net	585,897	622,428
Other Assets:		
Cash and cash equivalents	9,805	1,870
Debt issue costs, net	3,647	3,396
Interest receivable	4,576	4,558
Prepaid expenses and other assets	13,945	11,878
Marketable debt securities	5,456	15,873
Due from LTC Healthcare, Inc. under line of credit	17,335	16,582
	<u>54,764</u>	<u>54,157</u>
Total Assets	<u>\$ 640,661</u>	<u>\$ 676,585</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Convertible subordinated debentures	\$ 12,518	\$ 24,642
Bank borrowings	115,000	118,000
Mortgage loans and notes payable	102,795	103,341
Bonds payable and capital lease obligations	16,142	16,577
Accrued interest	2,291	2,260
Accrued expenses and other liabilities	6,928	6,741
Distributions payable	984	985
	<u>256,658</u>	<u>272,546</u>
Total Liabilities	256,658	272,546
Minority interest	9,830	9,912
Stockholders' equity:		
Preferred stock \$0.01 par value: 10,000 shares authorized; shares issued and outstanding: 2001—7,080; 2000—7,080	165,500	165,500
Common stock: \$0.01 par value; 40,000 shares authorized; shares issued and outstanding: 2001—24,871; 2000—26,031	249	260
Capital in excess of par value	291,900	296,568
Cumulative net income	214,169	221,734
Notes receivable from stockholders	(10,327)	(10,126)
Accumulated comprehensive loss	(1,712)	(1,746)
Cumulative distributions	(285,606)	(278,063)
	<u>374,173</u>	<u>394,127</u>
Total Stockholders' Equity	374,173	394,127
Total Liabilities and Stockholders' Equity	<u>\$ 640,661</u>	<u>\$ 676,585</u>

*See accompanying notes.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues:				
Rental income	\$ 10,139	\$ 13,084	\$ 20,313	\$ 26,066
Interest income from mortgage loans and notes receivable	3,174	4,175	6,608	8,024
Interest income from REMIC Certificates	4,010	4,291	8,036	8,585
Interest and other income	758	1,167	1,402	2,548

Total revenues	18,081	22,717	36,359	45,223
Expenses:				
Interest expense	5,582	6,922	11,636	13,443
Depreciation and amortization	3,376	3,838	7,115	7,686
Minority interest	235	235	470	470
Impairment charge	18,366	388	22,866	388
Operating and other expenses	2,054	1,870	3,682	3,097
Total expenses	29,613	13,253	45,769	25,084
Operating income (loss)	(11,532)	9,464	(9,410)	20,139
Gain (loss) on sale of assets, net	(100)	388	1,844	388
Net income (loss)	(11,632)	9,852	(7,566)	20,527
Preferred dividends	(3,771)	(3,771)	(7,543)	(7,543)
Net income (loss) available to common stockholders	\$ (15,403)	\$ 6,081	\$ (15,109)	\$ 12,984
Net Income (Loss) per Common Share:				
Basic	\$ (0.61)	\$ 0.23	\$ (0.59)	\$ 0.50
Diluted	\$ (0.61)	\$ 0.23	\$ (0.59)	\$ 0.50
Comprehensive Income:				
Net income (loss) available to common stockholders	\$ (15,403)	\$ 6,081	\$ (15,109)	\$ 12,984
Unrealized gain (loss) on available for sale securities	74	(5)	(332)	44
Reclassification adjustment	—	—	366	—
Total comprehensive income (loss)	\$ (15,329)	\$ 6,076	\$ (15,075)	\$ 13,028

See accompanying notes.

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

	Six Months Ended June 30,	
	2001	2000
OPERATING ACTIVITIES:		
Net income (loss)	\$ (7,566)	\$ 20,527
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,115	7,686
Impairment charge	22,866	388
Other non-cash charges	2,422	1,465
Loss on the sale of other assets	456	—
Gain on sale of real estate investments, net	(2,300)	(388)
Increase in accrued interest	31	531
Net change in other assets and liabilities	(1,898)	(6,612)
Net cash provided by operating activities	21,126	23,597
INVESTING ACTIVITIES:		
Investment in real estate properties and capital improvements, net	(1,084)	(1,541)
Proceeds from sale of real estate properties and other assets, net	12,671	3,833
Principal payments on mortgage loans receivable	3,325	6,231
Advances under line of credit to LTC Healthcare, Inc.	(1,650)	(13,158)
Other	2,799	2,013
Net cash provided by (used in) investing activities	16,061	(2,622)
FINANCING ACTIVITIES:		
Borrowings under the line of credit	12,000	21,000
Repayments of bank borrowings under line of credit	(15,000)	(12,500)

Principal payments on mortgage loans payable and capital lease obligations	(981)	(874)
Redemption of convertible subordinated debentures	(12,120)	—
Repurchase of common stock	(4,703)	(7,968)
Distributions paid	(7,544)	(21,852)
Other	(904)	80
	<u>          </u>	<u>          </u>
Net cash used in financing activities	(29,252)	(22,114)
	<u>          </u>	<u>          </u>
Increase (decrease) in cash and cash equivalents	7,935	(1,139)
Cash and cash equivalents, beginning of period	1,870	2,655
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 9,805	\$ 1,516
	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 11,128	\$ 12,332
<b>Non-cash investing and financing transactions:</b>		
Conversion of mortgage loans into owned properties	\$ 3,502	\$ 350
Increase in short term notes receivable related to the disposition of real estate assets	\$ 5,183	\$ —

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, 2001 and 2000 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 generally accepted accounting principles 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, 2001 and 2000 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 real estate investment trust ("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.* During the first six months of 2001 the Company sold the remaining three schools previously operated by a company that filed for bankruptcy protection in October 2000. These three sales generated approximately \$17,271,000 of net proceeds including \$5,133,000 in notes. The Company recognized a net gain of approximately \$2,561,000 from these sales in the first half of 2001. Additionally during the first six months of 2001, the Company sold a previously impaired, closed skilled nursing facility for approximately \$375,000 and recognized a net loss of approximately \$188,000.

During the quarter ended June 30, 2001, one previously impaired mortgage loan on a skilled nursing facility in Tucson, Arizona converted to an owned property as a result of foreclosure through a bankruptcy proceeding. This facility is closed and held for sale.

*Mortgage Loans.* At June 30, 2001 the Company had 47 mortgage loans secured by first mortgages on 44 skilled nursing facilities with a total of 4,904 beds and 8 assisted living residences with a total of 369 units located in 22 states. At June 30, 2001, the mortgage loans had interest rates ranging from 9.1% to 13.6% and maturities ranging from 2001 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.

*REMIC Certificates.* As of June 30, 2001 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was \$262,356,000 and 7.19%. As of June 30, 2001, the carrying value of the subordinated REMIC certificates held by the Company was \$93,273,000. 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 16.79% at June 30, 2001.

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, 2001, available-for-sale certificates were recorded at their fair value of approximately \$40,327,000. An unrealized holding gain (loss) on available-for-sale certificates of \$74,000 and \$(332,000) were included in comprehensive loss for the three and six months ended June 30, 2001, respectively. An unrealized holding gain (loss) of \$(5,000) and \$44,000 were included in comprehensive income for the same period in 2000. At June 30, 2001 held-to-maturity certificates had a book value of \$52,946,000 and a fair value of \$33,082,000. As of June 30, 2001, 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 22.6% and 11.9%, respectively.

**3. Impairment Charge**

During the three and six months ended June 30, 2001 the Company recorded an impairment charge of \$18,366,000 and \$22,866,000, respectively. The impairment charge recorded in the second quarter of 2001 consists of the following: a \$2,484,000 valuation adjustment on two skilled nursing facilities leased to Sun Healthcare Group, Inc. ("Sun") that had leases expire in June 2001 and were not renewed or re-leased; a \$2,423,000 valuation adjustment on two skilled nursing facilities previously leased to LTC Healthcare, Inc. ("Healthcare") that were closed during the quarter; and a \$4,630,000 additional valuation adjustment on six skilled nursing facilities that the Company continues to hold for sale or lease; and a \$8,829,000 valuation adjustment on the Company's investment in Assisted Living Concepts, Inc. ("ALC") convertible subordinated debentures.

The impairment charge recorded for the six months ended June 30, 2001 consists of the following: \$11,537,000 in valuation adjustments on 10 skilled nursing facilities that the company holds for sale or lease; 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.

At June 30, 2001, the Company owned \$4,195,000 face amount of ALC 5.625% convertible subordinated debentures due May 2003 and \$15,645,000 face amount of ALC 6.0% convertible subordinated debentures due November 2002 at an aggregate purchase price of \$13,097,000. The Company accounts for its investment in these debentures as held-to-maturity securities. Beginning in the first quarter of 2001, the Company ceased recording accretion of the discount related to its investment in the ALC debentures and ceased accruing for interest due on these debentures. As of June 30, 2001, ALC was current on payment to the Company of interest on the debentures.

On March 22, 2001, ALC announced it had engaged Jeffries & Company, Inc. as a financial advisor to explore restructuring ALC's obligations to both its convertible subordinated debenture holders and lessors of certain under-performing leases. The Company has joined a Bondholders Committee formed to discuss with ALC and ALC's financial advisors their proposals regarding ALC's convertible subordinated debentures.

The Company believes that the ALC convertible subordinated debentures it owns have been impaired. During the first quarter of 2001, the Company recorded a \$1,000,000 impairment charge to reduce the carrying value of these debentures to \$14,873,000. Based upon the discount at which the ALC debentures are trading on the open market, and information the Company has obtained as a member of the ALC Bondholders Committee, the Company recorded an additional impairment in the second quarter of 2001 to reduce the carrying value of the ALC debentures to \$5,456,000, or 27.5% of face value. At this time, the Company and ALC have not reached an agreement on the restructuring of these debentures but the Company believes the ultimate result will include other forms of debt

securities and equity in ALC. It is possible that ultimately the value received from these debentures will be more or less than \$5,456,000 but the Company has recorded an impairment charge based on information currently available. On July 6, 2001, the Company purchased, on the open market, \$3,833,000 face amount of ALC 5.625% convertible subordinated debentures due May 2003 for approximately \$997,000 or 26% of the face amount. Also on July 6, 2001, the Company also purchased \$6,875,000 face amount of ALC 6.0% convertible subordinated debentures due November 2002 for approximately \$1,788,000 or 26% of the face amount.

Additionally, at June 30, 2001, ALC leased 37 of the Company's assisted living facilities. The Company's gross investment in these facilities is approximately \$88,105,000. The portfolio has an overall occupancy rate of 88.0% and annualized rent coverage of 1.18 before management fees. On July 17, 2001 the Company reported that ALC advised the Company that they would like to return nine assisted living facilities that they currently lease from the Company. The original investment in these facilities totals \$22,779,000 and generates \$2,433,000 of rental revenue annually. As of July 2001, ALC was current on all rents due to the Company. At this time, the Company has not determined that any of the 37 facilities leased to ALC would require an impairment charge based on improving overall occupancy rates and rent coverage of the facilities as they are operated by ALC. However, the Company cannot predict what, if any, impairment charge may be needed in the future as discussions continue with ALC.

#### 4. Related Party Transactions

As of June 30, 2001, 28 real estate properties with a gross carrying value of \$66,075,000 or 8.1% of the Company's gross and net real estate investment portfolio (adjusted to include mortgage loans underlying the REMIC Certificates) were operated by LTC Healthcare, Inc. ("Healthcare"). During the three and six months ended June 30, 2001, the Company was due rental income of approximately \$763,000 and \$1,615,000, respectively, from Healthcare as compared to \$2,045,000 and \$4,087,000 during the same periods in 2000. For the year ended December 31, 2000, Healthcare reported a net loss of \$7,474,000 after including a gain on sale of real estate properties of \$10,487,000, and a total stockholders' deficit of \$4,541,000. For the six months ended June 30, 2001, the Company has classified the rents due from Healthcare as non-accrual rents but has not forgiven any current or prior rents due. These properties are leased in general, on a short-term basis ending June 30, 2002, at which time the Company and Healthcare will reevaluate all leases. Annual rents from Healthcare under these leases, as currently structured, is approximately \$2,879,000.

During the six months ended June 30, 2001, the Company sold all 180,000 shares of Healthcare common stock it owned at December 31, 2000. The shares were sold to Healthcare 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 recently enacted 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 percent 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 Healthcare. 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 and Healthcare entered into a Second Amended and Restated Promissory Note ("Note") in June, 2001. The Note provides for a \$20,000,000 secured line of credit that bears interest payable quarterly at a rate of 10% and matures in March 2008. Additionally the Note contains a waiver until June 30, 2002 of unpaid interest totaling \$1,367,000 through April 30, 2001. The Company also agreed to forbear through June 30, 2001 default rights under leases for the non-payment of rents totaling \$3,746,000. Previous to this Note, the Company had a \$20,000,000 unsecured line of credit bearing interest at 10% and maturing in April 2008.

As of June 30, 2001 and December 31, 2000, \$17,335,000 and \$16,582,000, respectively, was outstanding under the line of credit. On July 20, 2001 and August 6, 2001, the Company advanced Healthcare \$750,000 and \$500,000, respectively, under the line of credit. Under the terms of the Secured Revolving Credit, the Company is permitted to loan Healthcare up to \$25,000,000. The Company and Healthcare have not increased the \$20,000,000 Note between the companies. Should any such amendment be proposed, it would need approval of the independent Board members of each company's board. For the three months ended June 30, 2001, the Company has reserved for, but has not forgiven, interest due from Healthcare under the line of credit during the second quarter. During the three and six months ended June 30, 2001, the Company recorded interest income of \$0 and \$437,000, respectively, on the average outstanding principal balance under the line of credit, as compared to \$475,000 and \$768,000 during the same periods in 2001. The Company has granted a waiver through June 30, 2001 for unpaid interest for May and June 2001.

#### 5. Debt Obligations

As of June 30, 2001, \$115,000,000 was outstanding under the Company's Secured Revolving Line of Credit (the "Secured Revolving Credit"). During the three months ended June 30, 2001, pricing under the Revolving Credit Facility was LIBOR plus a range of 2.25% to 2.50%. At June 30, 2001, the Company's interest rate was 7.32%.

The Company and its lenders entered into the Second Amendment of the Secured Revolving Credit dated May 17, 2001. This amendment primarily documents a modification in the Company's borrowing base calculation.

On July 6, 2001, the Company obtained a \$11,500,000 non-recourse loan secured by first mortgages on two assisted living facilities. In addition, the loan is cross-defaulted and cross-collateralized with three assisted living facilities previously secured under another loan by the same lender. The loan provides for an option to draw an additional \$500,000 if certain facility lease coverages and debt service coverages are achieved. The interest rate on the loan is 90 day LIBOR plus 400 basis points subject to an 8.0% floor. Monthly payments consist of regular interest and principal with a maturity date of June 30, 2005. Net proceeds from the loan were \$11,252,000. In connection with consummation of this loan, an existing loan of \$6,500,000 by the same lender was extended to June 30, 2005.

