SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 (FEE REQUIRED)
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NUMBER: 1-11314

LTC PROPERTIES, INC.
(Exact name of Registrant as specified in its charter)

MARYLAND	71-0720518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<CAPTION>

Title of Stock	Name of each exchange on which registered
<S>	<C>
Common stock, $.01 Par Value	New York Stock Exchange
9.50% Series A Cumulative Preferred Stock, $.01 Par Value	New York Stock Exchange
9.00% Series B Cumulative Preferred Stock, $.01 Par Value	New York Stock Exchange
9.75% Convertible Subordinated Debentures due 2004	New York Stock Exchange
8.50% Convertible Subordinated Debentures due 2000	New York Stock Exchange
8.50% Convertible Subordinated Debentures due 2001	New York Stock Exchange
7.75% Convertible Subordinated Debentures due 2002	New York Stock Exchange
8.25% Convertible Subordinated Debentures due 2001	New York Stock Exchange
8.25% Convertible Subordinated Debentures due 1999	New York Stock Exchange

</TABLE>

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by non-affiliates of the Company is approximately $494,733,000 as of March 20, 1998.

26,157,659
(Number of shares of common stock outstanding as of March 20, 1998)

Part III is incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 19, 1998.

ITEM 1. BUSINESS

GENERAL

LTC Properties, Inc. (the "Company"), a health care real estate investment trust (a "REIT"), was organized on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. The Company invests in long-term care and other health care related facilities through mortgage loans, facility lease transactions and other investments. The primary objective of the Company is to provide current income for distribution to stockholders through real estate investments in long-term care facilities and other health care related facilities managed by experienced operators providing quality care. To meet this objective, the Company attempts to invest in properties that provide opportunity for additional returns to its stockholders and diversify its investment portfolio by geographic location, operator and form of investment.

The Company was organized to qualify, and intends to continue to qualify, as a REIT. So long as the Company so qualifies, with limited exceptions, the Company may deduct distributions to its stockholders from its taxable income. The Company has distributed, and intends to continue to make distributions to its stockholders, in order to eliminate any federal tax liability.

At December 31, 1997, the Company had investments in 274 skilled nursing facilities with 31,462 beds and 77 assisted living facilities with 3,281 units operated by 83 healthcare providers in 34 states.

OWNED PROPERTIES. During 1997, the Company acquired 42 assisted living facilities and nine skilled nursing facilities for approximately $118,564,000. One of the skilled nursing facilities was acquired for $4,678,000 by a newly formed limited partnership of which the Company, through certain of its subsidiaries, is the general partner and was purchased subject to a mortgage loan of approximately $3,026,000. In 1997, the Company agreed to enter into sale-leaseback transactions with Assisted Living Concepts, Inc. ("ALC") under which ALC is obligated to sell and the Company is obligated to purchase 11 assisted living residences totaling $29,864,000. These transactions will be completed by the third quarter of 1998. In connection with the above agreement, the Company sold 12 properties back to ALC for $27,690,000 and terminated a commitment of $13,070,000 that was scheduled to expire on December 31, 1997.

The Company's long-term facilities are leased to operators pursuant to long-term "triple net" leases and provide for increases in the rent based upon specified rent increases, increases in revenues over defined base periods, or increases based on consumer price indices.

MORTGAGE LOANS. As part of the Company's strategy of making long-term investments in properties used in the provision of long-term health care services, the Company provides mortgage financing on such properties based on the investment underwriting criteria established by the Company. (See "Investment and Other Policies" in this Section.) The Company also provides construction loans that by their terms generally convert into purchase/lease transactions or permanent financing mortgage loans upon completion of construction. During 1997, the Company originated mortgage loans of $98,135,000 secured by 33 skilled nursing facilities and nine assisted living facilities and provided net construction funding of $9,352,000. Of the mortgage loans originated in 1997, loans secured by seven assisted living facilities, totaling $14,510,000 were repaid during 1997.

The Company maintains a long-term investment interest in its mortgages either through the direct retention of mortgages or through the retention of REMIC certificates originated in the Company's securitizations. The Company may, from time-to-time, securitize a portion of its mortgage loan portfolio when a securitization provides the Company with the best available form of raising capital to make additional long-term investments. In addition, the Company believes that the certificates retained by the

Company in its securitizations provide its shareholders with a more diverse real estate investment while maintaining the returns desired by the Company. Because the Company anticipates securitizing additional portions of its mortgage loan portfolio in the future, its mortgage loan investments are carried at the lower of cost-or-market.

REMIC CERTIFICATES. Prior to 1997, the Company securitized mortgage loans with an aggregate outstanding principal balance of approximately $354,827,000 by creating Real Estate Mortgage Investment Conduits ("REMIC") which, in turn, issued mortgage pass-through certificates ("REMIC Certificates") aggregating approximately the same amount. A portion of the REMIC Certificates were subsequently sold to third parties. The REMIC Certificates retained by the Company are subordinated in right of payment to the REMIC Certificates sold to third parties. A portion of the REMIC Certificates retained by the Company are interest-only certificates which have no principal amount and entitle the Company to receive cash flows designated as interest. During 1997, the Company received proceeds of

$11,811,000 from the sale of subordinated REMIC Certificates which were retained from a securitization completed in 1996. The proceeds from the sale were used to pay down outstanding borrowings under the Company's lines of credit. At December 31, 1997, the Company had investments in REMIC Certificates with an estimated fair value of $87,811,000. (See "Part 1, Item 2 -- Properties -- REMIC Certificates.")

FINANCING AND OTHER TRANSACTIONS. During 1997, the Company completed public offerings for 2,000,000 shares of common stock resulting in aggregate net proceeds of $35,065,000. In addition, the Company issued 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock ("Series A Preferred Stock") and 2,000,000 shares of 9.0% Series B Cumulative Preferred Stock ("Series B Preferred Stock") for total net proceeds of $121,600,000. Dividends on the Series A Preferred Stock and Series B Preferred Stock are cumulative from the date of original issue and are payable monthly to stockholders of record on the first day of each month. Dividends on the Series A Preferred Stock and the Series B Preferred Stock accrue at 9.5% and 9.0% per annum, respectively, on the $25 liquidation preference per share (equivalent to a fixed annual amount of $2.375 and $2.25 per share, respectively). The Series A Preferred Stock is not redeemable prior to April 1, 2001 and the Series B Preferred Stock is not redeemable prior to January 1, 2002, except in certain circumstances relating to preservation of the Company's qualification as a REIT. The net proceeds from these offerings were used to repay borrowings under the Company's lines of credit.

During 1997, the Company replaced its existing credit facilities with a $170,000,000 Senior Unsecured Revolving Line of Credit (the "Revolving Credit Facility") that expires on October 3, 2000. As of December 31, 1997, borrowings of $87,500,000 bearing interest at LIBOR plus 1.375% were outstanding under the Revolving Credit Facility.

INVESTMENT AND OTHER POLICIES

OBJECTIVES AND POLICIES. The Company currently invests in income-producing long-term care facilities. The Company invests either (1) directly in mortgage loans secured by long-term care facilities, (2) in the fee ownership of long-term care facilities which are leased to operators or (3) or may participate in such investments indirectly through investments in partnerships, joint ventures or other entities that themselves make direct investments in such loans or facilities.

In evaluating potential investments, the Company considers such factors as (i) type of property, (ii) the location, construction quality, condition and design of the property, (iii) the property's current and anticipated cash flow and its adequacy to meet operational needs and lease obligations or debt service obligations, (iv) the quality and reputation of the property's operator, (v) the growth, tax and regulatory environments of the communities in which the properties are located, (vi) the occupancy and demand for similar long-term care facilities in the area surrounding the property and (vii) the Medicaid reimbursement policies and plans of the state in which the property is located.

The Company places primary emphasis on investing in long-term care facilities that have low investment per bed/unit ratios and do not have to rely on the provision of ancillary services to cover debt service or lease obligations. In addition, with respect to skilled nursing facilities, the Company attempts to invest in facilities that do not have to rely on a high percentage of private pay patients. The Company seeks to invest in facilities that are located in suburban and rural areas of states with improving reimbursement climates. Prior to every investment, the Company conducts a facility site review to assess the general physical condition of the facility, the potential of additional sub-acute services and the quality of care the operator provides. In addition, the Company reviews the environmental reports, state survey and financial statements of the facility before the investment is made. The Company prefers to invest in facilities that have a significant market presence in its community and where state licensing procedures limit the entry of competing facilities. To date, a majority of the Company's investments have been made in the form of mortgage loans secured by skilled nursing facilities. Due to management's belief that assisted living facilities are an increasingly important sector in the long-term care market, a larger portion of the Company's future investments will be made in the form of direct ownership of assisted living facilities. Management believes that assisted living facilities represent a lower cost long-term care alternative for senior adults than skilled nursing facilities. The Company invests primarily in assisted living facilities that attract the moderate-income private pay patients in smaller communities, preferably in states that have adopted Medicaid waiver programs or are in the process of adopting or reviewing their policies and reimbursement program to provide funding for assisted living residences. The Company believes that locating residences in a state with a favorable regulatory reimbursement climate should provide a stable source of residents eligible for Medicaid reimbursement to the extent private-pay residents are not available, and should provide alternative sources of income for residents when their private funds are depleted and they become Medicaid eligible.