At maturity, January 2, 2001, the Company redeemed \$11,849,000 of convertible subordinated debentures. During the second quarter of 2001 the Company purchased \$275,000 face value of its 8.25% convertible subordinated debentures due July 2001 on the open market for an aggregate purchase price of \$271,000. At maturity, July 2, 2001, the Company redeemed \$10,110,000 of convertible subordinated debentures.

## 6. Stockholders' Equity

During the six months ended June 30, 2001, the Company purchased and retired 1,160,700 shares of its common stock in accordance with a previously announced Board authorized stock buyback program, for an aggregate purchase price of approximately \$4,703,000. During the six months ended June 30, 2001 the Company granted 5,000 stock options at an exercise price of \$5.75 and 10,000 stock options at an exercise price of \$7.25. 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.

During the six months ended June 30, 2001, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling \$3,658,000, \$2,250,000 and \$1,636,000, respectively.

On March 10, 2001, the Company announced that in light of the current uncertainties in the long-term care industry as well as the requirements of its revolving loan agreement, it would postpone

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any decision on the common dividend until year end. There can be no assurance that the Company will declare or pay a common dividend for 2001.

## 7. Major Operators

As of June 30, 2001, Sun operated 33 facilities with 3,737 beds/units representing 11.7%, or \$95,134,000, of the Company's adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the investment in REMIC Certificates). During 1999, Sun filed for reorganization under Chapter 11 of the Bankruptcy Code. The facilities operated by Sun at June 30, 2001 consisted of approximately \$56,673,000 of direct investments to Sun and approximately \$38,461,000 of investments in facilities owned by independent parties that lease the property to Sun or contract with Sun to manage the property. Sun did not renew two leases, that expire July 12, 2001, on skilled nursing facilities in Texas, representing approximately \$454,000 in annual rental revenue to the Company. Sun is current with all rent payments due the Company. Sun is currently operating its business as a debtor-in-possession subject to the jurisdiction of the Bankruptcy Court.

As of June 30, 2001, ALC operated 37 assisted living facilities with 1,434 units representing 10.8% of the Company's adjusted gross real estate investment portfolio. See Note 3—Impairment Charge.

As of June 30, 2001, Alterra Healthcare Corporation ("Alterra") operated 35 assisted living facilities with 1,416 units representing 10.3%, or \$84,211,000 of the Company's adjusted gross real estate investment portfolio. On February 26, 2001, Alterra announced it had commenced discussions with its principal lenders and lessors regarding the restructuring of its debt and lease obligations. The Company has had preliminary discussions with Alterra's management regarding the 35 facilities leased to Alterra. The Company has granted no concessions relating to these leases and as of July 2001 and Alterra is current with all rent payments due to the Company. At this time, the Company has not determined that any of the 35 facilities leased to Alterra require an impairment charge based on overall occupancy rates and rent coverage. However, the Company cannot predict what, if any, impairment charge may be required in the future as discussions continue with Alterra and Alterra proceeds with the restructuring of its debt and lease obligations.

As of June 30, 2001, Regent Assisted Living, Inc. ("Regent") operated 5 assisted living facilities with 471 units representing 4.4%, or \$35,746,000 of the Company's adjusted gross real estate investment portfolio. Regent leases three additional assisted living facilities from the Company which are subleased to another operator. The Company's gross investment in these facilities was \$12,809,000 at June 30, 2001. On March 19, 2001, Regent announced that it had asked three real estate investment trusts to negotiate new terms underlying leases. On July 30, 2001, Regent announced that they had appointed Cohen & Steers Capital Advisors to assist Regent to obtain equity, evaluate strategic alternatives and facilitate new corporate opportunities. The Company has agreed with Regent to forbear rent on three facilities until May 1, 2001 and May and June rent on four facilities until July 1, 2001 and August 1, 2001, respectively. As of July 31, 2001, Regent paid the Company the full amount due for the first two forbearances. At this time, the Company has not determined that any of the eight facilities leased to Regent require an impairment charge based on overall occupancy rates and rent coverage. The Company cannot predict what, if any, impairment charge may be required in the future as Regent proceeds with the restructuring of its business.

ALC, Alterra, Sun and Regent 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 financial difficulties experienced by ALC, Alterra, Sun, Regent, or any of its other major operators, including 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.

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## 8. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net income (loss)	\$ (11,632)	\$ 9,852	\$ (7,566)	\$ 20,527
Preferred dividends	(3,771)	(3,771)	(7,543)	(7,543)
Net income (loss) for basic net income per share	(15,403)	6,081	(15,109)	12,984
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	—	—	—	—
Net income (loss) for diluted net income per share	\$ (15,403)	\$ 6,081	\$ (15,109)	\$ 12,984
Shares for basic net income per share	25,340	26,051	25,688	26,177
Effect of dilutive securities:				
Stock options	—	—	—	—
8.25% convertible debentures due 2001	—	—	—	—
8.50% convertible debentures due 2001	—	—	—	—
7.75% convertible debentures due 2002	—	—	—	—
Other dilutive securities	—	—	—	—
Shares for diluted net income per share	25,340	26,051	25,688	26,177
Basic net income (loss) per share	\$ (0.61)	\$ 0.23	\$ (0.59)	\$ 0.50
Diluted net income (loss) per share	\$ (0.61)	\$ 0.23	\$ (0.59)	\$ 0.50

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

### Operating Results

#### Three months ended June 30, 2001 compared to three months ended June 30, 2000

Revenues for the three months ended June 30, 2001 decreased to \$18.1 million from \$22.7 million for the same period in 2000. Rental income for the three months ended June 30, 2001 decreased \$2.9 million compared to the same period of 2000 primarily as a result of the elimination of rents from sold properties and the effect of not accruing rental income on properties leased to Healthcare as discussed in Note 4—Related Party Transactions, partially offset by the conversion of mortgage loans into owned properties during 2000 and rental increases as provided for in the lease agreements. Same store rental income, properties owned for the three months ended June 30, 2001 and the three months ended June 30, 2000, increased \$0.2 million due to rental rate increases as provided for in the lease agreements partially offset by the effect of not accruing rental income on properties leased to Healthcare. Interest income from mortgage loans and notes receivable decreased \$1.0 million primarily as a result of the early payoff of four mortgage loans, the conversion of mortgage loans to owned properties during 2000 and the effect of not accruing interest on the line of credit with Healthcare as discussed in Note 4—Related Party Transactions. Interest income from REMIC Certificates for the three months ended June 30, 2001 decreased \$0.3 million compared to the same period of 2000 due to the amortization of the related asset. Interest and other income for the three months ended June 30, 2001 decreased \$0.4 million as compared to the same period in 2000 due to the non-accrual of interest receivable on the Company's investment in convertible subordinated debentures of ALC, and the effect of not accreting the discount related to that investment during the second quarter of 2001 as discussed in Note 3—Impairment Charge.

Interest expense decreased by \$1.3 million to \$5.6 million for the three months ended June 30, 2001 from \$6.9 million during the same period in 2000, due to lower debt outstanding along with a decrease in interest rates. Depreciation and amortization decreased \$0.5 million due to the sale of properties partially offset by the conversion of mortgage loans into owned properties during 2000. The Company recorded an \$18.4 million impairment charge during the second quarter of 2001. The impairment charge included a \$9.6 million write down of the carrying value to the estimated net realizable value of 10 owned skilled nursing facilities, and an \$8.8 million write down in the book value of the Company's investment in the convertible subordinated debentures of ALC as discussed in Note 3—Impairment Charge. General and administrative expenses increased \$0.2 million in the second quarter of 2001 from \$1.9 million to \$2.1 million due to the timing of certain expenditures.

During the three months ended June 30, 2001, the Company sold one office building and incurred closing costs related to the sale of three schools in the previous quarter. The net loss of these transactions was \$0.1 million.

Net income (loss) available to common stockholders decreased to \$(15.4) million for the three months ended June 30, 2001 from \$6.1 million for the same period in 2000, due largely to the impairment charge discussed above.

#### Six months ended June 30, 2001 compared to six months ended June 30, 2000

Revenues for the six months ended June 30, 2001 decreased to \$36.4 million from \$45.2 million for the same period in 2000. Rental income for the six months ended June 30, 2001 decreased \$5.8 million compared to the same period of 2000 primarily as a result of the elimination of rents from sold properties and the effect of not accruing rental income on properties leased to Healthcare as discussed in Note 4—Related Party Transactions, partially offset by the conversion of mortgage loans into owned properties during 2000 and rental increases as provided for in the lease agreements. Same store rental

income, properties owned for the six months ended June 30, 2001 and the six months ended June 30, 2000, increased \$0.2 million due to rental rate increases as provided for in the lease agreements partially offset by the effect of not accruing rental income on properties leased to Healthcare. Interest income from mortgage loans and notes receivable decreased \$1.4 million primarily as a result of the early payoff of four mortgage loans, the conversion of mortgage loans to owned properties during 2000 and the effect of not accruing interest on the line of credit with Healthcare as discussed in Note 4—Related Party Transactions. Interest income from REMIC Certificates for the six months ended June 30, 2001 decreased \$0.5 million compared to the same period of 2000 due to the amortization of the related asset. Interest and other income for the six months ended June 30, 2001 decreased \$1.1 million as compared to the same period in 2000 due to the non-accrual of interest receivable on the Company's investment in convertible subordinated debentures of ALC, and the effect of not accreting the discount related to that investment during the first half of 2001 as discussed in Note 3—Impairment Charge.

Interest expense decreased by \$1.8 million to \$11.6 million for the six months ended June 30, 2001 from \$13.4 million during the same period in 2000, due to lower debt outstanding along with a decrease in interest rates. Depreciation and amortization decreased \$0.6 million due to the sale of properties partially offset by the conversion of mortgage loans into owned properties during 2000. The Company recorded a \$22.9 million impairment charge during the first half of 2001. The impairment charge included an \$11.6 million

write down of the carrying value to the estimated net realizable value of 10 owned skilled nursing facilities, a \$1.5 million write down of a note receivable and a \$9.8 million write down in the book value of the Company's investment in the convertible subordinated debentures of ALC as discussed in Note 3—Impairment Charge. General and administrative expenses increased \$0.6 million in the first half of 2001 due to the timing of certain expenditures.

During the six months ended June 30, 2001, the Company sold three schools, a previously impaired skilled nursing facility and an office building. In addition, the Company sold its investment in the common stock of Healthcare and funded the operating losses of two skilled nursing facilities currently being closed. The net gain of these transactions was \$1.8 million.

Net income (loss) available to common stockholders decreased to \$(15.1) million for the six months ended June 30, 2001 from \$13.0 million for the same period in 2000, due largely to the impairment charge discussed above.

### **Liquidity and Capital Resources**

At June 30, 2001 the Company's real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$445.9 million invested primarily in owned long-term care facilities, mortgage loans of approximately \$100.0 million and subordinated REMIC certificates of approximately \$93.3 million with a weighted average effective yield of 16.79%. At June 30, 2001 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was \$262.4 million and 7.19%. The Company's portfolio consists of investments in 248 skilled nursing facilities, 94 assisted living facilities and one school in 35 states.

For the six months ended June 30, 2001, the Company had net cash provided by operating activities of \$21.1 million. The Company sold one skilled nursing facility, three schools, one office building and 180,000 shares of Healthcare common stock, (See Note 4—Related Party Transactions), for net cash proceeds of \$12.7 million. Additionally, the Company received \$5.1 million in notes from the sale of two of the schools. These notes are secured by the property sold and carry an interest rate of 10%. Approximately \$1.6 million of the notes is due in 2002 and \$3.5 million is due in 2004. The Company received \$3.3 million in principal payments on mortgage loans receivable including a \$2.7 million prepayment of one loan on a skilled nursing facility in Georgia. The Company provided

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Healthcare with an additional \$1.7 million in borrowings under the \$20.0 million unsecured line of credit that bears interest at 10% and matures in March 2008.

During the six months ended June 30, 2001, the Company had additional bank borrowings of \$12.0 million and repaid \$15.0 million. During the same period, the Company redeemed \$12.1 million of convertible subordinated debentures. During the six months ended June 30, 2001, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling \$3.8 million, \$2.2 million, and \$1.6 million, respectively. Additionally, the Company purchased and retired 1.2 million shares of its common stock, in accordance with a previously announced Board authorized stock buyback program, for an aggregate purchase price of approximately \$4.7 million.

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, assisted living facilities and the school owned by or pledged to 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 schools. 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. In as much as the Company initially funded its investments with its Secured Revolving 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

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costs, meet debt obligations and provide funds for distribution to the holders of the Company's preferred stock. Difficult capital market conditions in the health care industry have limited the Company's access to traditional forms of growth capital. As a result of the tight capital markets for the health care industry, the Company has continued to limit its investment activity in 2001. The Company expects to utilize cash from operations and additional borrowings under the Secured Revolving Credit to repay the remaining convertible subordinated debentures at maturity. The Secured Revolving Credit requires periodic reductions of commitments, however, as of June 30, 2001 the Company had reduced commitments to the October 2, 2002 required level. 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.

### **Funds From Operations**

The Company has adopted the definition of Funds From Operations ("FFO") prescribed by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO is defined as net income applicable to common stockholders (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of property, plus



depreciation of real property and after adjustments for unconsolidated entities in which a REIT holds an interest. In addition, the Company excludes any unrealized gains or losses resulting from temporary changes in the estimated fair value of its REMIC Certificates and impairment charges, if any, from the computation of FFO.

The Company believes that FFO is an important supplemental measure of operating performance. FFO should not be considered as an 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 real estate investment 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 in accordance with the NAREIT definition may not be comparable to similarly entitled items reported by other REITs that have not adopted the NAREIT definition.

The following table reconciles net income available to common stockholders to FFO available to common stockholders (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,			
	2001	2000	2001	June 30, 2000
Net income (loss) available to common stockholders	\$ (15,403)	\$ 6,081	\$ (15,109)	\$ 12,984
(Gain) loss on sale of assets, net	100	(388)	(1,844)	(388)
Impairment charge	18,366	388	22,866	388
Real estate depreciation	3,376	3,838	7,115	7,686
FFO available to common stockholders	\$ 6,439	\$ 9,919	\$ 13,028	\$ 20,670
Basic FFO per share	\$ 0.25	\$ 0.38	\$ 0.51	\$ 0.79
Diluted FFO per share	\$ 0.25	\$ 0.38	\$ 0.51	\$ 0.78

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#### 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.

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## PART II

### LTC PROPERTIES, INC.

### OTHER INFORMATION

#### Item 6. Exhibits and Reports on Form 8-K

- (a) **Exhibits**
- 10.1 Second Amendment to Revolving Credit Agreement dated May 29, 2001
- 10.2 Secured Term Loan with Heller Healthcare Financial, Inc. dated June 29, 2001
- 10.3 Second Amended and Restated Promissory Note with LTC Healthcare, Inc. dated June 8, 2001
- 10.4 Security Agreement with LTC Healthcare, Inc. dated June 8, 2001
- 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.
- (b) **Reports on Form 8-K**
- No reports on Form 8-K were filed by the Company during the three months ended June 30, 2001.

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## 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

Dated: August 13, 2001

By: /s/ WENDY L. SIMPSON

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Wendy L. Simpson  
Vice Chairman and Chief Financial Officer

## QuickLinks

[LTC PROPERTIES, INC. FORM 10-Q JUNE 30, 2001 INDEX](#)

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

[LTC PROPERTIES, INC. CONSOLIDATED STATEMENTS OF INCOME \(Amounts in thousands, except per share amounts\) \(Unaudited\)](#)

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

[LTC PROPERTIES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS \(Unaudited\)](#)

[PART II LTC PROPERTIES, INC. OTHER INFORMATION](#)

[SIGNATURES](#)

**SECOND AMENDMENT  
TO  
REVOLVING CREDIT AGREEMENT**

This Amendment, dated as of May 29, 2001, is entered into by (1) LTC PROPERTIES, INC., a Maryland corporation (the "*Borrower*"), (2) the financial institutions listed on the signature pages hereof (the "*Lenders*"), (3) SANWA BANK CALIFORNIA, as administrative agent (the "*Administrative Agent*") for the Lenders, (4) BANK OF MONTREAL, as syndication agent (the "*Syndication Agent*"), and (5) BNP PARIBAS, as documentation agent (the "*Documentation Agent*").

**Recitals**

A. The Borrower, the Lenders, the Administrative Agent, the Syndication Agent and the Documentation Agent are parties to a Revolving Credit Agreement dated as of October 31, 2000, as amended by a First Amendment to Revolving Credit Agreement dated as of March 23, 2001 (said Revolving Credit Agreement, as so amended, herein called the "*Credit Agreement*"). Terms defined in the Credit Agreement and not otherwise defined herein have the same respective meanings when used herein, and the rules of interpretation set forth in Sections 1.2 and 1.3 of the Credit Agreement are incorporated herein by reference.

B. The Borrower and the Lenders wish to amend the Credit Agreement to change the definition of "Applicable Value" and certain related provisions. Accordingly, the Borrower and the Lenders hereby agree as set forth below.

SECTION 1. *Amendments to Credit Agreement.* Subject to the terms and conditions of this Amendment, the Borrower and the Lenders hereby agree that the Credit Agreement is amended as set forth below.

(a) The definition of "Applicable Value" in Section 1.1 of the Credit Agreement is amended in full to read as follows:

"*Applicable Value*" means, with respect to the Borrower and its Subsidiaries as of any date of determination, by reference to the most recent annual or quarterly balance sheet delivered by the Borrower to the Lenders (but subject to any subsequent impairment charges), (a) for any Owned Property, the lesser of (i) the Book Value thereof, net of depreciation applied on a *pro rata* basis, and (ii) the appraised value thereof determined pursuant to the most recent Appraisal (if any) obtained with respect thereto, in either case net of any impairment charges, (b) for any Mortgage Loan, the unpaid principal balance thereof, net of any impairment charges, and (c) for any REMIC Certificate, the book value thereof determined in accordance with GAAP."

(b) Clause (c) of the definition of "Eligible Owned Property" in Section 1.1 of the Credit Agreement is amended in full to read as follows:

"(c) an Owned Property subject to a lease under which any lease payment is 30 or more days past-due; *provided, however*, that an Owned Property (i) whose Operator is the subject of a bankruptcy proceeding or is otherwise insolvent and (ii) that is not ineligible for inclusion in the Borrowing Base pursuant to clause (f) below shall not be ineligible for inclusion in the Borrowing Base pursuant to this clause (c);"

(c) Clause (f) of the definition of "Eligible Owned Property" in Section 1.1 of the Credit Agreement is amended in full to read as follows:

"(f) an Owned Property (i) whose Operator is the subject of a bankruptcy proceeding or is otherwise insolvent and (ii) if any such bankruptcy proceeding is pursuant to Chapter 11 of the United States Bankruptcy Code, that is subject to (A) a lease that has been rejected in such bankruptcy proceeding or (B) a lease under which any lease payment is past-due by more than the

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sum of (1) 60 days after the initiation of such bankruptcy proceeding plus (2) the number of days, if any (but not to exceed 29), by which such lease payment was past-due before the initiation of such bankruptcy proceeding;."

(d) Section 5.1(a)(i) of the Credit Agreement is amended in full to read as follows:

"(i) as soon as possible and in any event within 25 days after the end of each calendar month, a certificate duly executed by an Authorized Officer stating that (A) the number and identity of the Eligible Mortgage Loans and Eligible Owned Properties of the Borrower and its Subsidiaries and (B) the aggregate impairment charges in respect of Eligible Mortgage Loans and the aggregate impairment charges in respect of Eligible Owned Properties, in each case as specified in the Borrowing Base Certificate most recently delivered to the Lenders, have not changed or, if there has been any such change, setting forth the details thereof;"

(e) Annex 1 to the form of Borrowing Base Certificate attached to the Credit Agreement as Exhibit D is amended in full to be in the form attached hereto as Annex 1.

SECTION 2. *Conditions to Effectiveness.* This Amendment shall become effective as of the date first set forth above when and if the Administrative Agent receives a fee of \$100,000, for the ratable account of the Lenders, and the following documents, each dated the date hereof, otherwise in form and substance satisfactory to the Administrative Agent and in the number of originals requested by the Administrative Agent:

(a) this Amendment, duly executed by the Borrower and the Lenders;

(b) consents to this Amendment, duly executed by the Guarantors; and

(c) such other approvals, opinions, evidence and documents as any Lender through the Administrative Agent may reasonably request.

SECTION 3. *Representations and Warranties of Borrower.* The Borrower represents and warrants to the Lenders and the Administrative Agent as set forth below.

(a) The execution, delivery and performance by the Borrower of this Amendment and the Credit Documents, as amended hereby, to which the Borrower is a party are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action and do not (i) contravene the Borrower's charter documents or bylaws, (ii) contravene any Governmental Rule or contractual restriction binding on or affecting the Borrower or (iii) result in or require the creation or imposition of any Lien (other than any created by the Credit Documents) upon or with respect to any of the properties now owned or hereafter acquired by the Borrower.

(b) No Governmental Action is required for the due execution, delivery or performance by the Borrower of this Amendment or any of the Credit Documents, as amended hereby, to which the Borrower is or is to be a party.

(c) This Amendment and each of the other Credit Documents, as amended hereby, to which the Borrower is a party constitute legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally.

(d) The Collateral Documents constitute valid Liens on the Collateral purported to be covered thereby and secure the payment of all obligations purported to be secured thereby; and the execution, delivery and performance of this Amendment do not adversely affect the Liens of the Collateral Documents.

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(e) The financial information as of December 31, 2000 and for the fiscal year then ended that was delivered by the Borrower to the Lenders pursuant to Section 5.1(a)(iv) of the Credit Agreement fairly presents the financial condition of the Borrower and the relevant Subsidiaries as of such date and the results of the operations of the Borrower and such Subsidiaries for the fiscal year ended on such date, all in accordance with GAAP applied on a consistent basis. Except as disclosed in the Borrower's report on Form 10-K for its fiscal year ended on December 31, 2000, since that date no event or situation has occurred that could reasonably be expected to have a Material Adverse Effect. The Borrower and its Subsidiaries have no material contingent liabilities except as disclosed in the aforementioned financial information.

(f) The representations and warranties contained in the Credit Documents are correct on and as of the date hereof as though made on and as of such date (other than any such representations or warranties that, by their terms, refer to a specific date, in which case as of such specific date). No event has occurred and is continuing, or would result from the effectiveness of this Amendment, that constitutes a Default.

SECTION 4. *Reference to and Effect on Credit Documents.*

(a) On and after the effective date of this Amendment, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or any other expression of like import referring to the Credit Agreement, and each reference in the other Credit Documents to "the Credit Agreement," "thereunder," "thereof," "therein" or any other expression of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Amendment.

(b) Except as specifically amended above, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed; *provided, however*, that the Borrower hereby ratifies and confirms the Release of Claims with respect to all "Released Matters" (as defined in the Release of Claims) as if that term had been defined to cover the period from the beginning of time through and including the date of this Amendment. Without limiting the generality of the foregoing, the Collateral Documents and all of the Collateral described therein do and shall continue to secure the payment of all obligations stated to be secured thereby under the Credit Documents, as amended hereby.

(c) Except as expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders under any of the Credit Documents or constitute a waiver of any provision of any of the Credit Documents.

SECTION 5. *Costs and Expenses.* The Borrower agrees to pay on demand all costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities hereunder and thereunder.

SECTION 6. *Execution in Counterparts.* This Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

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SECTION 7. *Governing Law.* THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THE STATE OF CALIFORNIA.

LTC PROPERTIES, INC.

By: \_\_\_\_\_

Name:  
Title:

SANWA BANK CALIFORNIA,  
as Administrative Agent and Lender

By: \_\_\_\_\_

E. Leigh Irwin  
Senior Vice President

BANK OF MONTREAL,  
as Syndication Agent and Lender

By: \_\_\_\_\_

Name:  
Title:

BNP PARIBAS, Los Angeles Branch,  
as Documentation Agent and Lender

By: \_\_\_\_\_

Name:  
Title:

By:

Name:  
Title:

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BANK HAPOALIM B.M.

By:

Name:  
Title:

By:

Name:  
Title:

BANK OF AMERICA, N.A.

By:

Name:  
Title:

KEY CORPORATE CAPITAL INC.

By:

Name:  
Title:

BHF (USA) CAPITAL CORPORATION

By:

Name:  
Title:

By:

Name:  
Title:

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WELLS FARGO BANK, N.A.

By:

Name:  
Title:

BANK LEUMI USA

By:

Name:  
Title:

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ANNEX 1

**BORROWING BASE REPORT**  
as of \_\_\_\_\_

Book value of Eligible Mortgage Loans	\$
Less: Impairment adjustments	
Applicable Value of Eligible Mortgage Loans	\$

Book value of Eligible Owned Properties	\$
Less: Impairment adjustments	
Book value of Eligible Owned Properties, as adjusted	\$
Less: Depreciation, allocated pro rata Appraisal to book adjustments	\$
Applicable Value of Eligible Owned Properties	\$

Borrowing Base Calculation

Sum of:	
75% of total Applicable Value of Eligible Mortgage Loans	\$
and	
60% of total Applicable Value of Eligible Owned Properties	\$

<b>Borrowing Base</b>	\$
Less: Advances outstanding	\$
Less: Letters of Credit outstanding	\$
Less: Unreimbursed drawings under Letters of Credit	\$

<b>Borrowing Base Availability</b> (lesser of Borrowing Base and Aggregate Commitment, as it may be reduced pursuant to terms of Credit Agreement)	\$
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QuickLinks

[EXHIBIT 10.1](#)

[SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT](#)

## SECURED TERM NOTE

Loan Number 21-095

June 29, 2001

**FOR VALUE RECEIVED**, and intending to be legally bound, the undersigned, **MISSOURI RIVER CORPORATION**, a Delaware corporation ("*Borrower*"), promises to pay, in lawful money of the United States, to the order of **HELLER HEALTHCARE FINANCE, INC.**, a Delaware corporation, its successors and assigns ("*Lender*"), the initial principal sum of **ELEVEN MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$11,500,000.00)**, together with the additional principal sum of **FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00)** if such additional sum is advanced pursuant to Section 1.f. below, or so much of such aggregate principal sum as shall have been advanced by Lender (collectively, the "*Principal Sum*") in accordance with the terms of this Secured Term Note (this "*Note*"), together with interest and other fees as further set forth in this Note, to be paid in accordance with the terms set forth below.

### 1. Principal and Interest.

a. If not sooner repaid, Borrower promises to pay to Lender the outstanding Principal Sum on June 30, 2005 (the "*Maturity Date*"). In addition, commencing on August 1, 2001 and continuing on the first day of each month thereafter, Borrower promises to make monthly payments of principal to Lender in the amount of \$35,000.00 each. In the event that the Earnout Amount described in Section 1.f. below is advanced by Lender, such monthly principal payments shall continue to equal \$35,000.00 each.

b. In addition to the repayment of the Principal Sum, Borrower promises to pay to Lender interest on the outstanding Principal Sum on a monthly basis from the date of this Note until the Maturity Date. Interest shall accrue at a fluctuating rate per annum compounded daily (on the basis of the actual number of days elapsed over a year of 360 days) equal to the LIBOR Rate (as hereinafter defined) plus four percent (4.00%) (the "*Base Rate*"), provided that (i) after an Event of Default has occurred, such rate shall be equal to the Base Rate plus four percent (4.00%) (the "*Default Interest Rate*"); and (ii) notwithstanding the foregoing, at no time shall the Base Rate be less than eight percent (8.00%).

c. For purposes of the foregoing, the term "*LIBOR Rate*" means the rate published each day in the *Wall Street Journal* for notes maturing three (3) months after issuance under the caption "Money Rates, London Interbank Offered Rates (LIBOR)". The LIBOR Rate for each month shall be fixed based upon the LIBOR Rate published prior to and in effect on the first business day of such month; provided, however, the Base Rate for June, 2001 shall be fixed based upon the LIBOR Rate published prior to and in effect on the first business day prior to the date of this Note (the "*Closing Date*").

d. Accrued interest shall be payable monthly in arrears on the first day of each month from August 1, 2001 and continuing through and including the Maturity Date. After maturity, and until the entire Principal Sum plus any other amounts due and unpaid hereunder shall be paid in full, without limiting any of Lender's other rights and remedies, all outstanding amounts of the Principal Sum shall bear interest, payable on demand, at the Default Interest Rate, but in no event shall the interest payable exceed the maximum lawful rate.

e. Borrower further promises to pay to Lender, within five (5) business days following demand therefor, any and all other sums and charges that may at the time become due and payable as specified under this Note, and all reasonable costs and disbursements in connection with the preparation of this

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Note (including Lender's attorney's fees) and the closing of the loan evidenced hereby (the "*Loan*"), and in the collection of any payments due under this Note and in any action, suit or proceeding to protect, sustain or enforce the rights and remedies of Lender under this Note.

f. Borrower may request, and Lender may advance, an additional principal amount of \$500,000.00 under this Note (the "*Earnout Amount*"), subject to satisfaction of the following conditions (as determined by Lender in its sole discretion): (i) no default has occurred under this Note or any other Loan Document (as hereinafter defined); (ii) no uncured default has occurred under either Facility Lease (as defined in Section 4(a)(1)(K) below); (iii) Borrower has maintained Net Operating Income (as defined in the Schedule 1(g) attached hereto and made a part hereof by this reference) with respect to the Facilities (as defined in Section 4(a)(i)(B) below) in a combined amount equal to at least \$1,650,000.00 on an annualized basis for at least four consecutive calendar months; (iv) at the time of such request, Borrower shall demonstrate a Debt Service Coverage Ratio (as defined in Schedule 1 (g) attached hereto) of at least 1.10 to 1.00; (v) Borrower shall pay to Lender an additional fee equal to \$5,000.00 (the "*Earnout Fee*"); and (vi) Borrower shall execute and deliver to Lender such amendments to this Note, the Mortgages and the other Loan Documents as may be required by Lender to evidence and secure the Earnout Amount.

g. In consideration of Lender's agreement to make the Loan, Borrower shall pay to Lender a commitment fee equal to \$115,000.00, which amount shall be payable on the Closing Date and shall be payable from the Loan proceeds (the "*Commitment Fee*").

h. Amounts borrower hereunder and subsequently repaid may not be reborrowed.