There are no limitations on the amount or percentage of the Company's total assets that may be invested in any one property or joint venture, except for investments in assisted living facilities ("ALFs"). The Board of Directors has authorized the Company to invest up to 30% of the Company's adjusted gross real estate investment portfolio (adjusted to include mortgage loans to third parties underlying the investment in REMIC Certificates) in ALFs, with a 20% limit on investments in properties operated by ALC. ALC is an owner, operator and developer of assisted living facilities. Except for ALFs, no other limits have been set on the number of properties in which the Company will seek to invest, or of the concentration of investments in any one facility or any one city or state, or the type or form of investment.

BORROWING POLICIES. The Company may incur additional indebtedness when, in the opinion of the directors, it is advisable. The Company may incur such indebtedness to make investments in additional long-term care facilities or to meet the distribution requirements imposed upon REITs under the Internal Revenue Code of 1986, as amended (the "Code") (see Taxation of the Company--Requirements for Qualifications). For other short-term purposes, the Company may, from time to time, negotiate lines of credit, or arrange for other short-term borrowings from banks or otherwise. The Company may also arrange for long-term borrowings through public offerings or from institutional investors.

In addition, the Company may incur mortgage indebtedness on real estate which it has acquired through purchase, foreclosure or otherwise. The Company may also obtain mortgage financing for unleveraged or underleveraged properties in which it has invested or may refinance properties acquired on a leveraged basis. There is no limitation on the number or amount of mortgages which may be placed on any one property, and the Company has no policy with respect to limitations on borrowing, whether secured or unsecured.

PROHIBITED INVESTMENTS AND ACTIVITIES. The policies of the Company, subject to change by the Board of Directors without stockholder approval, impose certain prohibitions and restrictions on various investment practices or activities of the Company including prohibition against:

(i) acquiring any real property unless the consideration paid for such real property is based on the fair market value of the property;

(ii) investing in any junior mortgage loan unless by appraisal or other method, the directors determine that (a) the capital invested in any such loan is adequately secured on the basis of the equity of the borrower in the property underlying such investment and the ability of the borrower to repay the mortgage loan or (b) such loan is a financing device entered into by the Company to establish the priority of its capital investment over the capital invested by others investing with the Company in a real estate project;

(iii) investing in commodities or commodity futures contracts (other than interest rate futures, when used solely for hedging purposes);

(iv) investing more than 1% of the Company's total assets in contracts for sale of real estate unless such contracts are recordable in the chain of title;

(v) holding equity investments in unimproved, non-income producing real property, except such properties as are currently undergoing development or are presently intended to be developed within one year, together with mortgage loans on such property (other than first mortgage development loans), aggregating to more than 10% of the Company's assets.

COMPETITION

The Company competes with other REITs, real estate partnerships, health care providers and other investors, including commercial banks, institutional banks and insurance companies, many of which will have greater financial resources and lower cost of funds than the Company, in the acquisition, leasing and financing of long-term care facilities. The operators compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients based on quality of care, reputation, physical appearance of facilities, services offered, family preferences, physician referrals, staff and price.

INSURANCE

The Company obtains title insurance with respect to each of its investments. The Company generally requires: (i) with respect to each owned property, an American Land Title Association ("ALTA") Extended Coverage Owner's Policy of Title Insurance with an insured amount equal to the purchase price, insuring that the Company holds fee simple title to the property subject only to those liens and encumbrances approved by the Company; and (ii) with respect to each mortgaged property, an ALTA Extended Coverage Lender's Policy of Title Insurance with an insured amount equal to the loan amount, insuring the Company's first-lien security interest in the property subject only to those liens and encumbrances approved by the Company. However, ALTA Extended Coverage Policies of Title Insurance are not available in all states, in which event the Company requires the broadest form of title coverage available in the particular jurisdiction.

In addition, the Company requires that its tenants (in the case of owned properties) and borrowers (in the case of mortgaged properties) maintain comprehensive liability insurance and casualty insurance with policy specifications and insured limits customarily carried for similar properties and cause their insurers to name the Company as an additional insured, loss payee and/or mortgagee, as appropriate depending on the particular type of policy. In the case of casualty insurance, the insured limits may not be less than the full replacement cost of the improvements constructed on the property, and coverage is typically provided in the form of an "all-risk" policy. However, there are certain types of losses which may either be uninsurable or not economically insurable. For example, the Company generally requires its tenants and borrowers to carry

flood insurance if the property is located within a flood plain area as designated by the applicable governmental authority, and earthquake insurance if the property is located in a state, such as California, where the risk of earthquake damage is high. Such flood and earthquake coverage is not always an insurable risk or may not be obtainable in amounts at least equal to the full replacement cost of the improvements constructed on the property. Accordingly, there is no assurance that adequate coverage exists with respect to each investment should there be serious flooding, seismic activities or other uninsurable casualty in the areas where the properties constituting the Company's investments are located. Should an uninsured (or less than fully insured) loss occur, the Company could lose its investment in, and anticipated profits and cash flow from, a property.

EMPLOYEES

The Company currently employs 19 persons.

GOVERNMENT FINANCING AND REGULATION OF HEALTH CARE

GENERAL. Medicaid programs or the equivalent are currently in existence in all of the states in which the Company has nursing facility investments. While these programs differ in certain respects from state to state, they are all subject to certain federally imposed requirements, as a substantial portion of the funds available under these programs is provided by the federal government. Medicaid programs provide for payments to participating health care facilities on behalf of the indigent and certain other eligible persons. California and Texas provide for reimbursement at flat daily rates, as determined by the responsible state agency and depending on certain levels of care. In all other states, payments are based upon specific cost reimbursement formulas established by the applicable state.

Medicare and most state Medicaid programs utilize a cost-based reimbursement system for nursing facilities which reimburses facilities for the reasonable direct and indirect allowable costs incurred in providing routine services (as defined by the programs) plus, in certain states, a return on equity, subject to certain cost ceilings. These costs normally include allowances for administrative and general costs as well as the costs of property and equipment (depreciation and interest, fair rental allowance or rental expense). In certain states, cost-based reimbursement is typically subject to retrospective adjustment through cost report settlement, and for certain states, payments made to a facility on an interim basis that are subsequently determined to be less than or in excess of allowable costs may be adjusted through future payments to the affected facility and to other facilities owned by the same owner. State Medicaid reimbursement programs vary as to the methodology used to determine the level of allowable costs which are reimbursed to operators.

The Medicaid and Medicare programs are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, intermediary determinations and governmental funding restrictions, all of which may materially increase or decrease program reimbursement to health care facilities. No assurance can be given as to whether the future funding of such programs will remain at levels comparable to the present levels.

Both the Medicaid and Medicare programs contain specific requirements which must be adhered to at all times by health care facilities in order to qualify under the programs. Based upon such information as periodically received by the Company from the operators over the term of the lease/loan, the Company believes that the nursing facilities in which it has investments are in substantial compliance with the various regulatory requirements applicable to them, although there can be no assurance that the operators are in compliance or will be so at any time.

In addition to the requirements to be met by the nursing facilities for participation in the Medicaid and Medicare programs, the nursing facilities are subject to regulatory and licensing requirements of federal, state

and local authorities. The operator of each long-term care facility is licensed annually by the board of health or other applicable agency in each state. In granting and renewing licenses, regulatory agencies consider, among other things, the physical buildings and equipment, the qualifications of the administrative personnel and nursing staff, the quality of care and continuing compliance with the laws and regulations relating to the operation of the facilities. State licensing of facilities is a prerequisite to certification under Medicaid and Medicare programs. In the ordinary course of business, the operators receive notices of deficiencies for failure to comply with various regulatory requirements and take appropriate corrective and preventive actions. The Company believes that the nursing facilities in which it has investments are in compliance with the applicable licensing or other regulation although there can be no assurance that the operators are or will be in compliance at any time.

The Company has increased its investments in ALFs in recent years. ALFs are subject to certain state regulations and licensing requirements. In order to qualify as a state licensed facility, ALFs must comply with regulations which address, among other things, staffing, physical design, required services and resident characteristics. ALFs are also subject to various local building codes and other ordinances, including fire safety codes. These requirements vary from state to state and are monitored to varying degrees by state agencies.

Currently, ALFs are not regulated as such by the federal government. State standards required for ALF providers are less stringent than those required of other licensed health care operators. There can be no assurance that federal regulations governing the operation of ALFs will not be implemented in the future or that existing state regulations will not be expanded. In addition, only certain states have adopted laws or regulations permitting individuals with higher acuity levels to remain in assisted living communities who may otherwise qualify for placement in a nursing facility. While only certain states presently provide for any Medicaid reimbursement for assisted living residences, several states are currently reviewing their policies and reimbursement programs to provide funding for assisted living residences. There can be no assurance that such states will adopt the Medicaid waiver program.

HEALTH CARE REFORM. The Balanced Budget Act of 1997 signed by President Clinton on August 5, 1997 (the "Act"), enacted significant changes to the Medicare and Medicaid Programs designed to "modernize" payment and health care delivery systems while achieving substantial budgetary savings.

In seeking to limit Medicare reimbursement for long term care services, Congress has established a prospective payment system for skilled nursing facility services to replace the current cost-based reimbursement system. The cost based system reimburses nursing facilities for reasonable direct and indirect allowable costs incurred in providing "routine services" (as defined by the Program) as well as capital costs and ancillary costs. Cost based reimbursement has been subject to limits fixed for the particular geographic area served by a nursing facility. Under the prospective payment system, skilled nursing facilities will be paid a federal per diem rate for covered services. The per diem payment will cover routine service, ancillary, and capital-related costs. The prospective payment system will be phased in over three cost reporting periods, starting with periods beginning on or after July 1, 1998. The actual rate paid to a skilled nursing facility will be adjusted for case mix and relative wage-related costs.

Under provisions of the Act, states will be provided additional flexibility in managing their Medicaid programs while achieving in excess of $13 billion in federal budgetary savings over five years. Among other things, the Act repealed the Boren Amendment payment standard, which had required states to pay "reasonable and adequate" payments to cover the costs of efficiently and economically operated hospitals, nursing facilities, and certain intermediate care facilities. States, however, will be required to use a public notice and comment process in determining rates for such facilities. During rate-setting procedures states also will be required to take into account the situation of facilities that serve a disproportionate number of low-income patients with

special needs. The Secretary of the Department of Health and Human Services is required to study and report to Congress within four years concerning the effect of State rate-setting methodologies on the access to and the quality of services provided to Medicaid beneficiaries. The Act also provides the Federal Government with expanded enforcement powers to combat waste, fraud and abuse in delivery of health care services. In light of forthcoming regulations and continuing state Program reform, no assurance can be given that the implementation of such regulations and reform will not have a material adverse effect on the Company's financial condition or results of operations.

TAXATION OF THE COMPANY

GENERAL. Management of the Company believes that the Company has operated in such a manner as to qualify for taxation as a real estate investment trust ("REIT") under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 1992, and the Company intends to continue to operate in such a manner. No assurance can be given that it has operated or will be able to continue to operate in a manner so as to qualify or to remain so qualified. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretation thereof.

If the Company qualifies for taxation as a REIT, it will generally not be subject to federal corporate income taxes on its net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (i.e., at the corporate and stockholder levels) that generally results from investment in a corporation. However, the Company will continue to be subject to federal income tax under certain circumstances.

REQUIREMENTS FOR QUALIFICATION. The Code defines a REIT as a corporation, trust or association (i) which is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (iii) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons; (vi) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals; and (vii) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Code provides that conditions (i) to (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

INCOME TESTS. There presently are two gross income requirements that the Company must satisfy to qualify as a REIT, and, with respect to taxable years of the Company beginning before August 6, 1997, there was a third gross income requirement. First, at least 75% of the Company's gross income (excluding gross income from Prohibited Transactions as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investment income. Second, at least 95% of the Company's gross income (excluding gross income from Prohibited Transactions) for each taxable year must be derived from income that qualifies under the 75% test and all other dividends, interest and gain from the sale or other disposition of stock or securities. Third, for taxable years of the Company beginning before August 6, 1997, short-term gains from the sale or other disposition of stock or securities, gains from Prohibited Transactions and gains on the sale or other disposition of real property held for less than four years (apart from involuntary conversions and sales of foreclosure property) must represent less than 30% of the Company's gross income for each such taxable year. A Prohibited Transaction is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business.

ASSET TESTS. The Company, at the close of each quarter of its taxable year, must also satisfy three tests relating to the nature of its assets. First, at least 75% of the value of the Company's total assets must be represented by real estate assets (including stock or debt instruments held for not more than one year, purchased with the proceeds of a stock offering or long-term (more than five years) public debt offering of the Company), cash, cash items and government securities. Second, not more than 25% of the Company's total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets and the Company may not own more than 10% of any one issuer's outstanding voting securities.

OWNERSHIP OF A PARTNERSHIP INTEREST OR STOCK IN A CORPORATION. The Company owns interests in various partnerships. In the case of a REIT that is a partner in a partnership, Treasury Regulations provide that for purposes of the REIT income and asset tests, the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. The ownership of an interest in a partnership by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service of the allocations of income and expense items of the partnership, which would affect the computation of taxable income of the REIT, and the status of the partnership as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes. The Company also owns interests in a number of subsidiaries which are intended to be treated as qualified real estate investment trust subsidiaries (each, a "QRS"). The Code provides that such subsidiaries will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as assets, liabilities and such items of the Company. The Company further owns 100% of the nonvoting preferred stock in one subsidiary, LTC Development Company, Inc. ("LTC Development"), which represents approximately 99% of the economic value of all classes of stock of LTC Development. President Clinton's fiscal 1999 budget proposal contains a provision which would amend the Code so as to prohibit REITs from owning stock of a corporation possessing greater than 10% of the voting power or value of all classes of stock of such corporation. This proposal would be effective with respect to stock acquired on or after the date of the first Congressional committee action with respect to the proposal (the "Action Date"). In addition, to the extent that a REIT's ownership of stock in a subsidiary corporation is exempt from this proposal by virtue of the proposal's effective date, such "grandfathered" status would terminate if such subsidiary corporation (i) engaged in a trade or business in which it was not engaged on the Action Date, or (ii) acquired substantial new assets on or after the Action Date. In the event that such grandfathered status were so terminated, and the Company did not dispose of its interest in LTC Development, the Company would fail the third asset test discussed above and therefore fail to qualify as a REIT. Furthermore, if any partnership or QRS in which the Company owns an interest were treated as a regular corporation (and not as a partnership or QRS) for federal income tax purposes, the Company would likely fail to satisfy the REIT asset tests described above and would therefore fail to qualify as a REIT. The Company believes that each of the partnerships and subsidiaries in which it owns an interest (except LTC Development) will be treated for tax purposes as a partnership or QRS, respectively, although no assurance can be given that the Internal Revenue Service will not successfully challenge the status of any such organization.

REMIC. A regular or residual interest in a REMIC will be treated as a real estate asset for purposes of the REIT asset tests and income derived with respect to such interest will be treated as interest on an obligation secured by a mortgage on real property, assuming that at least 95% of the assets of the REMIC are real estate assets. If less than 95% of the assets of the REMIC are real estate assets, only a proportionate share of the assets of and income derived from the REMIC will be treated as qualifying under the REIT asset and income tests. The Company believes that its REMIC interests fully qualify for purposes of the REIT income and asset tests.

ANNUAL DISTRIBUTION REQUIREMENTS. The Company, in order to qualify as a REIT, is required to distribute dividends (other than capital gain dividends) to its stockholders in an amount at least equal to (A) the sum of (i) 95% of the Company's "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and the Company's net capital gain) and (ii) 95% of the net income, if any (after tax), from foreclosure property, minus (B) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before the Company timely files its tax return for such year, if paid on or before the first regular dividend payment date after such declaration and if the Company so elects and specifies the dollar amount in its tax return. To the extent that the Company does not distribute all of its net long-term capital gain or distributes at least 95%, but less than 100%, of its "real estate investment trust taxable income," as adjusted, it will be subject to tax thereon at regular corporate tax rates. Furthermore, if the Company should fail to distribute during each calendar year at least the sum of (i) 85% of its real estate investment trust ordinary income for such year, (ii) 95% of its real estate investment capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% excise tax on the excess of such required distributions over the amounts actually distributed.

FAILURE TO QUALIFY. If the Company fails to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, the Company will be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Distributions to stockholders in any year in which the Company fails to qualify will not be deductible by the Company nor will they be required to be made. Unless entitled to relief under specific statutory provisions, the Company will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances the Company would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in the Company's incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

In addition, President Clinton's fiscal 1999 budget proposal includes a provision which, if enacted in its present form, would result in the immediate taxation of all gain inherent in a C corporation's assets upon an election by such corporation to become a REIT in taxable years beginning after January 1, 1999, and thus could effectively preclude the Company from re-electing to be taxed as a REIT following a loss of its REIT status.

TAXATION OF STOCKHOLDERS - GENERAL

Distributions made to the Company's taxable U.S. stockholders out of current or accumulated earnings and profits, unless designated as capital gain distributions, will be taken into account by them as ordinary income. Such distributions will not be eligible for the dividends received deductions for corporations as long as the Company qualifies as a REIT. Distributions made by the Company that are properly designated by the Company as capital gain dividends will be taxable to taxable U.S. stockholders as gains (to the extent that they do not exceed the Company's actual net capital gain for the taxable year) from the sale or disposition of a capital asset. Depending on the period of time the Company held the assets which produced such gains, and on certain designations, if any, which may be made by the Company, such gains may be taxable to non-corporate U.S. stockholders at a 20%, 25% or 28% rate. Corporate stockholders may, however, be required to treat up to 20% of any such capital gain dividend as ordinary income. Distributions in excess of current or accumulated earnings and profits will not be taxable to a U.S. stockholder to the extent that they do not exceed the adjusted basis of such stockholder's shares. To the extent that such distributions exceed the adjusted basis of a U.S. stockholder's shares they will be included in income as capital gain (as described below with respect to the sale or exchange of the shares) assuming the shares are

held as a capital asset in the hands of the stockholder. Stockholders may not include in their individual income tax returns any net operating losses or capital losses of the Company.

The Company may elect to retain, rather than distribute as a capital gain dividend, its net long-term capital gains. In such event, the Company would pay tax on such retained net long-term capital gains. In addition, to the extent designated by the Company, a U.S. stockholder generally would (i) include its proportionate share of such undistributed long-term capital gains in computing its long-term capital gains in its return for its taxable year in which the last day of the Company's taxable year falls (subject to certain limitations as to the amount so includable), (ii) be deemed to have paid the capital gains tax imposed on the Company on the designated amounts included in such stockholder's long-term capital gains, (iii) receive a credit or refund for such amount of tax deemed paid by it, (iv) increase the adjusted basis of its shares by the difference between the amount of such includable gains and the tax deemed to have been paid by it, and (v) in the case of a U.S. stockholder that is a corporation, appropriately adjust its earnings and profits for the retained capital gains in accordance with Treasury Regulations to be prescribed by the IRS.