**2. Security; Release of Security.** Repayment of Borrower's obligations under this Note is secured by, among other things, (a) the Collateral defined and described in Section 7 of this Note, (b) Mortgages and the other Loan Documents described in Section 4 below, and (c) the Amendment to SNF Note and the Amendment to SNF Mortgages, both of which are described in Section 4 below.

**3. Prepayment; Exit Fee.** Borrower may prepay all or any part of the Principal Sum outstanding at any time, provided Borrower gives Lender at least thirty (30) days prior written notice of its intent to prepay the Loan, and provided further that, at such time as the Loan is repaid in full or substantially in full, whether at maturity, upon prepayment, upon acceleration or otherwise, Borrower shall pay to Lender, in addition to all outstanding principal, accrued and unpaid interest, late charges, and all other amounts due under this Note (collectively with the Commitment Fee, the Exit Fee described in this paragraph, the "*Obligations*"), an exit fee equal to (i) \$115,000.00 if Borrower elects not to increase the Loan by the Earnout Amount, or (ii) \$120,000.00 if Borrower elects to increase the Loan amount by the Earnout Amount and Lender agrees to advance the Earnout Amount (such fee being hereinafter referred to as the "*Exit Fee*"). The Exit Fee shall be deemed earned by Lender on the date of execution and delivery of this Note. The obligation of Borrower to pay the applicable Exit Fee is evidenced by this Note and secured by the Mortgages and the other Loan Documents (as hereinafter defined).

### 4. Conditions to Borrowing; Accounting of Loan Advances.

a. Subject to the terms and conditions of this Note, Lender shall make available to Borrower the initial advance of the Principal Sum in immediately available funds not later than 4:00 P.M. (Maryland time) on the business day on which the following conditions precedent are satisfied (as determined by Lender):

(i) Borrower shall have executed and delivered to Lender, or caused to be executed and delivered to Lender, the following documents (collectively, the "*Loan Documents*");

(A) This Note;

(B) The following security instruments (collectively, the "*Mortgages*"): (i) that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing, of even

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date herewith made by Borrower in favor of Lender with respect to that facility known as Sunrise at Presque Isle Bay located in Erie, Pennsylvania (the "*Presque Isle Facility*"); and (ii) that certain Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith made by Borrower in favor of Lender with respect to that facility known as Sunrise at Rocky River and located in Rocky River, Ohio (the "*Rocky River*", and together with the Presque Isle Facility, the "*Facilities*", and each a "*Facility*");

(C) That certain Environmental Indemnity Agreements of even date herewith made by Borrower in favor of Lender (the "*Environmental Indemnity Agreement*");

(D) That certain Assignment of Permits and Licenses of even date herewith made by Borrower in favor of Lender (the "*Assignment*");

(E) INTENTIONALLY DELETED.

(F) That certain Amendment No. 1 to Secured Term Note of even date herewith (the "*Amendment to SNF Note*") made by and among Lender, LTC-Jessup, Inc., LTC—Fort Valley, Inc. and LTC—Gardner (collectively, the "*SNF Borrower*") pursuant to which the SNF Borrower shall agree to cross collateralize and cross default the loan described in that certain Secured Term Note dated December 31, 1999 made by each SNF Borrower payable to Lender (as amended, modified and restated from time to time, the "*SNF Note*") in the original principal amount of \$6,500,000.00 (the "*SNF Loan*") to the loan evidenced by this Note (the "*Loan*");

(G) INTENTIONALLY DELETED.

(H) Those certain amendments to the Mortgages described in the Amendment to SNF Note (the "*SNF Mortgages*") pursuant to which SNF Borrower shall grant liens and security interests in certain real and personal property to secure the Borrower's obligations hereunder;

(I) All financing statements and other documents, certificates and agreements reasonably deemed necessary or appropriate by Lender to effectuate the transaction;

(J) Each tenant of each Facility shall have delivered to Lender a Subordination and Attornment Agreement in form and substance satisfactory to Lender (collectively, the "*Subordination Agreement*"); and

(K) True and complete copies of each executed lease agreement between Borrower and the applicable lessee (each a "*Tenant*") of each Facility (collectively, the "*Facility Leases*" and each a "*Facility Lease*"), together with true and complete copies of each Guaranty made by Sunrise Assisted Living, Inc. (the "*Lease Guarantor*") in favor of Borrower to guaranty each Facility Lease (collectively, the "*Lease Guaranty*"); and

(L) INTENTIONALLY DELETED.

(I) All other items set forth on the Lender's Closing Checklist previously delivered to Borrower.

(ii) All representations, warranties and covenants contained in this Note or otherwise made in writing in connection with this Note or the other Loan Documents, by or on behalf of Borrower shall be true and correct in all material respects.

(iii) No Event of Default shall have occurred or be continuing under this Note or any other Loan Documents; and

(iv) Lender shall have received Uniform Commercial Code ("*UCC*"), judgment and tax lien searches with the Secretary of State and local filing offices of each jurisdiction where Borrower maintains a place of business, which searches yield results consistent with the representations and warranties contained in this Note.

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b. Borrower hereby irrevocably authorizes Lender to disburse the proceeds of the Loan (less amounts payable by Borrower to Lender in connection with the closing of the Loan, including the Commitment Fee) by wire transfer to such bank account as may be designated by Borrower from time to time or elsewhere if pursuant to written direction from Borrower.

c. Lender shall enter all advances of the Principal Sum as debits to a loan account in the name of Borrower and shall also record as credits in the loan account all payments made by Borrower and all proceeds of Collateral that are indefeasibly paid to Lender, and may record in the loan account, in accordance with customary accounting practice, other debits and credits, including interest and all charges and expenses properly chargeable to Borrower, with respect to the extension of credit contemplated by this Note.

d. Lender will account to Borrower monthly with a statement of advances, charges and payments made pursuant to this Note, and the account rendered by Lender shall be deemed final, binding and conclusive upon Borrower absent manifest error, unless Lender is notified by Borrower in writing to the contrary within thirty (30) days of the date each such account is mailed to Borrower. Such notice shall be deemed an objection to those items specifically objected to in the notice.

**5. Payment Office.** The outstanding Principal Sum, the interest on the Principal Sum, and any other amounts payable under this Note are payable in lawful money of the United States of America at the office of Lender 500 West Monroe, Chicago, Illinois 60661 Attention: Real Estate Financial Services, or at such other place as Lender may specify in writing to Borrower. Any payment by other than immediately available funds shall be subject to collection. Interest shall continue to accrue until the funds by which payment is made are available to Lender for its use. Any payment stated to be due on a day on which banks in Maryland are required or permitted to be closed for business shall be due and payable on the next business day (each such day, a "*Business Day*") and such extension of time shall be included in the computation of interest in connection with such payment. Borrower agrees that, each month, (a) each Tenant shall pay Minimum Rent due to Borrower pursuant to the provisions of the applicable Facility Lease directly to Lender; and (b) no later than 5 calendar days after Lender's receipt of the Minimum Rent, Lender shall remit to Borrower the difference between the amount delivered to Lender and the amounts due to Lender under the Loan Documents (provided such difference is positive). In the event that Tenant fails to deliver to Lender as and when due any monthly payment



of Minimum Rent, and Borrower thereafter cures such default by advancing to Lender an amount equal to the monthly payment of principal and interest due under this Note, no later than five (5) business days after receipt by Lender of such Loan payment, Lender shall deliver to Borrower either (1) the monthly payment of Minimum Rent (assuming Tenant subsequently delivers to Lender the delinquent payment of Minimum Rent), or (2) written notice that Tenant has failed to deliver the delinquent payment of Minimum Rent.

**6. No Presentment; Acceleration.** On the Maturity Date or upon the occurrence of an Event of Default (as defined in Section 12 below), the outstanding Principal Sum, accrued and unpaid interest on the Principal Sum, the applicable Exit Fee, all late charges and all other sums owed by Borrower to Lender in connection with this Note or the other Loan Documents shall immediately become due and payable. Borrower hereby expressly waives any presentment for payment, demand for payment, notice of nonpayment or dishonor, protest and notice of protest of any kind.

## 7. Security Agreement.

a. This Note shall constitute a security agreement as that term is used in the UCC and Borrower hereby grants to Lender, to secure the Obligations evidenced hereby and the SNF Borrower's obligations to Lender under the SNF Note), a security interest in all of the Borrower's right, title and interest (if any) in and to the following property (collectively, the "*Collateral*"):

(i) All of Borrower's now-owned and hereafter acquired or arising accounts, contract rights, general intangibles, chattel paper, documents and instruments, as such terms are defined in the

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UCC, including, without limitation, all obligations for the payment of money arising out of Borrower's sale of goods or rendition of services ("*Accounts*"), accounts receivable and rights to payment of every kind and description, and all of Borrower's contract rights, including (without limitation) its rights under the Lease Guaranty, chattel paper, documents and instruments with respect thereto, and all of Borrower's rights, remedies, security and liens, in, to and in respect of the Accounts, including, without limitation, rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guaranties or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligation of any Account Debtor, and credit and other insurance ("*Account Debtor*" means any person obligated on any Account of Borrower, including without limitation, any Insurer and any Medicaid/Medicare payor);

(ii) All moneys, securities and other property and the proceeds thereof, now or hereafter held or received by, in transit to, in possession of, or under the control of Lender or a bailee or Affiliate of Lender, from or for Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all of Borrower's deposits (general or special), balances, sums and credits with Lender at any time existing ("*Affiliate*" means with respect to a specified person, any person directly or indirectly controlling, controlled by, or under common control with the specified person, including without limitation its stockholders and any affiliates. A person shall be deemed to control a corporation if the person possesses, directly or indirectly, the power to direct or cause the direction of the management and business of the corporation whether through the ownership of voting securities, by contract, or otherwise);

(iii) All of Borrower's right, title and interest in, to and in respect of all goods relating to, or which by sale have resulted in, Accounts, including, without limitation, all goods described in invoices or other documents or instruments with respect to, or otherwise representing or evidencing, any Account, and all returned, reclaimed or repossessed goods;

(iv) INTENTIONALLY DELETED;

(v) All of Borrower's now owned and hereafter acquired or arising general intangibles and other property of every kind and description with respect to, evidencing or relating to its Accounts, accounts receivable and other rights to payment, including, but not limited to, all existing and future customer lists, choses in action, claims, books, records, ledger cards, contracts, licenses, formulae, tax and other types of refunds, returned and unearned insurance premiums, rights and claims under insurance policies, and computer programs, information, software, records, and data, as the same relates to the Accounts;

(vi) All of Borrower's other general intangibles (including, without limitation, any proceeds from insurance policies after payment of prior interests), patents, unpatented inventions, trade secrets, copyrights, contract rights, goodwill, literary rights, rights to performance, rights under licenses, choses-in-action, claims, information contained in computer media (such as data bases, source and object codes, and information therein), things in action, trademarks and trademarks applied for (together with the goodwill associated therewith) and derivatives thereof, trade names (excluding, however, the name "*LTC*" and derivations thereof), including the right to make, use, and vend goods utilizing any of the foregoing, and permits, licenses, certifications, authorizations and approvals, and the rights of Borrower thereunder, issued by any governmental, regulatory, or private authority, agency, or entity whether now owned or hereafter acquired, together with all cash and non-cash proceeds and products thereof;

(vii) All of Borrower's now owned or hereafter acquired inventory of every description which is held by Borrower for sale or lease or is furnished by Borrower under any contract of service or is held by Borrower as raw materials, work in process or materials used or consumed in a business,

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wherever located, and as the same may now and hereafter from time to time be constituted, together with all cash and non-cash proceeds and products thereof;

(viii) All of Borrower's now owned or hereafter acquired machinery, equipment, computer equipment, tools, tooling, furniture, fixtures, goods, supplies, materials, work in process, whether now owned or hereafter acquired, together with all additions, parts, fittings, accessories, special tools, attachments, and accessions now and hereafter affixed thereto and/or used in connection therewith, all replacements thereof and substitutions therefor, and all cash and non-cash proceeds and products thereof;

(ix) All cash and other property representing security deposits which are or may become refundable to residents of the Facilities from time to time ("*Refundable Security Deposits*"), together with any and all accounts in which such deposits are held;

(x) The Property and/or the Mortgaged Property (as defined in the Mortgages); and

(xi) The proceeds (including, without limitation, insurance proceeds) of all of the foregoing.

b. Upon the occurrence of an Event of Default under this Note or the other Loan Documents, in addition to all other rights, options, and remedies granted to Lender under this Note, the Mortgages, the SNF Mortgages, the SNF Note, or at law or in equity, may take any of the following steps:

(i) Declare the Loan to be immediately due and payable, and or declare the SNF Loan immediately due and payable;

(ii) Exercise all other rights granted to it under this Note and all rights under the UCC in effect in the applicable jurisdiction(s) and under any other applicable law; and

(iii) Exercise all rights and remedies under all Loan Documents now or hereafter in effect, including but not limited to:

(A) The right to take possession of, send notices regarding, and collect directly the Collateral, with or without judicial process;

(B) The right to (by its own means or with judicial assistance) enter any of Borrower's premises and take possession of the Collateral, or render it unusable, or dispose of the Collateral on such premises in compliance with subsection (c) below, without any liability for rent, storage, utilities, or other sums, and Borrower shall not resist or interfere with such action; and

(C) To the extent applicable, the right to require Borrower at Borrower's expense to assemble all or any part of the Collateral and make it available to Lender at any place designated by Lender.

c. Borrower agrees that a notice received by it at least five (5) days before the time of any intended public sale, or the time after which any private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition (unless a longer, non waivable period, is required by law). If permitted by applicable law, any perishable Collateral that threatens to decline rapidly in value or that is sold on a recognized market may be sold immediately by Lender without prior notice to Borrower. At any sale or disposition of Collateral, Lender may (to the extent permitted by applicable law) purchase all or any part of the Collateral, free from any right of redemption by Borrower, which right is hereby waived and released. Borrower covenants and agrees not to interfere with or impose any obstacle to Lender's exercise of its rights and remedies with respect to the Collateral following an Event of Default (provided, however, this shall not constitute a waiver of Borrower's rights and remedies at law or equity).

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d. Lender shall have the right to proceed against all or any portion of the Collateral to satisfy in any order the liabilities and obligations of Borrower to Lender under this Note and the other Loan Documents. All rights and remedies granted Lender under this Note or under any of the other Loan Documents, or otherwise available at law or in equity, shall be deemed concurrent and cumulative, and not alternative remedies, and Lender may proceed with any number of remedies at the same time until the Principal Sum, all interest, costs, expenses and other charges due under, and all other existing and future liabilities and obligations of Borrower to Lender under, this Note are satisfied in full. The exercise of any one right or remedy shall not be deemed a waiver or release of any other right or remedy, and Lender, upon the occurrence of an Event of Default, may proceed against Borrower, and/or the Collateral, at any time, under any agreement, with any available remedy and in any order.