In general, any gain or loss upon a sale or exchange of shares by a stockholder who has held such shares as a capital asset will be taxable as long-term capital gain if the shares have been held for more than eighteen months, mid-term capital gain if the shares have been held for more than one year but not more than eighteen months, or short-term capital gain if the shares have been held for one year or less; provided, however, any loss on the sale or exchange of shares that have been held by such stockholder for six months or less will be treated as a long-term capital loss to the extent of distributions from the Company required to be treated by such stockholder as long-term capital gain.

The Company and its stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its shareholders may not conform to the federal income tax consequences discussed above.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Many of the statements herein are forward-looking in nature, and, accordingly, whether they prove to be accurate is subject to many risks and uncertainties. The actual results that the Company achieves may differ materially from many forward-looking statements herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere herein.

GOVERNMENT REGULATION

HEALTH CARE REFORM. The health care industry is facing various challenges, including increased government and private payor pressure on health care providers to control costs, the migration of patients from acute care facilities into extended care and home care settings, the vertical and horizontal consolidation of health care providers and financing concerns. The pressure to control health care costs intensified during 1993 and 1994 as a result of the national health care reform debate. The focus on health care expenditures is expected to continue notwithstanding the adoption by the 105th Congress of the first balanced federal budget since 1969 and significant reforms enacted as part of the Balanced Budget Act of 1997 designed to slow the growth rate in federal health care expenditures, including with particular focus on limiting provider reimbursement. Further debate on overall structural reform of federal and state health care programs is likely to result in additional legislative action on cost-containment.

The Company believes that government and private efforts to contain and reduce health care costs are likely to lead to reduced or slower growth in reimbursement for certain services provided by some of the Company's borrowers and lessees. The Company believes that the financial strength and operating flexibility of its operators and the diversity of its portfolio will mitigate the impact of any such diminution in reimbursement. However, the Company cannot predict whether government or private cost contrainment efforts and reform will be adopted, and if adopted, whether the implementation of such reforms will have a material adverse effect on the Company's financial condition or results of operations.

POTENTIAL OPERATOR LOSS OF LICENSURE OR CERTIFICATION. The health care industry is highly regulated by federal, state and local law, and is directly affected by state and local licensure, fines, and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any borrower or lessee to comply with such laws, requirements and regulations could affect its ability to operate the facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to the Company.

In the past several years, due to rising health care costs, there has been an increased emphasis on detecting and eliminating fraud and abuse in the Medicare and Medicaid programs. Payment of any consideration in exchange for referral of Medicare and Medicaid patients is generally prohibited by federal statute, which subjects violators to severe penalties, including exclusion from the Medicare and Medicaid programs, fines, and even prison sentences. In recent years, both federal and state governments have significantly increased investigation and enforcement activity to detect and punish wrongdoers. In addition, legislation has been adopted at both state and federal levels that severely restricts the ability of physicians to refer patients to entities in which they have a financial interest.

It is anticipated that the trend toward increased investigation and informant activity in the area of fraud and abuse, as well as self-referral, will continue in future years. In the event that any borrower or lessee were to be found in violation of laws regarding fraud, abuse or self-referral, that borrower's or lessee's ability to operate a health care facility could be jeopardized, which could adversely affect the borrower's or lessee's ability to make debt or lease payments to the Company and, thereby, adversely affect the Company.

RELIANCE ON GOVERNMENT REIMBURSEMENT. A significant portion of the revenue of the Company's borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. These programs are highly regulated and subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. In recent years, there have been fundamental changes in the Medicare program which have resulted in reduced levels of payment for a substantial portion of health care services. Moreover, health care facilities have experienced increasing pressures from private payers attempting to control health care costs, and reimbursement from private payers has in many cases effectively been reduced to levels approaching those of government payers.

In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. Governmental and popular concern regarding health care costs may result in significant reductions in payment to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care could adversely affect revenues of the Company's borrowers and lessees and thereby adversely affect those borrowers' and lessees' abilities to make their debt or lease payments to the Company. Failure of the borrowers or lessees to make their debt or lease payments would have a direct and material adverse impact on the Company.

ENVIRONMENTAL MATTERS

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender (such as the Company) may be liable in certain circumstances for the costs of removal or remediation of certain hazardous or toxic substances at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and may be imposed on the owner in connection with the activities of an operator of the property. The cost of any required remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property, and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce the Company's revenues.

Although the Company's mortgage loans and leases require the borrower and the lessee to indemnify the Company for certain environmental liabilities, the scope of such obligations may be limited and there can be no assurance that any such borrower or lessee would be able to fulfill its indemnification obligations.

HEALTH CARE REAL ESTATE INVESTMENT RISKS

VOLATILITY OF VALUE OF REAL ESTATE. Real property investments in the health care industry are subject to varying degrees of risk. The economic performance and values of health care real estate can be affected by many factors including governmental regulation, economic conditions, and demand for health care services. There can be no assurance that the value of any property acquired by the Company will appreciate or that the value of property securing any of the Company's mortgage loans or any property acquired by the Company will not depreciate.

VOLATILITY OF INCOME AND RETURNS. The possibility that the health care facilities will not generate income sufficient to meet operating expenses, will generate income and capital appreciation, if any, at rates lower than those anticipated or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in health care related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply of and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as earthquakes and floods) or similar factors.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS. Real estate investments are relatively illiquid and, therefore, tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. All of the Company's properties are "special purpose" properties that could not be readily converted to general residential, retail or office use. Transfers of operations of nursing homes and other health care-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of the Company's properties becomes unprofitable due to competition, age of improvements or other factors such that the borrower or lessee becomes unable to meet its obligations on the debt or lease, the liquidation value of the property may be substantially less -- relative to the amount owing on the mortgage loan -- than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds could be delayed by the approval process of any state agency necessary for the transfer of the property. In addition, certain significant expenditures associated with real estate investment (such as real estate taxes and

maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, the Company's income and funds available for distribution would be adversely affected.

UNINSURED LOSS. The Company currently requires, and it is the intention of the Company to continue to require, all borrowers and lessees to secure adequate comprehensive property and liability insurance that covers the Company as well as the borrower and/or lessee. Certain risks may, however, be uninsurable or not economically insurable and there can be no assurance the Company or a lessee will have adequate funds to cover all contingencies itself. Should such an uninsured loss occur, the Company could lose its invested capital.

DEPENDENCE ON LEASE INCOME AND MORTGAGE PAYMENTS FROM REAL PROPERTY.

Since a substantial portion of the Company's income is derived from mortgage payments and lease income from real property, the Company's income would be adversely affected if a significant number of the Company's borrowers were unable to meet their obligations to the Company or if the Company were unable to lease its properties or make mortgage loans on economically favorable terms. There can be no assurance that any lessee will exercise its option to renew its lease upon the expiration of the initial term or that if such failure to renew were to occur, the Company could lease the property to others on favorable terms.

ITEM 2. PROPERTIES

INVESTMENT PORTFOLIO

As of December 31, 1997, the Company's real estate investment portfolio consisted of investments in 274 skilled nursing facilities with 31,462 beds and 77 assisted living facilities with 3,281 units in 34 states. The Company had approximately $318,870,000 (before accumulated depreciation of $20,042,000) invested in long-term care facilities owned by the Company and leased to operators, approximately $255,094,000 invested in mortgage loans (before allowance for doubtful accounts of $1,000,000), and approximately $87,811,000, at estimated fair value, ($81,365,000 at amortized cost) invested in REMIC Certificates.

Skilled nursing facilities provide restorative, rehabilitative and nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals. Many skilled nursing facilities provide ancillary services that include occupational, speech, physical, respiratory and IV therapies, as well as provide sub-acute care services. Such services are paid either by the patient or the patient's family, or through the federal Medicare or state Medicaid programs. Assisted living facilities serve elderly persons who require assistance with activities of daily living, but do not require the constant supervision skilled nursing facilities provide. Services are generally available 24-hours a day and include personal supervision and assistance with eating, bathing, grooming and administering medication. The facilities provide a combination of housing, supportive services, personalized assistance and health care designed to respond to individual needs.

OWNED PROPERTIES. At December 31, 1997, the Company owned and leased to health care operators 57 skilled nursing facilities with a total of 7,228 beds and 57 assisted living facilities with a total of 2,205 units in 22 states, representing a net investment of approximately $298,828,000. These long-term care facilities are leased pursuant to non-cancelable leases generally with an initial term of ten to twelve years. Many of the leases contain renewal options and some contain options that permit the operators to purchase the facilities.

The following table sets forth certain information regarding the Company's owned properties as of December 31, 1997:

<TABLE>
<CAPTION>

Location	No. of SNFs	No. of ALFs	No. of Beds /Units	Encumbrances	Avg Remaining Lease Term (in Months)	Purchase Price	Current Annual Rent Payments
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Alabama	8	1	912	$14,506,000	83	$29,288,000	$3,357,000
Arizona	4	2	873	21,736,000	84	29,960,000	3,650,000
California	4		535		75	9,547,000	1,057,000
Colorado		3	142		132	8,285,000	792,000
Florida	9		1,116		90	39,064,000	4,142,000
Georgia	1		100		125	2,500,000	255,000
Idaho		4	148		138	9,756,000	957,000
Illinois	1		148		84	6,627,000	747,000
Indiana		2	78		150	5,070,000	486,000
Iowa	6		448	10,496,000	24	9,402,000	1,095,000
Kansas	3	4	290	5,551,000	87	8,400,000	956,000
Montana	1		278	4,285,000	60	3,830,000	420,000
Nebraska		4	156		138	9,332,000	955,000
New Jersey		1	39		144	2,925,000	291,000
New Mexico	2		236		60	6,899,000	786,000
Ohio		6	233		142	15,116,000	1,472,000
Oklahoma		6	221		116	11,203,000	1,100,000
Oregon	1	3	212		115	9,318,000	969,000
Tennessee	2		224		125	5,550,000	566,000
Texas	10	13	2,104	3,150,000	93	60,826,000	6,578,000
Virginia	3		443		93	11,013,000	1,242,000
Washington	2	8	497	10,677,000	182	24,959,000	2,484,000

TOTAL	57	57	9,433	$70,401,000(1)		$318,870,000(2)	$34,357,000

</TABLE>

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1. The amounts comprising the $70,401,000 of encumbrances include: i) $56,785,000 of non-recourse mortgages payable by the Company secured by 23 skilled nursing facilities containing a total of 2,808 beds, ii) $8,065,000 of tax-exempt bonds secured by 5 assisted living facilities in Washington with 184 units, and iii) $5,551,000 of capital lease obligations on 4 assisted living facilities in Kansas with 134 units.

2. Of the total purchase price, $191,897,000 relates to investments in 57 SNFs with 7,228 beds and $126,973,000 relates to investments in 57 ALFs with 2,205 units.

The leases provide for a fixed minimum base rent during the initial and renewal periods. Most of the leases provide for annual fixed rent increases or increases based on consumer price indices over the term of the lease. In addition, certain of the Company's leases provide for additional rent through revenue participation (as defined in the lease agreement) in incremental revenues generated by the facilities, over a defined base period, effective at various times during the term of the lease. Each lease is a triple net lease which requires the lessee to pay additional charges including all taxes, insurance, assessments, maintenance and repair (capital and non-capital expenditures), and other costs necessary in the operation of the facility.

MORTGAGE LOANS. At December 31, 1997, the Company had 103 mortgage loans secured by first mortgages on 101 skilled nursing facilities with a total of 11,766 beds and 20 assisted living residences with 1,076 units located in 25 states. The mortgage loans have current interest rates ranging from 9.00% to 14.32% generally have 25-year amortization schedules, have balloon payments due from 1998 to 2018 and provide for certain facility fees. Almost all of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 12.5 basis points.

The following table sets forth certain information regarding the Company's mortgage loans as of December 31, 1997:

<TABLE>
<CAPTION>

Location	No. of SNFs	No. of ALFs /Units	No. of Beds /Units	Interest Rate %	Average Number of Months to Maturity	Face Amount of Mortgage Loans	Current Amount of Mortgage Loans	Current Annual Debt Service (1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Alabama	1		142	11.28%	88	$ 4,100,000	$ 4,029,000	$ 461,000
Arizona	2	1	479	10.71-11.80%	75	10,650,000	10,527,000	1,169,000
Arkansas	2		274	10.13-10.33%	159	3,400,000	3,303,000	340,000
California	14		1,732	9.05-13.30%	140	28,621,000	28,195,000	2,867,000
Colorado	6	2	695	10.13-12.22%	107	16,585,000	14,379,000	1,587,000
Florida	10	6	1,687	9.28-11.95%	111	54,882,000	48,463,000	5,234,000
Georgia	5	2	697	9.88-11.28%	105	17,900,000	17,767,000	1,951,000
Illinois	2		322	9.86-11.20%	94	6,200,000	6,162,000	626,000
Iowa	6		650	11.05-11.85%	151	12,100,000	11,993,000	1,363,000
Kansas	1		77	12.00%	96	1,200,000	1,186,000	144,000
Louisiana	1		127	11.02%	227	1,600,000	1,581,000	177,000
Mississippi	3		400	10.32%	105	11,250,000	11,197,000	1,172,000
Missouri	2		274	9.35-11.00%	77	4,301,000	4,425,000	468,000
Montana	2		163	11.22%	113	5,600,000	5,579,000	626,000

Nebraska	2	1	236	9.00-14.32%	94	6,100,000	6,032,000	664,000
Nevada	1		100	10.50%	151	1,200,000	1,152,000	121,000
North Carolina	2	5	411	10.00-10.80%	110	15,811,000	7,354,000	774,000
Ohio	1		150	10.29%	99	5,200,000	5,131,000	535,000
Oklahoma	1		161	11.03%	162	1,300,000	1,272,000	140,000
Oregon	2		161	9.86%	102	1,610,000	1,601,000	158,000
South Carolina	5	3	637	10.50-11.90%	114	18,223,000	13,080,000	1,549,000
Tennessee	6		566	9.05-11.38%	140	17,936,000	16,834,000	1,832,000
Texas	19		2,276	9.55-11.70%	160	27,765,000	27,236,000	2,891,000
Washington	4		310	11.25-11.80%	156	4,500,000	4,437,000	511,000
Wisconsin	1		115	11.00%	230	2,200,000	2,179,000	243,000
TOTAL	101	20	12,842			$280,234,000	$255,094,000(2)	$27,603,000

</TABLE>

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(1) Includes principal and interest payments.

(2) Of the total current principal balance, $227,674,000 and $27,420,000 relates to investments in SNFs and ALFs, respectively.

In general, the Company's mortgage loans may not be prepaid except in the event of the sale of the collateral facility to a third party that is not affiliated with the borrower, although partial prepayments (including the prepayment premium) are often permitted where a mortgage loan is secured by more than one facility upon a sale of one or more, but not all, of the collateral facilities to a third party which is not an affiliate of the borrower. The Company's mortgage loans generally impose a premium upon prepayment of the loans depending upon the period in which the prepayment occurs, whether such prepayment was permitted or required, and certain other conditions such as upon the sale of the facility under pre-existing purchase option, destruction or condemnation, or other circumstances as approved by the Company. On certain loans, such prepayment amount is based upon a percentage of the then outstanding balance of the loan, usually declining ratably each year. For other loans, the prepayment premium is based on a yield maintenance formula. In addition to a lien on the mortgaged property, the loans are generally secured by certain non-real estate assets of the facilities and contain certain other security provisions in the form of letters of credit, pledged collateral accounts, security deposits, cross-default and cross-collateralization features and certain guarantees.

REMIC CERTIFICATES. At December 31, 1997, the estimated fair value of the Company's REMIC Certificate investments was $87,811,000 ($81,365,000, at amortized cost). 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 bear the first risk of loss in the event of an impairment to any of the underlying mortgages. Management believes it employs conservative underwriting policies and to date there have been no credit losses on any of the mortgages underlying the Certificates nor are any credit losses currently anticipated. The REMIC Certificates are collateralized by three pools consisting of 81 first mortgage loans secured by 139 skilled nursing facilities with a total of 15,276 beds in 23 states. Each mortgage loan, all of which were originated by the Company, is evidenced by a promissory note and secured by a mortgage, deed of trust, or other similar instrument that creates a first mortgage lien on a fee simple estate in real property (a "Mortgaged Property"). The $266,615,000 current principal amount of mortgage loans represented by the REMIC Certificates have a weighted average interest rate of approximately 11.29%, and scheduled maturities ranging from 1999 to 2015.

The following table sets forth certain information regarding the three pools of mortgage loans securing the REMIC Certificates as of December 31, 1997:

<TABLE>
<CAPTION>

Location	Number of Facilities	Number of Beds	Original Principal Amount of Remaining Mortgage Loans	Current Principal Amount of Remaining Mortgage Loans(1)	Current Annual Debt Service
Alabama	8	1,069	$ 18,426,000	$ 17,951,000	$ 2,138,000
Arizona	5	955	26,018,000	25,470,000	2,623,000
California	15	1,613	25,755,000	23,526,000	2,740,000
Connecticut	4	499	10,656,000	10,394,000	1,218,000
Florida	3	330	13,160,000	12,747,000	1,411,000
Georgia	10	1,078	20,822,000	20,409,000	2,352,000
Illinois	6	679	12,426,000	12,045,000	1,392,000
Iowa	10	750	13,531,000	13,688,000	1,401,000
Kansas	1	66	1,200,000	1,182,000	132,000
Kentucky	1	67	726,000	707,000	85,000
Michigan	3	444	6,800,000	6,628,000	765,000
Mississippi	1	120	2,800,000	2,753,000	314,000
Missouri	5	545	9,489,000	9,240,000	1,109,000
Montana	5	658	14,278,000	13,956,000	1,421,000
Nebraska	4	378	6,614,000	6,440,000	734,000
New Mexico	5	350	9,007,000	8,597,000	968,000
North Carolina	2	256	5,350,000	5,148,000	582,000
Ohio	3	243	7,000,000	6,624,000	705,000
Oklahoma	1	112	1,300,000	1,241,000	146,000
S. Dakota	1	50	585,000	571,000	61,000
Tennessee	4	297	6,952,000	6,832,000	775,000
Texas	38	4,428	58,280,000	55,992,000	6,512,000
Washington	4	289	4,583,000	4,474,000	519,000
TOTAL	139	15,276	$275,758,000	$266,615,000	$30,103,000

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(1) Included in the balances of the mortgages underlying the REMIC Certificates are $56,785,000 of non-recourse mortgages payable by the Company. These mortgages were originated by the Company and were transferred to the REMIC. Subsequently, the properties securing the mortgages were acquired by the Company in unrelated transactions, subject to the related mortgage debt. The properties and the mortgage debt are reflected in the Company's balance sheet.