**8. Sources and Uses of Funds.** The sources and uses of the transaction contemplated hereunder are as follows:

Source	Amount	Use	Amount
Lender Loan	\$ 11,500,000.00	Cash to Borrower	\$ 11,325,000.00
		Heller Fee	\$ 115,000.00
		Heller Closing Costs	\$ 60,000.00
TOTAL:	\$ 11,500,000.00	TOTAL:	\$ 11,500,000.00

**9. Representations.** Borrower hereby warrants and represents to Lender that:

a. Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of its business makes such qualification necessary, has the corporate power and authority to own its assets and transact the business in which it is engaged, and has obtained all certificates, licenses and qualifications required under all laws, regulations, ordinances, or orders of public authorities necessary to conduct business in which Borrower engages.

b. Borrower has full corporate power and authority to borrow the Loan and to enter into, execute, and deliver this Note, and to incur and perform its obligations under this Note and the other Loan Documents, all of which have been duly authorized by all necessary corporate action. No consent or approval of shareholders of, or lenders to, Borrower, and no consent, approval, filing or registration with any governmental authority is required as a condition to the validity of this Note or the other Loan Documents or the performance by Borrower of its obligations under this Note or the other Loan Documents.

c. This Note, when issued and delivered for value received, and all other Loan Documents constitute the valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms.

d. The execution and delivery by Borrower of this Note and the other Loan Documents do not, and the performance of Borrower's obligations under this Note and the other Loan Documents will not, violate, conflict with, constitute a default under, or result in the creation of a lien or encumbrance (other than a lien, security interest, charge or other encumbrance in favor of Lender) upon the property of Borrower under (i) any provision of Borrower's certificate of incorporation or bylaws, (ii) any provision of any law, rule or regulation applicable to Borrower, or (iii) any of the following (A) any indenture or other agreement or instrument to which Borrower is a party or by which Borrower or its property is bound, or (B) any judgment, order or decree of any court, arbitration tribunal, or governmental entity applicable to Borrower or Borrower's properties or assets.

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e. There are no actions, suits, proceedings or investigations pending, including, without limitation, any condemnation proceeding, or, to the knowledge of Borrower, threatened, against or adversely affecting Borrower's properties or assets or the validity or enforceability of this Note or the other Loan Documents or the ability of Borrower to perform any obligations under this Note or the other Loan Documents. Borrower is not in default with respect to any order, writ, injunction, decree or demand of any court, arbitration tribunal or governmental authority having jurisdiction over Borrower.

f. The financial statements of LTC Properties, Inc. ("*LTC Properties*") as of March 31, 2001, certified by the chief financial officer of LTC Properties, which were previously delivered to Lender, are true, correct and complete and fairly present the financial condition of LTC Properties and the results of LTC Properties' operations and changes in financial condition as of the dates and for the periods referred to, and have been prepared in accordance with generally accepted accounting principles. There are no material unrealized or anticipated liabilities, direct or indirect, fixed or contingent, of LTC Properties as of the dates of such financial statements that are not reflected in the financial statements or the notes thereto. There has been no material adverse change in the business, properties, condition (financial or otherwise) of LTC Properties or Borrower since March 31, 2001. Borrower's fiscal year ends on December 31. Lender acknowledges its receipt and review of LTC Properties' Form 10-Q for the period ending March 31, 2001, which discloses, among other things, certain financial difficulties among certain of LTC Properties' lessees and borrowers.

g. Borrower is not in default under or with respect to any obligation in any respect that could be adverse to its business, operations, property or financial condition, or that could adversely affect the ability of Borrower to perform its obligations under this Note or the other Loan Documents. No Event of Default or event that, with the giving of notice or lapse of time, or both, could become an Event of Default, has occurred and is continuing.

h. Borrower has good and marketable title to its properties and assets, including the Collateral and the properties and assets reflected in the financial statements in described in paragraph (f) above, subject to no lien, mortgage, pledge, encumbrance or charge of any kind, other than those encumbrances approved by Lender and set forth in the pro forma title policies delivered to Lender by Chicago Title Insurance Company on the Closing Date (the "*Permitted Encumbrances*"). Borrower has not agreed or consented to cause any of its properties or assets, whether owned now or hereafter acquired, to be subject in the future (upon the happening of a contingency or otherwise) to any lien, mortgage, pledge, encumbrance or charge of any kind.

i. Borrower has filed, or has obtained extensions for the filing of, all federal, state and other tax returns which are required to be filed, and has paid all taxes shown as due on those returns and all assessments, fees and other amounts due as of the date hereof. All tax liabilities of Borrower are adequately provided for on Borrower's books. No tax liability has been asserted by the Internal Revenue Service or other taxing authority against Borrower for taxes in excess of those already paid.

j. The use of the proceeds of the Loan and Borrower's issuance of this Note will not, directly or indirectly, violate or result in a violation of the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including without limitation Regulations U, T, or X of the Board of Governors of the Federal Reserve System. Borrower is not engaged in the business of extending credit for the purpose of the purchasing or carrying "margin stock" within the meaning of those regulations. No part of the proceeds of the Loan will be used to purchase or carry any margin stock or to extend credit to others for such purpose.

k. Borrower is not an investment company within the meaning of the Investment Company Act of 1940, as amended, nor is it, directly or indirectly, controlled by or acting on behalf of any Person which is an investment company within the meaning of that Act.

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l. Borrower is not in violation of any statute, rule or regulation of any governmental authority (including, without limitation, any statute, rule or regulation relating to employment practices or to environmental, occupational and health standards and controls). Borrower has obtained all licenses, permits, franchises, and other governmental authorizations necessary for the ownership of its properties and the conduct of its business. Borrower is current with all reports and documents required to be filed with any state or federal securities commission or similar governmental authority and is in full compliance with all applicable rules and regulations of such commissions.

m. Except as described in the ESA Reports (as hereinafter defined), to Borrower's actual knowledge based solely on its review of the ESA Reports, (i) no use, exposure, release, generation, manufacture, storage, treatment, transportation or disposal of hazardous material has occurred or is occurring on or from any real property on which the Collateral is located (the "*Premises*") which is owned, leased or otherwise occupied by Borrower, or has occurred off the Premises as a result of any action of Borrower, (ii) all hazardous material used, treated, stored, transported to or from, generated or handled on the Premises, or off the Premises by Borrower, has been disposed of on or off the Premises by or on behalf of Borrower in a lawful manner, (iii) there are no underground storage tanks present on or under the Premises owned or leased by Borrower, and (iv) no other environmental, public health or safety hazards exist with respect to the Premises. Borrower covenants and agrees that any remediation reasonably required on any such property shall be promptly undertaken and completed within a reasonable period of time, all without any cost to Lender. As used herein, "ESA Reports" means the Phase I Environmental Site Assessment reports dated June 19, 2001 and prepared by EMG with respect to each Facility and delivered to Lender and Borrower.

n. The only places of business of Borrower, and the places where it keeps and intends to keep the Collateral and records concerning the Collateral, are at the addresses set forth in *Schedule 9(n)*, which also lists the owner of record of each such property.

o. Borrower exclusively owns or possesses all the patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, franchises, licenses, and rights with respect to the foregoing necessary for the current and planned future conduct of its business, without any conflict with the rights of others. Borrower is not in default of any obligation or undertaking with respect to such intellectual property or rights.

p. LTC Properties owns all classes of the outstanding stock of Borrower.

q. Neither this Note nor any other Loan Document nor any other agreement, document, certificate, or statement furnished to Lender by or on behalf of Borrower in connection with the transactions contemplated hereby contains any untrue statement of material fact or omits to state a material fact necessary to make the statements contained in this Note or in the other Loan Documents or such other documents not misleading. There is no fact known to Borrower that adversely affects or in the future may adversely affect the business, operations, affairs or financial condition of Borrower, or any of its properties or assets.

r. Borrower does not own or hold any equity or long-term debt investments in, have any outstanding advances to, have any outstanding guarantees for the obligations of, or have any outstanding borrowings from, any Person. Borrower is not a party to any contract or agreement, or subject to any corporate restriction, which adversely affects its business.

s. Within five (5) years before the date of this Note, neither the business, property or assets, or operations of Borrower has been adversely affected in any way by any casualty, strike, lockout, combination of workers, or order of the United States of America or other governmental

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authority, directed against Borrower. There are no pending or threatened labor disputes, strikes, lockouts, or similar occurrences or grievances against Borrower or its business.

t. Within five (5) years before the date of this Note, Borrower has not conducted business under or used any other name (whether corporate, partnership or assumed). Borrower is the sole owner of all names listed on that Schedule and any and all business done and invoices issued in such names are Borrower's sales, business, and invoices. Each trade name of Borrower represents a division or trading style of Borrower and not a separate Person or independent Affiliate.

u. Borrower is not engaged in any joint venture or partnership with any other Person.

v. Each Facility Lease is in full force and effect in the form attached to the Subordination Agreement.

**10. Affirmative Covenants.** Borrower covenants and agrees that until this Note shall be repaid in full:

a. *Financial Statements.* Borrower shall cause LTC Properties to furnish to Lender (i) within fifty (50) days after the end of each quarterly fiscal period of each fiscal year of LTC Properties, consolidated statements of income, balance sheet, and cash flow of LTC Properties on Form 10-Q as filed with the Securities and Exchange Commission, (ii) within ninety-five (95) days after the end of each fiscal year of LTC Properties, audited consolidated statements of income, balance sheet, and cash flow of LTC Properties on Form 10-K as filed with the Securities and Exchange Commission; (iii) within 50 days after the end of each fiscal quarter, operating statements with respect to each Facility; (iv) within fifty five (55) days after the end of each quarterly fiscal period of each fiscal year of the Lease Guarantor, consolidated statements of income, balance sheet, and cash flow of Lease Guarantor on Form 10-Q as filed with the Securities and Exchange Commission, (v) within one hundred (100) days after the end of each fiscal year of the Lease Guarantor, audited consolidated statements of income, balance sheet, and cash flow of the Lease Guarantor on Form 10-K as filed with

the Securities and Exchange Commission; and (vi) such additional information, reports or statements as Lender may reasonably request from time to time. In connection with the delivery of the financial statements referred to in (i) and (ii) above, Borrower will also provide a compliance certificate in a form to be provided by Lender signed by an authorized officer stating that Borrower is in compliance with the Loan Documents and no default exists, or if any default exists, stating the nature and status thereof, and containing such other certifications as Lender may require.

b. *Payments Hereunder.* Subject to Sections 5 and 10.r. hereof, Borrower will make all payments of principal, interest, fees, and all other payments required hereunder, under this Note, and under any other agreements with Lender to which Borrower is a party, as and when due. The provisions of Section 5 and 10.r. hereof shall not be construed to relieve the Borrower of its obligations to pay principal, interest and all other amounts due from time to time hereunder.

c. *Existence, Good Standing, and Compliance with Laws.* Borrower will do or cause to be done all things necessary (i) to obtain and keep in full force and effect all corporate existence, rights, licenses, privileges, and franchises of Borrower necessary to the ownership of its property or the conduct of its business, and comply with all applicable present and future laws, ordinances, rules, regulations, orders and decrees of any Governmental Authority having or claiming jurisdiction over Borrower; and (ii) to maintain and protect the properties used or useful in the conduct of the operations of Borrower, in a prudent manner, including without limitation the maintenance at all times of such insurance upon its insurable property and operations as required by law or by subsection (e) below.

d. *Taxes and Charges.* Borrower will (or cause Tenant to) timely file all tax reports and pay and discharge all taxes, assessments and governmental charges or levies imposed upon Borrower,

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or its income or profits or upon its properties or any part thereof, before the same shall be in default and prior to the date on which penalties attach thereto, as well as all lawful claims for labor, material, supplies or otherwise which, if unpaid, might become a lien or charge upon the properties or any part thereof of Borrower; *provided, however,* that Borrower shall not be required to pay and discharge or cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith and by appropriate proceedings by Borrower, as determined in the reasonable judgement of Lender, and Borrower shall have set aside on their books adequate reserve therefor; and *provided further,* that such deferment of payment is permissible only so long as Borrower's title to, and its right to use, the Collateral is not adversely affected thereby and Lender's lien and priority on the Collateral are not adversely affected, altered or impaired thereby.

e. *Insurance.* Borrower will carry or cause to be carried adequate public liability, property, casualty, professional liability and business interruption/loss of rents insurance with responsible companies satisfactory to Lender in such amounts and against such risks as is customarily maintained by similar businesses and by owners of similar property in the same general area. Lender acknowledges that the insurance evidenced by the insurance certificates attached hereto as *Exhibit A* shall satisfy the requirements of this Section 10(e) and the requirements of Section 4(a) of the Mortgages.

f. *General Information.* Borrower will furnish to Lender such information as Lender may, from time to time, request with respect to the business or financial affairs of Borrower, and permit any officer, employee or agent of Lender to visit and inspect any of the properties (subject to the rights of Tenant under the Facility Leases), to examine the minute books, books of account and other records, including management letters prepared by Borrower's auditors, of Borrower, and make copies thereof or extracts therefrom, and to discuss its and their business affairs, finances and accounts with, and be advised as to the same by, the accountants and officers of Borrower, all at such times and as often as Lender may reasonably require.

g. *Maintenance of Property.* Borrower will cause each Tenant to maintain, keep and preserve the Collateral and the Facilities in good repair, working order and condition and from time to time make all needful and proper repairs, renewals, replacements, betterments and improvements to the Collateral and the Facilities.

h. *Notification of Events of Default and Adverse Developments.* Borrower promptly will notify Lender upon obtaining actual knowledge of the occurrence of: (i) any Event of Default; (ii) any event which, with the giving of notice or lapse of time, or both, could constitute an Event of Default; (iii) any event, development or circumstance whereby the financial statements previously furnished to Lender fail in any material respect to present fairly, in accordance with GAAP, the financial condition and operational results of Borrower; (iv) any judicial, administrative or arbitration proceeding pending against Borrower, and any judicial or administrative proceeding known by Borrower to be threatened against it which, if adversely decided, could adversely affect its condition (financial or otherwise) or operations (present or prospective) or which may expose Borrower to uninsured liability of \$50,000.00 or more; (v) any default claimed by any other creditor for Borrowed Money of Borrower other than Lender; (vi) any other development in the business or affairs of Borrower which may be adverse, (vii) any default or event of default under any of the Facility Leases; in each case describing the nature thereof and (in the case of notification under clauses (i) and (ii)) the action Borrower proposes to take with respect thereto.

i. *Employee Benefit Plans.* No employee benefit plan (a "Plan") subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and regulations issued pursuant to ERISA that is maintained by Borrower or under which Borrower could have any material liability under ERISA (i) has failed to meet minimum funding standards established in Section 302 of ERISA,