Such mortgage loans generally have 25-year amortization schedules with balloon payments due from 1999 to 2015, unless prepaid prior thereto. Contractual principal and interest distributions with respect to the $81,365,000 amortized cost basis of REMIC Certificates (excluding unrealized gains on changes in estimated fair value of $6,446,000) retained by the Company are subordinated to distributions of interest and principal

with respect to the $191,815,000 of REMIC Certificates held by third parties. Thus, based on the terms of the underlying mortgages and assuming no unscheduled prepayments occur, contractual principal reductions on the REMIC Certificates retained by the Company will commence in August 2004 with final maturity in April 2015. Distributions on any of the REMIC Certificates will depend, in large part, on the amount and timing of payments, collections, delinquencies and defaults with respect to the mortgage loans represented by the REMIC Certificates, including the exercise of certain purchase options under existing facility leases or the sale of the Mortgaged Properties. Each of the mortgage loans securing the REMIC Certificates contain similar prepayment and certain security provisions with respect to the Company's mortgage loans.

As part of the REMIC transactions discussed above, the Company serves as the sub-servicer and, in such capacity, is responsible for performing substantially all of the servicing duties relating to the mortgage loans represented by the REMIC Certificates. The Company receives monthly fees equal to a fixed percentage of the then outstanding mortgage loans in the REMIC which, in management's opinion, represent currently prevailing terms for similar transactions. Because the fees received for such servicing result in only adequate compensation after considering the costs to service the loans, the Company does not recognize a separate asset for servicing rights. In addition, the Company will act as the special servicer to restructure any mortgage loans in the REMIC that default.

At December 31, 1997, the REMIC Certificates held by the Company have an effective interest rate of approximately 16.7% based on the expected future cash flows with no unscheduled prepayments.

MAJOR OPERATORS

As of December 31, 1997, Retirement Care Associates, Inc. ("RCA"), Integrated Health Services, Inc. ("IHS"), Sun Healthcare Group, Inc. ("Sun") and ALC operated, on a combined basis, 118 facilities representing 39.5% ($309.5 million) 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). At December 31, 1997, RCA, IHS, Sun and ALC operated 40, 16, 26 and 36, facilities, respectively, representing approximately 14.1% ($110.2 million), 7.3% ($57.5 million), 7.2% ($56.5 million) and 10.9% ($85.3 million), respectively, of the Company's adjusted gross portfolio. If the proposed merger between Sun and RCA is completed, the combined entity will own 66 facilities representing 21.3% ($166.7 million) of the Company's adjusted gross portfolio. RCA, IHS, Sun and ALC are publicly traded companies, and other information regarding these operators is on file with the Securities and Exchange Commission. The financial position of the Company and its ability to make distributions may be adversely affected by financial difficulties experienced by any of such operators, or any other major operator of the Company, 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 its borrowers as it expires.

Item 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS

<TABLE>
<CAPTION>

Name	Age	Position
Andre C. Dimitriadis	57	Chairman, Chief Executive Officer and Director
James J. Pieczynski	35	President, Chief Financial Officer, and Director
Pamela J. Privett	40	Senior Vice President and General Counsel
Christopher T. Ishikawa	34	Senior Vice President and Chief Investment Officer

</TABLE>

Mr. Dimitriadis founded the Company in 1992 and was employed by Beverly Enterprises, Inc., an owner/operator of long-term care facilities, retirement living facilities and pharmacies, from October 1989 to May 1992, where he served as Executive Vice President and Chief Financial Officer. Prior to that, he was employed by American Medical International, Inc., an owner/operator of hospitals, from 1985 to 1989, where he served as Executive Vice President - Finance, Chief Financial Officer and Director. Mr. Dimitriadis is a member of the board of Magellan Health Services.

Mr. Pieczynski has served as President and Director since September 8, 1997 and Chief Financial Officer of the Company since May 1994. From May 1994 to September 1997, he also served as Senior Vice President of the Company. He joined the Company in December 1993 as Vice President and Treasurer. Prior to that, he was employed by American Medical International, Inc., an owner/operator of hospitals, from May 1990 to December 1993, where he served as Assistant Controller and Director of Development.

Ms. Privett has held the position of Senior Vice President and General Counsel of the Company since September 8, 1997. Prior to that, Ms. Privett was the sole owner, officer and director of Pamela J. Privett, A Professional Law Corporation, which served as outside General Counsel to the Company beginning in August 1994. Ms. Privett was a shareholder in the Santa Monica, California law firm of Stern, Neubauer, Greenwald & Pauly. Ms. Privett began her legal career in 1985 at the Washington, D.C. office of Casson, Calligaro & Mutryn, a health care law boutique and she remained with the Casson firm until joining Stern, Neubauer, Greenwald & Pauly in 1990.

Mr. Ishikawa has served as Senior Vice President and Chief Investment Officer since September 8, 1997. Prior to that, he served as the Vice President and Treasurer of the Company since April 1995. Prior to joining the Company, he was employed by MetroBank from December 1991 to March 1995, where he served as First Vice President and Controller. From December 1989 to November 1991, he was employed by Mercantile National Bank where he served as Assistant Treasurer.

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

a. The Company's common stock is listed on the New York Stock Exchange. Set forth below are the high and low reported sale prices for the Company's common stock as reported on the New York Stock Exchange.

<TABLE>
<CAPTION>

	PRICE PER SHARE HIGH	LOW
1997		
First Quarter	$18.625	$16.625
Second Quarter	18.25	16.125
Third Quarter	19.3125	18.00
Fourth Quarter	21.50	18.8125
1996		
First Quarter	$17.125	$14.875
Second Quarter	16.625	15.125
Third Quarter	17.250	15.875
Fourth Quarter	18.875	16.250

</TABLE>

(b) As of December 31, 1997, there were approximately 875 stockholders of record of the Company's common stock.

(c) The Company has declared total cash distributions for 1997 and 1996 as set forth below:

<TABLE>
<CAPTION>

	DISTRIBUTIONS DECLARED PER SHARE
1997	
Quarter ended March 31	$ .34
Quarter ended June 30	.365
Quarter ended September 30	.365
Quarter ended December 31	.365
	$1.435
1996	
Quarter ended March 31	$ .315
Quarter ended June 30	.34
Quarter ended September 30	.34
Quarter ended December 31	.34
	$1.335

</TABLE>

The Company intends to distribute to its stockholders a majority of its funds from operations and, in any event, an amount at least sufficient to satisfy the distribution requirements of a REIT. Cash flows from operating activities available for distribution to stockholders will be derived primarily from interest and rental payments from its real estate investments. All distributions will be made by the Company subject to approval of the Board of Directors and will depend on the earnings of the Company, its financial condition and such other factors as the Board of Directors deem relevant. In order to qualify for the beneficial tax treatment accorded to REITs by Sections 856 through 860 of the Code, the Company is required to make distributions to holders of its shares equal to at least 95% of the Company's "REIT taxable income."

ITEM 6. SELECTED FINANCIAL INFORMATION

The following table of selected financial information should be read in conjunction with the Company's financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING INFORMATION:					
Revenues	$ 73,434	$ 54,930	$ 35,569	$ 27,641	$ 15,847
Expenses:					
Interest expense	23,795	20,604	9,407	6,563	6,400
Depreciation and amortization	9,132	6,298	3,072	1,781	799
Amortization of founders' stock	31	114	221	372	481
Provision for loan losses	-	-	-	550	372
Minority interest	1,205	898	57	-	-
Operating and other expenses	4,393	4,479	2,772	3,037	948
Total expenses	38,556	32,393	15,529	12,303	9,000
Other income (loss)	885	6,173	(1,656)	667	-
Income before cumulative effect of change in accounting	35,763	28,710	18,384	16,005	6,847
Cumulative effect of accounting change	-	-		1,205	-
Net income	35,763	28,710	18,384	17,210	6,847
Preferred dividends	(6,075)	-	-	-	-
Net income available to common stockholders	$29,688	$28,710	$18,384	$17,210	$6,847
PER SHARE INFORMATION:					
Basic net income before cumulative effect of accounting change	$ 1.26	$ 1.51	$ 1.02	$ 1.05	$ 0.76
Cumulative effect of change in method of accounting for REMIC Certificates	-	-	-	0.08	

Basic net income	$ 1.26	$ 1.51	$ 1.02	$ 1.13	$ 0.76
Diluted net income	$ 1.25	$ 1.44	$ 1.01	$ 1.11	$ 0.75
Distributions declared (1)	$ 1.435	$ 1.335	$ 1.21	$ 1.10	$ 1.02
BALANCE SHEET INFORMATION:					
Real estate investments, net	$640,733	$488,134	$340,441	$220,025	$147,269
Total assets	656,664	500,538	357,378	241,241	154,303
Total debt	249,724	283,472	174,083	55,835	61,804
Total liabilities	259,378	299,207	185,458	66,148	69,156
Minority interest	11,159	10,528	1,098	-	-
Total stockholders' equity	386,127	190,803	170,822	175,093	85,147
OTHER INFORMATION:					
Cash flows from operating activities	$ 43,230	33,789	24,197	19,242	8,863
Cash flows (used in) investing activities	(150,800)	(90,317)	(111,422)	(73,546)	(52,706)
Cash flows provided by (used in) financing activities	109,396	58,242	74,393	65,465	(2,817)

</TABLE>

(1) Distributions may exceed current or accumulated net income.

In March 1995, NAREIT adopted the following definition of Funds From Operations ("FFO"): net income (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 in the computation of FFO. The Company implemented this new definition of FFO effective as of the NAREIT-suggested adoption date of January 1, 1996. For the year ended December 31, 1997, FFO was $38,735,000 ($1.57 per diluted share) representing net income available to common shareholders of $29,688,000 ($1.44 per diluted share) plus depreciation on real estate investments of $9,104,000 less unrealized gain on its REMIC Certificate investments of $57,000. For the year ended December 31, 1996, FFO was $28,793,000 representing net income of $28,710,000 plus depreciation on real estate investments of $6,256,000, less unrealized gains on its REMIC Certificate investments of $6,173,000.

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, and 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. The term FFO was designed by the REIT industry to provide useful supplemental information. 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, 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING RESULTS

YEAR ENDED DECEMBER 31, 1997 COMPARED TO THE YEAR ENDED DECEMBER 31, 1996

Revenues for the year ended December 31, 1997 increased by $18,504,000 or 34% to $73,434,000 from $54,930,000. The increase in revenues resulted primarily from increased rental income of $10,273,000 and increased mortgage interest income of $8,444,000. Rental income increased $5,932,000 as a result of property acquisitions of $118,564,000 during 1997 and $4,530,000 as a result of a full year's rental revenue from facilities acquired during 1996. Same-store rental income increased $275,000 due to contingent rents and rental increases as provided for in the lease agreements. Partially offsetting the above increases in rental income was a decrease of $464,000 related to the sale of properties. The increase in mortgage interest income resulted from the higher mortgage investment base in 1997 as compared to 1996.

Total expenses for the year ended December 31, 1997, were 53% of total revenues versus 59% for 1996. The decrease is due in large part to a reduction in interest expense as a percentage of total revenues. The reduction in interest expense is the result of the conversion of approximately $44,005,000 of convertible subordinated debentures into common stock, lower interest rates and the utilization of equity to fund financing activities during 1997. Depreciation expense decreased slightly to 30% of rental income in 1997 compared to 31% of rental income in 1996. Minority interest expense increased due to the inclusion of a full years expense for the six partnerships formed during 1996.

During 1997, the estimated fair value of REMIC Certificates increased $57,000 compared to an increase of $6,173,000 in 1996 resulting in a significant decrease in other income. Also decreasing other income were charges of $1,120,000 recognized in connection with the accelerated vesting of 64,000 shares of restricted common stock and a non-cash impairment charge of $1,866,000. Partially offsetting these decreases in other income were gains of $1,015,000 on the sale of the Company's investment in Home and Community Care, Inc. and $2,799,000 on the sale of real estate investments.

During 1997, the Company declared dividends of $5,913,000 on its Series A Cumulative Preferred Stock issued in March 1997 and a partial dividend of $162,000 on its Series B Cumulative Preferred Stock issued in December 1997.

As a result of the changes in revenues and expenses discussed above, net income available to common shareholders increased $978,000 to $29,688,000 in 1997 from $28,710,000 in 1996.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO THE YEAR ENDED DECEMBER 31, 1995

Revenues for the year ended December 31, 1996 increased $19,361,000 or 54% to $54,930,000 from $35,569,000. The increase in revenues resulted from increased rental income of $10,594,000, increased mortgage interest income of $4,382,000 and increased interest income from REMIC Certificates of $3,480,000. Rental income increased $7,375,000 as a result of $113,858,000 of property acquisitions made in 1996 and by $3,011,000 as a result of a full year's effect on rental revenue of facilities acquired during 1995. Rental revenue also increased by $109,000 due to contingent rents received from certain facilities based on increases in the facilities' incremental operating revenues (as defined in the respective leases). Same-store rental income increased $99,000 as a result of additional rents received in 1996 on facilities that are subject to rental increases tied to increases in Consumer Price Indices (CPI). The increase in mortgage interest income resulted from the higher overall mortgage investment base in 1996 as compared to the 1995

investment base. Interest from REMIC Certificates increased as a result of the third securitization transaction that closed in March 1996. The remaining increase in income of $905,000 was primarily due to penalties the Company received in 1996 from prepayments of one mortgage loan and eight loans underlying the REMIC Certificates held by the Company.

Total expenses for the year ended December 31, 1996 were 59% of total revenues versus 44% in 1995. The significant increase was primarily due to financing activities in the latter part of 1995 and 1996 that utilized more debt than equity. During 1996, $60,000,000 in convertible debentures was issued (of which $18,813,000 converted into common stock prior to December 31, 1996) and bank borrowings and mortgage financing increased by $30,930,000 and $37,498,000, respectively. As a result, interest expense increased approximately $11,197,000. Investments funded with these borrowings generally resulted in lower spreads as a result of market interest rate pressures when compared to investments made in prior years. Depreciation and amortization expense remained flat at 31% of rental income. The increase in minority interest expense was primarily the result of the formation six partnerships in 1996. Operating and other expenses increased primarily due to higher salaries and bonuses paid to existing staff during 1996.

During 1996, the Company recognized an unrealized holding gain on the change in estimated fair value of the REMIC Certificates of $6,173,000 compared to a loss on the change in estimated fair value of $1,656,000 during 1995. The increase in estimated fair value resulted from the completion of a third securitization transaction in March 1996. The estimated fair value of the Company's investment in REMIC Certificates was $6,389,000 greater than their unamortized cost basis as of December 31, 1996.

As a result of the foregoing, net income for the year ended December 31, 1996 increased $10,326,000 over the same period a year earlier.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1997, the Company had investments in 274 skilled nursing facilities with a total of 31,462 beds and 77 assisted living residences with a total of 3,281 units in 34 states. The Company's real estate investment portfolio consisted of approximately $318,870,000 (before accumulated depreciation of $20,042,000) invested in long-term care facilities owned by the Company and leased to operators, $255,094,000 (excluding allowance for doubtful accounts of $1,000,000) invested in mortgage loans and $87,811,000 invested in REMIC Certificates at estimated fair value ($81,365,000 at unamortized cost basis).

During 1997, the Company completed net investments totaling approximately $183,851,000. These investments consisted of the purchase of 40 long-term care facilities for approximately $90,874,000 and the origination of mortgage loans of $92,977,000 net of the sale of 12 properties sold back to Assisted Living Concepts for $27,690,000 and the repayment of mortgage loans originated in 1997 of $14,510,000. The Company financed its investments through equity offerings with total net proceeds of $156,665,000, the sale of a portion of its rated subordinated REMIC Certificates for proceeds of $11,811,000, additional borrowings and cash from operations. During 1997, the Company completed several public stock offerings whereby 2,000,000 shares of common stock were issued for net proceeds of $35,065,000 and 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock and 2,000,000 shares of 9.0% Series B Cumulative Preferred Stock were issued for total net proceeds of $121,600,000.

In September 1995, the Company entered into a seven year forward interest rate swap agreement that has been extended and is scheduled to be settled on June 30, 1998. Under this agreement, the Company is credited interest semi-annually at the six month LIBOR and incurs interest semi-annually at a fixed rate of 6.655% on a notional amount of $60,000,000. In August 1997, the Company entered into a Treasury lock agreement that has been extended and is scheduled to be settled by April 30, 1998. Under this agreement,

the Company locked into a rate of 6.484% on the seven year Treasury Note Rate on a notional amount of $65,000,000. Upon settlement of the Treasury lock agreement the Company will either receive or make a payment based on the change in the seven year Treasury Note Rate. The interest rate swap and the Treasury lock agreements are accounted for as hedges and were entered into to minimize the Company's exposure to interest rate risk on mortgage loans that the Company intends to transfer to a REMIC trust. The fair value of mortgage loans may vary with changes in interest rates.

Notional amounts do not represent amounts exchanged with other parties and thus are not a measure of the Company's exposure to loss through its use of these agreements. The amounts exchanged are determined by reference to the notional amounts and the other terms of the agreements.

During 1997, the Company replaced its existing credit facilities with a $170,000,000 Senior Unsecured Revolving Line of Credit (the "Revolving Credit Facility") which expires on October 3, 2000. The Revolving Credit Facility pricing varies between LIBOR plus 1.25% and LIBOR plus 1.5% depending on the Company's leverage ratio. Currently the pricing is LIBOR plus 1.375%. The Revolving Credit Facility contains financial covenants including, but not limited to, maximum leverage ratios, minimum debt service coverage ratios, cash flow coverage ratios and minimum consolidated tangible net worth. As of December 31, 1997, the Company had $87,500,000 in borrowings outstanding under its Revolving Credit Facility.

Subsequent to December 31, 1997, the Company acquired six skilled nursing facilities and three assisted living residences for approximately $31,000,000. Five of the skilled nursing facilities were purchased subject to mortgage loans of approximately $7,000,000. As of March 20, 1998, the Company had outstanding commitments aggregating approximately $242,250,000. Of the outstanding commitments, $50,000,000 expire in 1999 and $50,000,000 expire in 2000.

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 and assisted living facilities owned by or pledged to the Company. The operating results of the facilities will depend on 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 and assisted living facilities, the Company's borrowers and the underlying collateral for mortgage loans and 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 makes loans which have predetermined increases in interest rates and leases which have agreed upon annual increases. Inasmuch as the Company initially funds its investments with its Revolving Credit Facility, the Company is at risk of net interest margin deterioration if medium and long-term rates were to increase between the time the Company originates the investment and the time it securitizes the loans or replaces the short-term variable rate borrowings with a fixed rate financing. To help reduce the negative impact of changes in interest rates, the

Company partially hedges, or locks in, its net interest rate spread on its investments with interest rate swaps, as previously described.

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 bear the first risk of loss in the event of an 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). Management believes it employs conservative underwriting policies and to date there have been no credit losses on any of the mortgages underlying the certificates nor are any credit losses currently anticipated.