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(ii) has failed to substantially comply with all applicable requirements of ERISA and of the Internal Revenue Code, including all applicable rulings and regulations thereunder, or (iii) has engaged in or been involved in a prohibited transaction (as defined in ERISA) under ERISA or under the Internal Revenue Code. Neither Borrower nor any member of a Controlled Group that includes Borrower has not assumed, or received notice of a claim asserted against Borrower or another member of the Controlled Group for, withdrawal liability (as defined in the Multi-Employer Pension Plan Amendments Act of 1980, as amended) with respect to any multi-employer pension plan. Borrower has timely made when due all contributions with respect to any multi-employer pension plan in which it participates and no event has occurred triggering a material claim against Borrower for withdrawal liability with respect to any multi-employer pension plan in which Borrower participates.

j. *Financial Records.* Borrower shall keep current and accurate books of records and accounts in which full and correct entries will be made of all of its business transactions, and will reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with GAAP.

k. *Places of Business.* Borrower shall give thirty (30) days' prior written notice to Lender of any change in the location of any of its places of business, of the places where its records concerning its Accounts are kept, of the places where the Collateral is kept, or of the establishment of any new, or the discontinuance of any existing, places of business.

l. *Business Conducted.* Borrower shall continue in the business presently conducted by it using its best efforts to maintain its customers and goodwill. Borrower shall not engage, directly or indirectly, in any line of business substantially different from the business conducted by it immediately prior to the Closing Date, or engage in business or lines of business which are not reasonably related thereto.

m. *Litigation and Other Proceedings.* Upon obtaining actual knowledge thereof, Borrower shall give prompt notice to Lender of any threatened litigation, arbitration, or other proceeding before any Governmental Authority against or affecting Borrower if the amount claimed is more than \$50,000.00.

n. *Licensure; Medicaid/Medicare Cost Reports.* If Borrower assumes operational control of either or both of the Facilities, Borrower will maintain all certificates of need, provider numbers and licenses necessary to conduct its business as currently conducted, and take any steps required to comply with any such new or additional requirements that may be imposed on providers of medical products and services. Otherwise, Borrower will cause Tenant to maintain, all certificates of need, provider numbers and licenses necessary to conduct its business as currently conducted, and take any steps required to comply with any such new or additional requirements that may be imposed on providers of medical products and services.

o. *Visits and Inspections.* Subject to the rights of Tenant under the Facility Leases, Borrower agrees to permit representatives of Lender, from time to time, as often as may be reasonably requested, but, so long as no default has occurred, not more than four (4) times per year and only during normal business hours, to visit and inspect the properties of Borrower, and to inspect, audit and make extracts from its books and records, and discuss with its officers, its employees and its independent accountants, Borrower's business, assets, liabilities, financial condition, business prospects and results of operations.

p. *Further Assurances.* Borrower will (or shall cause Tenant to) defend its title to the Collateral against all persons and will, upon request of the Lender, (i) furnish such further assurances of title as may reasonably be required by the Lender, (ii) deliver and execute or cause to be delivered and executed, in form and content satisfactory to the Lender, any financing

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statements, notices, certificates of title, and other documents and pay the cost of filing or recording the same in all public offices deemed necessary by the Lender, as well as any recordation, documentary, or transfer tax required by law to be paid in connection with such filing or recording, and (iii) do such other acts as the Lender may reasonably request in order to perfect, preserve, maintain, or continue the perfection of the Lender's security interest in the Collateral and/or its priority.

q. *Single Purpose Entity.* Borrower will at all times continue to be a Single Purpose Entity (as hereinafter defined). Borrower will at all times continue to comply with the provisions of its articles of incorporation and its bylaws, and with all customary formalities regarding the existence of Borrower as a corporation. Borrower will at all times continue to accurately maintain its financial statements, accounting records and other corporate documents separate from those of any affiliate of Borrower and any other Person. Borrower will not at any time commingle its assets with those of any affiliate of Borrower or any other Person. Borrower at all times will continue to accurately maintain its own bank accounts and separate books of account. Borrower at all times will continue to pay its own liabilities from its own separate assets. Borrower will at all times continue to identify itself under Borrower's own name and as a separate and distinct entity in all dealings with the public and other Persons. Borrower will not at any time identify itself as being a division or a part of any other entity. Borrower will not at any time identify any affiliate of Borrower as being a division or part of Borrower. Notwithstanding the foregoing to the contrary, provided no Event of Default has occurred more than two (2) times, the provisions of this Section shall not prohibit Borrower from transferring funds to LTC Properties after payment of its obligations to Lender.

r. *Payment of Rent.* Borrower shall at all times direct each Tenant to pay Minimum Rent (as defined in the Facility Leases) due to Borrower pursuant to the applicable Facility Lease directly to Lender in accordance with the provisions of the Subordination Agreement.

## 11. Negative Covenants.

Borrower covenants and agrees that until this Note shall be repaid in full:

a. *Borrowing.* Borrower will not create, incur, assume or suffer to exist any liability for borrowed money except: (i) indebtedness to Lender; (ii) indebtedness of Borrower secured by mortgages, encumbrances or liens expressly permitted by Lender; (iii) accounts payable to trade creditors and current operating expenses (other than for borrowed money) which are recognized in Borrower's accounting system and not aged more than one hundred twenty (120) days from the billing date or more than thirty (30) days from the due date, in each case incurred in the ordinary course of business and paid within such time period, unless the same are being contested in good faith and by appropriate and lawful proceedings, and Borrower shall have set aside such reserves, if any, with respect thereto as are required by GAAP and deemed adequate by Borrower and its independent accountants; and (iv) unsecured borrowings incurred in the ordinary course of its business and not exceeding \$500,000 in the aggregate outstanding at any one time. Borrower will not make prepayments on any existing or future indebtedness for borrowed money in excess of \$100,000 to any third person or entity (other than Lender, to the extent permitted by this Note or any subsequent agreement between Borrower and Lender).

b. *Liens and Encumbrances.* Borrower will not create, incur, assume or suffer to exist any mortgage, pledge, lien or other encumbrance of any kind (including the charge upon property purchased under a conditional sale or other title retention agreement) upon, or any security interest in, Borrower's ownership interest in any of the Collateral, whether now owned or hereafter acquired.

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c. *Merger, Acquisition, or Sale of Assets.* Borrower will not, without prior written notice to, and the prior written consent of Lender: (i) enter into any transaction of merger or consolidation; (ii) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); (iii) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, any of its assets, or the capital stock of Borrower or any subsidiary of Borrower, whether now owned or hereafter acquired; or (iv) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other evidence of beneficial ownership of, any Person. Borrower shall not (a) create any new ownership interest in Borrower, or (b) transfer (i) any or all of the Mortgaged Property (as defined in the Mortgages), or any interest therein, or (ii) any ownership interest in Borrower (including any interest in the profits, losses or cash distributions in any way relating to the Mortgaged Property or of Borrower), or (iii) the beneficial interests of LTC Properties in Borrower which would result in LTC Properties owning less than fifty one percent of the total beneficial interests in Borrower.

d. *Sale and Leaseback.* Borrower will not, directly or indirectly, enter into any arrangement whereby Borrower sells or transfers all or any part of its assets and thereupon and within one year thereafter rents or leases the assets so sold or transferred without the prior written notice to, and the prior express written consent of, Lender, which consent shall not be unreasonably withheld.

e. *Dividends, Distributions, and Management Fees.* Borrower will not purchase, redeem or otherwise acquire for value any of its outstanding stock now or hereafter outstanding, or return any capital of its stockholders, or pay any management fees or fees of a similar nature to any person other than such amounts as may be approved by Lender from time to time. Following an Event of Default, Borrower will not make, declare or pay any dividends or distributions with respect to any of its stockholders. Notwithstanding the foregoing, provided no Event of Default has occurred more than two (2) times, the provisions of this Section shall not prohibit Borrower from transferring funds to LTC Properties after payment of its obligations to Lender.

f. *Subsidiaries.* Borrower does not have, and will not form, any subsidiary, or make any equity investment in or any loan in the nature of an equity investment to, any other person, without the prior written consent of Lender, which consent shall not be unreasonably withheld.

g. *Transactions with Affiliates and Subsidiaries.* Without the prior written consent of Lender, which consent shall not be unreasonably withheld, Borrower will not enter into any transaction, including without limitation the purchase, sale, or exchange of property, or the lending or giving of funds to any Affiliate or subsidiary, except in the

ordinary course of business and pursuant to the reasonable requirements of Borrower's business and upon terms substantially the same and no less favorable to Borrower as it would obtain in a comparable arm's length transaction with any Person not an Affiliate or subsidiary, and so long as the transaction is not otherwise prohibited under this Note. Leases to Affiliates with rent payments greater than the debt payments due hereunder shall be deemed arms length transactions, provided, however, the entering into any lease agreement with respect to any of the Facilities shall be subject to Lender's consent. The term "*Person*" means an individual, partnership, corporation, trust, joint venture, joint stock company, limited liability company, association, unincorporated organization, governmental authority, or any other entity.

h. *Change in Capital Structure.* LTC Properties and Borrower agree that there shall occur no change in Borrower's capital structure as set forth in Section 9.p. hereof without the prior written consent of Lender, which consent shall not be unreasonably withheld. Borrower and LTC Properties agree that LTC Properties shall not sell, transfer, pledge, hypothecate or otherwise dispose of any or all of the capital stock of the Borrower, it being understood by both parties that Lender would not agree to make the Loan without such agreement from both Borrower and LTC Properties.

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i. *Contracts and Agreements.* Borrower will not become or be a party to any contract or agreement which would breach this Note, or breach any other instrument, agreement, or document to which Borrower is a party or by which it is or may be bound.

j. *Compliance with ERISA.* Borrower will not permit with respect to any Plan covered by Title IV of ERISA any Prohibited Transaction or any Reportable Event.

k. *License.* In the event that Borrower ever assumes operational control of either or both Facilities (rather than the Tenant), Borrower will not amend, alter, transfer, suspend or terminate such license in any material way, without the prior written consent of Lender.

l. *Use of Lender's Name.* Borrower will not use Lender's name (or the name of any of Lender's affiliates) in connection with any of its business operations. Borrower may disclose to third parties that Borrower has a borrowing relationship with Lender. Nothing contained in this Note is intended to permit or authorize Borrower to make any contract on behalf of Lender.

m. *Truth of Statements and Certificates.* Borrower will not furnish to Lender any certificate or other document that contains any untrue statement of a material fact or that omits to state a material fact necessary to make it not misleading in light of the circumstances under which it was furnished.

n. *Facility Leases.* Borrower will not terminate, assign, amend, modify or declare a default under any of the Facility Leases without the prior written consent of Lender, which consent may be withheld in Lender's sole discretion; provided, however, Lender shall respond to Borrower's written request for consent to any proposed action of Borrower with respect to the Facility Leases within fifteen (15) business days of Lender's receipt thereof, and failure by Lender to respond (whether in writing or verbally) within such time frame shall be construed as Lender's consent to Borrower's request.

**12. Events of Default.** The following events are each an "*Event of Default*" under this Note:

a. Borrower fails to make any payment of principal when due or fails to make any payment of interest, fees or other amounts owed to or for the account of Lender under this Note and such payment remains unpaid for five (5) business days after written notice to Borrower and Tenant of such failure; or

b. Borrower has made any representations or warranties in this Note, the other Loan Documents, any financial statement delivered to Lender or otherwise in connection with this Note or the related transaction that contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained in this Note or in such document or financial statement not misleading; or

c. Borrower shall fail to perform or observe, or cause to be performed or observed, any other term, obligation, covenant, condition or agreement contained in this Note or the other Loan Documents (*i.e.*, other than any obligation of payment) and any such failure shall have continued for a period of thirty (30) days after written notice of such failure; provided however: (I) if such default is a result of Tenant's failure to perform an obligation under a Facility Lease (other than a monetary obligation to pay rent, taxes, and insurance, and other than the obligation to maintain the Facility license (as set forth in Section 10(n) above), and other than the obligation not to commit material waste or abandonment of the Mortgaged Property), in addition to the cure period provided to Tenant to cure such default, Borrower shall have an additional cure period of fifteen (15) days to cure such defaults before such default shall constitute an Event of Default; and (II) if such default is a result of Tenant's failure to pay taxes or insurance (provided such failure does not result in a lapse of insurance or a lien on the Mortgaged Property), in addition to the cure period provided to Tenant in the Facility

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Lease, Borrower shall have an additional cure period of ten (10) days to cure such default before such default shall constitute an Event of Default; or

d. Borrower shall (i) apply for, or consent in writing to, the appointment of a receiver, trustee or liquidator; or (ii) file a voluntary petition seeking relief under the Bankruptcy Code, or be unable, or admit in writing Borrower's inability, to pay their debts as they become due; or (iii) make a general assignment for the benefit of creditors; or (iv) file a petition or an answer seeking reorganization or an arrangement or a readjustment of debt with creditors, apply for, take advantage, permit or suffer to exist the commencement of any insolvency, bankruptcy, suspension of payments, reorganization, debt arrangement, liquidation, dissolution or similar event, under the law of the United States or of any state in which Borrower is a resident; or (v) file an answer admitting the material allegations of a petition filed against Borrower in any such bankruptcy, reorganization or insolvency case or proceeding or (vi) take any action authorizing, or in furtherance of, any of the foregoing; or

e. Either (i) an involuntary case is commenced against Borrower and the petition is not contested within ten (10) days or is not dismissed within sixty (60) days after the commencement of the case or (ii) an order, judgment or decree shall be entered by any court of competent jurisdiction on the application of a creditor adjudicating Borrower bankrupt or insolvent, or appointing a receiver, trustee or liquidator of Borrower or of all or substantially all of the assets of Borrower and the order, judgment or decree shall continue unstayed and in effect for a period of sixty (60) days or shall not be discharged within ten (10) days after the expiration of any stay of such order, judgment, or decree; or

f. Any obligation of Borrower for the payment of borrowed money in excess of \$100,000 in the aggregate is not paid when due or within any applicable grace period, or such obligation becomes or is declared to be due and payable before the expressed maturity of the obligation, or there shall have occurred an event that, with the giving of notice or lapse of time, or both, would cause any such obligation to become, or allow any such obligation to be declared to be, due and payable; or

g. One or more final judgments against Borrower or attachments against its ownership interest in its property not fully and unconditionally covered by insurance in excess of \$100,000 in the aggregate, or any attachment against the Collateral or Borrower's ownership interest in the Facilities, shall be rendered by a court of record and shall remain unpaid, unstayed on appeal, undischarged, unbonded and undismissed for a period of twenty (20) days; or

h. An Event of Default occurs under any of the Environmental Indemnities, the Mortgages, the Subordination Agreement, the SNF Note, the SNF Mortgages or any of the other loan documents evidencing and/or securing the SNF Loan, whether now existing or hereafter executed; or

- i. Borrower ceases any material portion of its business operations as presently conducted; or
- j. Borrower modifies, amends, assigns or terminates a Facility Lease without Lender's prior written consent, or Borrower declares a default under, or pursues its remedies under, a Facility Lease without Lender's prior written consent; or
- k. There shall occur a default under either Lease Guaranty, or Tenant shall fail to pay all or any portion of Minimum Rent due under the applicable Facility Lease within the applicable cure period set forth therein.

### **13. Lender's Rights.**

a. Upon the occurrence of an Event of Default, Lender may, in addition to its rights and remedies set forth in Sections 6 and 7 above, proceed, to the extent permitted by law, to protect and enforce its rights either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, condition or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or proceed to enforce the payment of this Note or to enforce any other legal or equitable right of Lender, including any and all rights and remedies of Lender under the

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Mortgages, the SNF Note, the SNF Mortgages, the Subordination Agreement and/or the other Loan Documents. No right or remedy in this Note, the other Loan Documents or in other agreement or instrument to the benefit of Lender is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to every other right and remedy given under this Note or now or hereafter existing at law or in equity or by statute or otherwise. Without limiting the generality of the foregoing, if the outstanding Principal Sum, or any of the other obligations of Borrower to Lender shall not be paid when due, Lender shall not be required to resort to any particular security, right or remedy or to proceed in any particular order of priority, and Lender shall have the right at any time and from time to time, in any commercially reasonable manner and in any order, to enforce its security interests with respect to the Collateral, liens, rights and remedies, or any of them, as it deems appropriate in the circumstances, and apply the proceeds of any Collateral to such obligations of Borrower as it determines in its sole discretion.

b. If an Event of Default has occurred as provided above and Borrower has not paid the all amounts outstanding, including all principal, together with interest accrued on such amounts, upon demand by Lender, then Borrower shall pay to Lender interest on such outstanding amounts at a rate per annum equal to the Default Interest Rate from the date such outstanding amounts are due until the date this Note is paid in full. Borrower promises to pay all reasonable costs of collection, including reasonable attorneys' fees, if this Note is referred to an attorney for collection after the Event of Default.

**14. No Defenses.** Borrower's obligations under this Note shall not be subject to any set-off, counterclaim or defense to payment that Borrower now has or may have in the future.

**15. No Waiver.** No failure or delay on the part of Lender in exercising any right, power or privilege under this Note or the other Loan Documents, nor any course of dealing between Borrower and Lender, shall operate as a waiver of the right, power or privilege, nor shall a single or partial exercise of any right, power or privilege preclude any other or further exercise of, or the exercise of any other, right, power or privilege.

**16. Writing Required.** No modification or waiver of any provisions of this Note or any other Loan Documents, and no consent to any departure by Borrower, shall in any event be effective, without respect to any course of dealing between the parties, unless the modification or waiver shall be in a writing executed by Lender and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on Borrower in any case shall thereby entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

**17. Usury Limitation.** Notwithstanding anything contained to the contrary in this Note, Lender shall never be entitled to receive, collect or apply as interest any amount in excess of the maximum rate of interest permitted to be charged by applicable law. If Lender receives, collects or applies as interest any such excess, the amount that would be excessive interest shall be applied to the reduction of the Principal Sum; and if the Principal Sum is paid in full, any remaining excess shall be paid to Borrower. In determining whether or not the interest paid or payable in any specific case exceeds the highest lawful rate, Lender and Borrower shall to the maximum extent permitted under applicable law: (i) characterize any non-principal payment as an expense, fee or premium rather than as interest; and (ii) "spread" the total amount of interest throughout the entire term of the obligation so that the interest rate is deemed to have been uniform throughout the entire term.

**18. Notices.** Any notice or demand given under this Note shall be given by delivering it, sending by telecopier (with a confirming copy by regular mail), or by mailing it by certified or registered mail, postage prepaid, return receipt requested, or sent by prepaid overnight courier service addressed to Borrower at: LTC Properties, Inc., 300 Esplanade Drive, Suite 1860, Oxnard, CA 93030, Attention: Andre C. Dimitriadis, Telephone: (805) 981-8655, Telecopier: (805) 981-8663, with a copy to the Legal

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Department at the same address, Telephone: (805) 981-3611, Telecopier: (805) 981-3616, or at such other place as Borrower may specify in writing to Lender. Any notice to be given to Lender under this Note shall be given by personally delivering it, sending by telecopier (with a confirming copy by regular mail), or mailing it by certified or registered mail, return receipt requested, or sent by prepaid overnight courier service, addressed to Lender at: Wisconsin Circle, Fourth Floor, Chevy Chase, Maryland 20815 Attention: Real Estate Portfolio Management Group—Telephone: (301) 961-1640, Telecopier: (301) 664-9866, with a copy to Diana Pennington, Chief Counsel, Senior Living Group, Heller Financial, c/o Akin, Gump, Strauss, Hauer & Feld, LLP, 816 Congress Avenue, Suite 1900, Austin, Texas 78701, Telephone: (512) 703-1158, Telecopier: (512) 505-5487, or at such other place as Lender may specify in writing to Borrower. Each party may designate a change of address by notice to the other given in accordance with this Section 18 at least fifteen (15) days before such change of address is to become effective. A notice given under this Note shall be deemed received upon receipt if it is personally delivered or sent by telecopier or overnight courier service and five (5) days after it is deposited in the U.S. mail if it is sent by certified mail, return receipt requested.

**19. Section Headings.** The headings of the several paragraphs of this Note are inserted solely for convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision.

**20. Severability.** If any term, provision, covenant or condition of this Note or the application of such term, provision, covenant or condition to any party or circumstance shall be found by a court of competent jurisdiction to be, to any extent, invalid or unenforceable, the remainder of this Note and the application of such term, provision, covenant, or condition to parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, provision, covenant or condition shall be valid and enforced to the fullest extent permitted by law. Upon determination that any such term, provision, covenant or condition is invalid, illegal or unenforceable, Lender may, but is not obligated to, advance funds to Borrower under this Note until Borrower and Lender amend this Note so as to effect the original intent of the parties as closely as possible in a valid and enforceable manner.

**21. Survival of Terms.** All covenants, agreements, representations and warranties made in this Note or in any financial statements delivered pursuant to this Note shall survive Borrower's execution and delivery of this Note to Lender and shall continue in full force and effect so long as this Note or any other obligation under this Note shall be outstanding and unpaid or any other obligation of Borrower to Lender or its affiliates under this Note shall remain unperformed.

**22. Indemnity.** Borrower hereby agrees to indemnify and hold harmless Lender, its partners, officers, agents and employees (collectively, "*Indemnitee*") from and against any liability, loss, cost, expense, claim, damage, suit, action or proceeding ever suffered or incurred by Lender (including reasonable attorneys' fees and expenses) arising from Borrower's failure to observe, perform or discharge any of its covenants, obligations, agreements or duties under this Note or from the breach of any of the representations or warranties contained in this Note, unless caused solely by the gross negligence or willful misconduct of Lender. In addition, Borrower shall defend Indemnitee against and save it harmless from all claims of any Person with respect to the Collateral. Notwithstanding any contrary provision in this Agreement, the obligations of Borrower under this Section 22 shall survive the payment in full of the all obligations under this Note and the termination of this Note.

**23. INTENTIONALLY DELETED.**

**24. Governing Law; Consent to Jurisdiction.** THIS NOTE IS TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MARYLAND WITHOUT RESPECT TO ANY OTHERWISE APPLICABLE CONFLICTS-OF-LAWS PRINCIPLES, BOTH AS TO INTERPRETATION AND PERFORMANCE, AND THE PARTIES EXPRESSLY CONSENT AND AGREE TO THE NON-EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF

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MARYLAND AND THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MARYLAND AND TO THE LAYING OF VENUE IN MARYLAND, WAIVING ALL CLAIMS OR DEFENSES BASED ON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE, INCONVENIENT FORUM OR THE LIKE. BORROWER HEREBY CONSENTS TO SERVICE OF PROCESS BY MAILING A COPY OF THE SUMMONS TO BORROWER, BY CERTIFIED OR REGISTERED MAIL, POSTAGE PREPAID, TO BORROWER'S ADDRESS SET FORTH IN SECTION 18 ABOVE. BORROWER FURTHER WAIVES ANY CLAIM FOR CONSEQUENTIAL DAMAGES IN RESPECT OF ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY LENDER IN GOOD FAITH.

**25. Waiver of Trial by Jury.** EACH OF BORROWER AND LENDER HEREBY (A) COVENANTS AND AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUES TRIABLE OF RIGHT BY A JURY, AND (B) WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW HEREAFTER EXIST. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN, KNOWINGLY AND VOLUNTARILY, BY EACH OF BORROWER AND LENDER, AND THIS WAIVER IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A JURY TRIAL WOULD OTHERWISE ACCRUE. EACH PARTY IS HEREBY AUTHORIZED AND REQUESTED TO SUBMIT THIS NOTE TO ANY COURT HAVING JURISDICTION OVER THE SUBJECT MATTER AND THE PARTIES TO THIS NOTE, SO AS TO SERVE AS CONCLUSIVE EVIDENCE OF THE FOREGOING WAIVER OF THE RIGHT TO JURY TRIAL. FURTHER, EACH OF BORROWER AND LENDER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WILL NOT SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.

**26. Exculpation.**

a. No affiliate of Borrower, including all parents, subsidiaries and other affiliates of Borrower (the "*Affiliates*"), including all officers and directors of the Borrower or the Affiliates shall have any responsibility or liability for the payment or performance of any obligations or duties under this Note or any other agreement or transaction provided or contemplated in the Loan Documents.

b. Subject to subsection (c) below, Borrower shall not be personally liable to pay the Loan, or any other amount due, under the Loan Documents, and Lender agrees to look solely to the Collateral and any other collateral heretofore, now or hereafter pledged by any party to secure the Loan.

c. Notwithstanding the exculpation set forth in subsection (b) above, LTC Properties and Borrower, jointly and severally, shall be personally liable for:

(i) all losses, damages, costs and expenses including attorneys' fees incurred by Lender as a result of (x) any failure after the occurrence and during the continuance of any Event of Default (without benefit of any applicable grace or cure period), to apply any portion of the gross income of Borrower from the Facilities to the Loan or to customary operating expenses of the Facilities, or (y) fraud, misappropriation of any funds deriving from the Facilities or material misrepresentation; provided, however, that LTC Properties shall only be personally liable to Lender pursuant to this Section 26(c)(i) only to the extent of any funds received for the benefit of LTC Properties in violation of this Agreement; and

(ii) for repayment of the Loan and all other obligations of Borrower under the Loan Documents in the event of (x) any breach of the covenants of Sections 11(c) and 11(h) of this Note pertaining to transfers of interests.

(iii) INTENTIONALLY DELETED.

(iv) for repayment of the Loan, the Exit Fee and all other obligations of Borrower under the Loan Documents in the event of (A) any breach of the covenants of Sections 11(b) of this

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Note (to the extent of such lien) pertaining to additional encumbrances, (B) any change in control of Borrower, or (C) Borrower owning material assets other than the Facilities.

d. Notwithstanding the exculpation set forth in subsection (b) above, Borrower shall be personally liable for all losses, damages, costs and expenses including attorneys' fees incurred by Lender as a result of (i) any material waste of the Facilities by Borrower, (ii) any breach of any representation, warranty, covenant or obligation concerning Toxic Substances (as defined in the Environmental Indemnities) set forth in the Environmental Indemnities, and (iii) failure to keep the Facilities insured in accordance with the Loan Documents.

The foregoing shall in no way limit or impair the enforcement against the Collateral or any other collateral security granted by the Loan Documents of any of the Lender's and remedies pursuant to the Loan Documents.

**27. Release.** So long as no Event of Default has occurred under this Note or any of the Loan Documents, the Mortgages shall be released upon satisfaction in full of all of the following (as determined by Lender in its sole discretion):

a. all of the Borrower's obligations under this Note and the Mortgages, including (without limitation), all outstanding principal, accrued and unpaid interest and the Exit Fee, shall be paid to Lender;

b. the outstanding principal balance of the SNF Loan shall be reduced by \$1,000,000.00;



c. the outstanding principal balance of the SNF Loan shall be reduced by an additional amount equal to the scheduled installments of principal paid by Borrower under this Note as of the release date; and

d. LTC Properties shall cause the SNF Borrowers to amend the SNF Loan to provide for monthly principal payments equal to \$25,000.00 each.

**28. Conflicts and Inconsistencies.** In the event of any conflicts or inconsistencies between the terms of this Note and any of the other Loan Documents, the terms of the Note shall govern and control.

[SIGNATURES ON FOLLOWING PAGE]

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IN WITNESS WHEREOF, the undersigned have executed this Secured Term Note as of the day and year first above written.

**BORROWER:**

**MISSOURI RIVER CORPORATION,**  
a Delaware corporation

By: \_\_\_\_\_

Name: Alex J. Chavez  
Title: Senior Vice President and Treasurer

LTC Properties, Inc. hereby joins in this Note with respect to Sections 10(a)(i), (ii) and (iv), 24, 25 and 26(c) hereof and acknowledges and agrees the representations and covenants undertaken by LTC Properties, Inc. herein are a material inducement to Lender making this Loan to Borrower and that Lender would not be making the Loan to Borrower without such representations and covenants.

**LTC PROPERTIES, INC.**  
a Maryland corporation

By: \_\_\_\_\_

Name: Wendy L. Simpson  
Title: Chief Financial Officer

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**LIST OF SCHEDULES**

Schedule 1(f) -	Definition of Net Operating Income and Debt Service Coverage Ratio
Schedule 9(n) -	Places of Business
Schedule 9(t) -	Trade Names

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**Schedule 1(f)**  
**Definition of Net Operating Income and Debt Service Coverage Ratio**  
**CALCULATION OF**  
**NET OPERATING INCOME**

*"Net Operating Income"* means annualized Revenue less Expenses.

*"Revenue"* means the lesser of (i) annualized Adjusted Actual Rent or (ii) annualized Monthly Effective Rent. In determining Revenue, the occupancy factor utilized shall be the lesser of (a) actual occupancy, or (b) an assumed ninety-three percent (93%) occupancy rate.

*"Adjusted Actual Rent"* means (a) all amounts collected from tenants of the Project for the most current three (3) months, *excluding* corporate apartment income, pet fees, redecorating fees and other income (unless specifically included below), percentage rents, nonrecurring income and non-property related income and income from tenants (i) that are thirty (30) or more days delinquent, (ii) that are in bankruptcy (even if current), (iii) non-residential tenants whose leases terminate within six (6) months (as adjusted for space re-leased upon terms acceptable to Lender in its sole discretion) and (iv) that have been delinquent four (4) or more times during the past twelve (12) months, and (b) other revenue not to exceed ten percent (10%) of the amounts included in clause (a) above for laundry, vending, parking and other occupancy payments (but excluding late fees and interest income) based upon collections for the previous twelve (12) months.

*"Monthly Effective Rent"* means an amount equal to (x) total rent due over the term of the leases less any payments or concessions which Lender, in its sole discretion, deems to be a rent concession, divided by (y) the total number of months in the leases.

*"Expenses"* means all actual and customary operating expenses on a stabilized accrual basis for the previous twelve (12) month period (as reasonably adjusted by Lender), including, without limitation: (i) recurring expenses (e.g., tenant improvements, leasing commissions, carpeting replacement, appliance and drapery replacement and such other as solely determined by Lender), (ii) real estate taxes, (iii) management fees (whether paid or not) in an amount not less than five percent (5%) of effective gross income, and (iv) a replacement reserve (whether reserved or not) of not less than Three Hundred and No/100 Dollars (\$300.00) per unit.

Net Operating Income, and the elements thereof set forth above, shall be calculated in accordance with GAAP (to the extent GAAP is applicable to such calculations). The determination by Lender of the amount of Net Operating Income shall be conclusive, absent manifest error.

**DEBT SERVICE COVERAGE RATIO**

"Debt Service Coverage Ratio" means the ratio of rent and other payments then being paid to Borrower pursuant to each Facility Lease to Debt Service, as hereinafter defined.  
"Debt Service" means the aggregate amount of all scheduled principal, interest and other payments due to Lender by Borrower pursuant to the provisions of this Note and all other Loan Documents calculated as of the date of the requested advance of the Earnout Amount.

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**Schedule 9(n)**  
**Places of Business**

1.  
300 Esplanade Drive  
Suite 1860  
Oxnard, California 93030
2.  
2160 Detroit Road  
Rocky River, Ohio 93030
3.  
1012 Bayfront Parkway  
Erie, Pennsylvania 16502

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QuickLinks

[SECURED TERM NOTE](#)  
[Loan Number 21-095](#)

SECOND AMENDED AND RESTATED PROMISSORY NOTE

\$20,000,000.00

Date: June 8, 2001

Oxnard, California

**THIS SECOND AMENDED AND RESTATED PROMISSORY NOTE (THIS "NOTE") SUPERSEDES AND REPLACES THAT CERTAIN AMENDED AND RESTATED NOTE DATED MAY 19, 1998 (THE "PRIOR AMENDED NOTE"), MADE BY LTC HEALTHCARE, INC., A NEVADA CORPORATION (FORMERLY KNOWN AS LTC EQUITY HOLDING COMPANY, INC.), AS MAKER ("MAKER"), IN FAVOR OF LTC PROPERTIES, INC., A MARYLAND CORPORATION, AS PAYEE ("PAYEE") WHICH PRIOR AMENDED NOTE SUPERSEDED AND REPLACED THAT CERTAIN PROMISSORY NOTE DATED MARCH 30, 1998 MADE BY MAKER IN FAVOR OF PAYEE, IN THE MAXIMUM PRINCIPAL AMOUNT OF EIGHT MILLION DOLLARS (\$8,000,000.00) (THE "ORIGINAL NOTE").**

As of the date hereof, Maker certifies, acknowledges and agrees the outstanding principal balance of the Original Note, as amended by the Prior Amended Note, is \$17,385,630.01, as of April 30, 2001. Accordingly, the principal balance under this Note, as of the date hereof, is \$17,334,537.01. As of April 30, 2001, interest on the Original Note, as amended by the Prior Amended Note, in the amount of \$1,367,050.44, is past due and owing, and is grounds for the declaration of an event of default thereunder and the imposition of late charges, other fees and remedies in accordance with such documents and applicable law. Such interest, which amount has increased in accordance with the terms of the Prior Amended Note since April 30, 2001, remains past due and owing. Maker has requested, and Payee has agreed, to forebear from exercising Payee's rights and remedies, including the right to accelerate the Loan and the imposition of late charges, until June 30, 2002, with respect to, *and only with respect to*, the failure to pay interest past due and owing, at which time Payee shall be entitled to exercise any and all remedies available to Payee with respect to such past due interest if not paid. Maker further certifies, acknowledges and agrees that even though Payee has agreed to forebear from exercising its rights and remedies with regard to the event of default arising from Maker's failure to make such interest payments as and when due, Payee has not waived Payee's right to declare an event of default, and exercise all rights and remedies available in connection with any other defaults under the Original Note, as amended by the Prior Amended Note, all of which rights are expressly reserved. Moreover, to the extent Payee accelerates the obligations of Maker under this Note prior to June 30, 2002 as a result of an Event of Default, Change of Control or otherwise, any and all interest due and owing, and any late charges or other fees associated therewith, shall immediately be reinstated and likewise accelerated.

Payee and certain of its wholly-owned subsidiaries, as landlord, and certain wholly owned subsidiaries of Maker (hereinafter "Subsidiaries"), as lessee, are parties to certain leases. Maker's Subsidiaries have failed to make rental payments as and when due up through June 30, 2001 under such leases in the total amount of \$3,746,483.25, and has requested, and Payee has agreed, to forebear from exercising Payee's rights and remedies under such leases with respect to such rental payments. For good and valuable consideration, including without limitation, Payee's agreement to forebear from exercising its rights and remedies under the Original Note, as amended by the Prior Amended Note, and such leases, Maker is executing and delivering this Note to Payee and agreeing to amend such leases as more particularly set forth in such lease amendments.

In installments as herein stated, 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

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from time to time designate, the principal sum of Twenty Million Dollars (\$20,000,000.00), or so much thereof as may have been advanced, with interest accruing on the principal amount from time to time outstanding from the date hereof to and including the Maturity Date (as defined below) at a rate equal to the lesser of (i) Ten Percent (10%) per annum, or (ii) the Highest Lawful Rate (as hereinafter defined in Section 14, below). Principal and interest shall be payable as more particularly set forth below. All principal and accrued but unpaid interest shall be due on or before April 1, 2008 (the "Maturity Date"). Principal, interest and all other sums due hereunder shall be payable in lawful money of the United States.

Subject to the limitations described in Section 4 hereof, Maker desires to obtain a secured line of credit from Payee to enable Maker to borrow, from time to time, sums up to, but not exceeding, in the aggregate the principal sum of Twenty Million Dollars (\$20,000,000.00). Accordingly, this Note represents funds that have been or will, subject to the terms hereof, be advanced to Maker in a series of disbursements that will be made, from time to time, up to, but not exceeding, in the aggregate the principal amount of Twenty Million Dollars (\$20,000,000.00). As a condition to Payee's obligation to make each and every disbursement hereunder, Payee shall receive a request for advance setting forth the desired amount of the advance and specifying the wiring instructions to which the advance should be sent (or other method of delivery) not later than ten (10) business days prior to the date on which Maker wishes to receive the funds. No request for any such advance shall be for an amount less than One Hundred Thousand Dollars (\$100,000.00).

1. *Payments*

(a) *Payments of Interest.* Payments of interest only under this Note shall be made in arrears in monthly installments, without set-off, deduction, demand or notice of any kind or nature whatsoever, on the 1<sup>st</sup> day of each calendar month commencing on July 1, 2001 (each, a "Payment Date"), in an amount equal to the accrued but unpaid interest for the immediately preceding one-month period on the principal amount outstanding from time to time.

(b) *Payments on Maturity Date.* 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 balance, accrued and unpaid interest and any and all other outstanding charges, fees or amounts owing to Payee by Maker under this Note.

2. *Prepayments.* Maker shall have the right to prepay all or any part of the principal 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 secured by, among other things, certain mortgages, assignments, security agreements and/or other security instruments given by Maker in favor of Payee (as the same may be amended, supplemented or restated from time to time, 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, or Payee has any obligation to make advances 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).

(b) Maker will not use the proceeds available under this Note for any purposes other than: (i) working capital, or (ii) for such other purposes Payee, in its sole and absolute discretion, approves in writing.

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(c) Maker will not, and will not permit any subsidiary to, directly or indirectly, incur, create, issue, assume, purchase or suffer to exist any debt, other than debt under this Note.

(d) 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 in 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. *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. In addition, if Payee, in Payee's sole but good faith business judgment, believes a Change of Control is reasonably likely to occur, Payee shall be under no further obligation to honor draw requests hereunder, whether theretofore or thereafter given. For purposes of this Note, a "Change of Control" shall mean and include (i) the sale by Maker and/or any subsidiary of all or substantially all of the assets of Maker 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 the Company entitled to vote generally in the election of the Board of Directors of the Company, (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 Maker, through beneficial ownership of the capital stock or otherwise, or, (iv) a majority of the members of the Board of Directors of Maker 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 Maker who (i) was a member of the Board of Directors of Maker 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 Board 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.

6. *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 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

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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

7. *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, monetary or otherwise, hereunder, 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 7, immediately upon the breach or default of any provision of Section 4 hereof; or

(d) a breach or default under the Security Documents.

8. *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.

9. *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.

10. *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.

11. *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.

12. *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.

13. *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.

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14. *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 14 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

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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.

15. *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:

<i>If to Maker:</i>	LTC Healthcare, Inc. 300 Esplanade Drive, Suite 1865 Oxnard, California 93030 Attention: Mr. Chris Ishikawa
<i>with a copy to:</i>	LTC Healthcare, Inc. 300 Esplanade Drive, Suite 1865 Oxnard, California 93030 Attention: Legal Department
<i>If to Payee:</i>	LTC Properties, Inc. 300 Esplanade Drive, Suite 1860 Oxnard, California 93030 Attention: Ms. Wendy Simpson
<i>with a copy to:</i>	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.

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

**MAKER:**

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

By: \_\_\_\_\_

Name:

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Its:

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QuickLinks

[EXHIBIT 10.3](#)

[SECOND AMENDED AND RESTATED PROMISSORY NOTE](#)

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("*Agreement*") is made and entered into as of the 8th day of June, 2001 by LTC Healthcare, Inc., a Nevada corporation (formerly known as LTC Equity Holding Company, Inc.) ("*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 Second Amended and Restated 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 certain collateral, as described herein.

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 Loan, 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 the future advances which are made pursuant to the terms of the Loan, the Note or any such note or instrument and the performance and discharge of each and every obligation of Debtor set forth in the Loan, the Note or any such note or notes; (ii) payment of all other sums, with interest thereon, herein or in the Loan, 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 the following:

(a) *Equipment.* All equipment (as defined in the California Uniform Commercial Code (the "*Code*")), machinery tools furniture, furnishings, plant fixtures, business fixtures and other storage and office equipment, now owned or held, or hereafter acquired by the Debtor, wherever located, and all parts thereof and all additions and accessions thereto and replacements thereof and documents therefor, including any documents of title representing any of the above (any and all of the foregoing being the "*Equipment*");

(b) *Accounts.* All accounts, general intangibles, chattel paper, instruments (each as defined in 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, propriety 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 litigation, 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, and more specifically described as of June 8, 2001 on Exhibit A, attached hereto.

(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.

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4. *Delivery of Collateral.* Concurrently with the execution and delivery of this Agreement, Debtor shall deliver to Secured Party stock certificates representing all the outstanding shares of Debtor and the subsidiaries described on Exhibit A. 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

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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 Nevada corporation, duly incorporated, validly existing and in good standing under the laws of the State of Nevada. 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.

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(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 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;

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(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; (ii) to the repayment of all advances made by Secured Party hereunder for the account of Debtor; and (iii) 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 mortgages, 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.

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15. *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.

16. *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 debtors that all sums payable to Debtor relating to the Collateral shall be paid directly to Secured Party.

17. *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.

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18. *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:

<i>If to Debtor:</i>	LTC Healthcare, Inc. 300 Esplanade Drive, Suite 1865 Oxnard, California 93030 Attention: Mr. Chris Ishikawa
<i>with a copy to:</i>	LTC Healthcare, Inc. 300 Esplanade Drive, Suite 1865 Oxnard, California 93030 Attention: Legal Department
<i>If to Secured Party:</i>	LTC Properties, Inc. 300 Esplanade Drive, Suite 1860 Oxnard, California 93030 Attention: Ms. Wendy Simpson
<i>with a copy to:</i>	LTC Healthcare, 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.

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

20. *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.

21. *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.

22. *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.

23. *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

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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.

24. *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.

25. *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.

26. *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,

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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 or 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.

27. *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.

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

29. *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.

30. *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]

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

DEBTOR:

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

By: \_\_\_\_\_

Name: Andre C. Dimitriadis  
Its: Chairman and Chief Executive Officer

By: \_\_\_\_\_

Name: Christopher T. Ishikawa  
Its: Executive Vice President and Chief Investment Officer

SECURED PARTY:

**LTC PROPERTIES, INC.,**  
**a Maryland corporation**

By: \_\_\_\_\_

Name: Wendy Simpson  
Its: Vice Chairman and Chief Financial Officer

By: \_\_\_\_\_

Name: James J. Pieczynski  
Its: Chief Strategic Planning Officer

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## EXHIBIT A

### **LTC HEALTHCARE, INC., a Nevada corporation (f/k/a LTC Equity Holding Co.)**

Centers for Long Term Care, Inc., a Nevada corporation  
Centers for Long Term Care Ancillary Services, Inc., a Nevada corporation  
Centers for Long Term Care of Florida, Inc., a Nevada corporation (f/k/a LTC Senior Care, Inc.)  
Centers for Long Term Care of Crawfordville, Inc., a Nevada corporation  
LTC Healthcare of New Port Richey, Inc., a Nevada corporation  
Centers for Long Term Care of Venice, Inc., a Nevada corporation  
Centers for Long Term Care of Georgia, Inc., a Nevada corporation  
Centers for Long Term Care of Fort Valley, Inc., a Nevada corporation  
Centers for Long Term Care of Jessup, Inc., a Nevada corporation  
Centers for Long Term Care of Jonesboro, Inc., a Nevada corporation  
Centers for Long Term Care of Roberta, Inc., a Nevada corporation  
Centers for Long Term Care of Iowa, Inc., a Nevada corporation  
Centers for Long Term Care of Illinois, Inc., a Delaware corporation  
Centers for Long Term Care of Kansas, Inc., a Nevada corporation  
Centers for Long Term Care of Bonner Springs, Inc., a Nevada corporation  
Centers for Long Term Care of Coffeyville, Inc., a Nevada corporation  
Centers for Long Term Care of Gardner, Inc., a Nevada corporation  
Centers for Long Term Care of Olathe, Inc., a Nevada corporation  
Centers for Long Term Care of Salina, Inc., a Nevada corporation  
Centers for Long Term Care of North Carolina, Inc., a Nevada corporation  
Centers for Long Term Care of Fayetteville, Inc., a Nevada corporation  
Centers for Long Term Care of Tennessee, Inc., a Nevada corporation  
Centers for Long Term Care of Tiptonville, Inc., a Nevada corporation  
Centers for Long Term Care of Texas, Inc., a Nevada corporation  
Centers for Long Term Care of Richland Hills, Inc., a Nevada corporation

Centers for Long Term Care of Virginia, Inc., a Nevada corporation  
Centers for Long Term Care of Richmond, Inc., a Nevada corporation  
Centers for Long Term Care of Tappahannock, Inc., a Nevada corporation

Generations Management Services, Inc., a Texas corporation

LTC GP VI, Inc., a Delaware corporation

LTC Healthcare of Red Hills, Inc., a Delaware corporation (f/k/a LTC-Summer Hills, Inc.)

LTC-New Mexico, Inc., a Nevada corporation

LTC-Ohio, Inc., a Delaware corporation

## QuickLinks

[EXHIBIT 10.4](#)

[SECURITY AGREEMENT](#)

[EXHIBIT A](#)