Certain of the Certificates retained by the Company have designated certificate principal balances and a stated certificate interest "pass-through" rate. These Certificates are subject to credit risk to the extent that there are estimated or realized credit losses on the underlying mortgages, and as such their effective yield would be negatively impacted by such losses. The Company also retains the interest-only (I/O) Certificates, which provide cash flow (interest-only) payments that result from the difference between the interest collected from the underlying mortgages and interest paid on all the outstanding pass-through rate certificates. In addition to the risk from credit losses, the I/O Certificates are also subject to prepayment risk, in that prepayments of the underlying mortgages reduce future interest payments of which a portion flows to the I/O Certificates, thus, reducing their effective yield. The Certificates' fair values are estimated, in part, based on a spread over the applicable U.S Treasury rate, and consequently, are inversely affected by increases or decreases in such interest rates. There is no active market in these securities from which to readily determine their value. The estimated fair values of both classes of Certificates are subject to change based on the estimate of future prepayments and credit losses, as well as fluctuations in interest rates and market risk. Although the Company is required to report its REMIC Certificate investments at fair value, many of the factors considered in estimating their fair value are difficult to predict and are beyond the control of the Company's management, consequently, changes in the reported fair values may vary widely and may not be indicative of amounts immediately realizable if the Company was forced to liquidate any of the Certificates.

The Company believes that its current cash flow from operations available for distribution or reinvestment, its borrowing capacity, the pending

REMIC transaction and the Company's ability to access the capital markets are sufficient to provide for payment of its operating costs, fund investments and provide funds for distribution to its stockholders. In addition to its borrowing capacity, the Company is considering various other proposals for additional long-term financing to meet the needs of the Company.

YEAR 2000

The Company has evaluated its internal software and hardware and believes the existing systems will function properly with respect to dates in the year 2000 and beyond. The Company is currently assessing the extent to which its operations are vulnerable should its borrowers, tenants or other parties with which the Company conducts business fail to ensure their computer systems are year 2000 compliant. The Company believes the year 2000 issue will not have a material adverse effect upon the Company's financial position or results of operations.

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 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 affecting real estate investment trusts.

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
LTC Properties, Inc.

We have audited the accompanying consolidated balance sheets of LTC Properties, Inc. as of December 31, 1997 and 1996 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedules listed in the index at Item 14(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LTC Properties, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Los Angeles, California
January 20, 1998, except Note 11, as to
which the date is March 20, 1998

LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

<TABLE>
<CAPTION>

	DECEMBER 31, 1997	DECEMBER 31, 1996
<S>	<C>	<C>
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 1997 - $20,042; 1996 - $11,640	$ 282,582	$199,591
Land	16,246	12,347
Mortgage loans receivable held for sale, net of allowance for doubtful accounts: 1997 - $1,000; 1996 - $1,000	254,094	177,262
REMIC Certificates at estimated fair value	87,811	98,934
Real estate investments, net	640,733	488,134
Other Assets:		
Cash and cash equivalents	4,974	3,148
Debt issue costs, net	3,733	4,150
Interest receivable	3,862	2,817
Prepaid expenses and other assets	3,362	2,289
	15,931	12,404
Total assets	$ 656,664	$500,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Convertible subordinated debentures due 1999 - 2004	$ 91,823	$135,828
Bank borrowings	87,500	79,400
Mortgage loans payable	56,785	54,205
Bonds payable and capital lease obligations	13,616	14,039
Accrued interest	4,453	6,015
Accrued expenses and other liabilities	4,429	3,041
Distributions payable	772	6,679
Total liabilities	259,378	299,207
Minority interest	11,159	10,528
Commitments	-	-
Stockholders' equity:		
Preferred stock $0.01 par value; 10,000,000 shares authorized; shares issued and outstanding: 1997 - 5,080,000; 1996 - none	127,000	-
Common stock $0.01 par value; 40,000,000 shares authorized; shares issued and outstanding:		

1997 - 25,025,003; 1996 - 19,484,208	250	195
Capital in excess of par value	277,732	195,297
Cumulative net income	107,677	71,914
Notes receivable from stockholders	(9,429)	-
Cumulative distributions	(117,103)	(76,603)
Total stockholders' equity	386,127	190,803
Total liabilities and stockholders' equity	$ 656,664	$500,538

</TABLE>

See accompanying notes

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Revenues:			
Rental income	$30,802	$20,529	$ 9,935
Interest income from mortgage loans	25,942	17,498	13,116
Interest income from REMIC Certificates	14,189	14,383	10,903
Interest and other income	2,501	2,520	1,615
Total revenues	73,434	54,930	35,569
Expenses:			
Interest expense	23,795	20,604	9,407
Depreciation and amortization	9,132	6,298	3,072
Amortization of Founders' stock	31	114	221
Minority interest	1,205	898	57
Operating and other expenses	4,393	4,479	2,772
Total expenses	38,556	32,393	15,529
Other income /(loss):			
Unrealized holding gain/(loss) on changes in estimated fair value of REMIC Certificates	57	6,173	(1,656)
Other income, net	828	--	--
Total other income, net	885	6,173	(1,656)
Net income	35,763	28,710	18,384
Preferred dividends	6,075	--	--
Net income available to common stockholders	$29,688	$28,710	$18,384
Net Income Per Common Share:			
Basic net income per common share	$1.26	$1.51	$1.02
Diluted net income per common share	$1.25	$1.44	$1.01

</TABLE>

See accompanying notes

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

<TABLE>
<CAPTION>

SHARES						
				CAPITAL IN		NOTES RECEIVABLE
PREFERRED	COMMON	PREFERRED	COMMON	EXCESS OF	CUMULATIVE	FROM

	STOCK	STOCK	STOCK	STOCK	PAR VALUE	NET INCOME	STOCKHOLDERS	CUMULATIVE DISTRIBUTIONS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1994	-	17,658	$ -	$177	$179,235	$ 24,820	$ -	$(29,139)
Amortization of Founders' stock	-	-	-	-	221	-	-	-
Exercise of stock options	-	2	-	-	24	-	-	-
Conversion of debentures	-	1,936	-	19	18,924	-	-	-
Repurchase of common stock	-	(1,299)	-	(13)	(18,076)	-	-	-
Repurchase of warrants	-	-	-	-	(1,875)	-	-	-
Net income	-	-	-	-	-	18,384	-	-
Common stock distributions	-	-	-	-	-	-	-	(21,879)
Balance December 31, 1995		18,297		183	178,453	43,204	-	(51,018)
Amortization of Founders' stock	-	-	-	-	114	-	-	-
Exercise of stock options	-	3	-	-	39	-	-	-
Conversion of debentures	-	1,304	-	13	18,521	-	-	-
Repurchase of common stock	-	(120)	-	(1)	(1,830)	-	-	-
Net income	-	-	-	-	-	28,710	-	-
Common stock distributions	-	-	-	-	-	-	-	(25,585)
Balance December 31, 1996	-	19,484	-	195	195,297	71,914	-	(76,603)
Amortization of Founders' stock	-	-	-	-	31	-	-	-
Issuance of Series A Preferred Stock	3,080	-	77,000		(3,200)	-	-	-
Issuance of Series B Preferred Stock	2,000	-	50,000	-	(2,200)	-	-	-
Issuance of common stock	-	2,000	-	20	35,045	-	-	-
Exercise of stock options	-	718	-	7	8,205	-	(9,862)	-
Payments on stockholder notes receivable	-	-	-	-	-	-	433	-
Vesting of restricted stock grants	-	91	-	1	1,639	-	-	-
Conversion of debentures	-	2,732	-	27	42,915	-	-	-
Net income	-	-	-	-	-	35,763	-	-
Preferred stock dividends	-	-	-	-	-	-	-	(6,075)
Common stock distributions	-	-	-	-	-	-	-	(34,425)
Balance December 31, 1997	5,080	25,025	$127,000	$250	$277,732	$107,677	$(9,429)	$(117,103)

</TABLE>

See accompanying notes

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)

	YEAR ENDED DECEMBER 31, 1997	1996	1995
OPERATING ACTIVITIES:			
Net income	$ 35,763	$ 28,710	$ 18,384
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,163	6,412	3,293
Unrealized holding (gain)/loss on changes in estimated fair value of REMIC Certificates	(57)	(6,173)	1,656
Gain on sale of real estate investments	(2,799)	-	-
Gain on disposition of other assets	(1,015)	-	-
Expense related to vesting of restricted stock	1,120	-	-
Non-cash impairment charge	1,866	-	-
Other non-cash charges	1,832	1,883	1,942
(Increase) in interest receivable	(1,204)	(875)	(741)
(Increase) in prepaid, other assets and allowance	(1,249)	(99)	(285)
Increase (decrease) in accrued interest	(1,562)	2,819	1,224
Increase (decrease) in accrued expenses and other liabilities	1,372	1,112	(1,276)
Net cash provided by operating activities	43,230	33,789	24,197
INVESTING ACTIVITIES:			
Investment in real estate mortgages	(107,487)	(99,440)	(101,908)
Acquisitions of real estate properties, net	(114,891)	(95,285)	(23,403)
Sale of real estate properties, net	29,004	7,589	-
Proceeds from sale of REMIC Certificates, net	11,811	86,674	19,216
Return of investment in unconsolidated affiliate	5,000	-	-
Proceeds from sale of investments, net	1,015	-	-
Principal payments on real estate mortgages	24,977	2,272	2,634
Restricted cash	-	8,300	(8,300)
Other	(229)	(427)	339
Net cash used in investing activities	(150,800)	(90,317)	(111,422)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible debentures	-	60,000	61,500
Proceeds from issuance of common stock, net	35,065	39	-
Proceeds from issuance of preferred stock, net	121,600	-	-
Proceeds from issuance of bonds	-	-	8,300
Debt issue costs	(1,877)	(2,167)	(2,409)
Repurchase of warrants	-	-	(1,875)
Distributions paid	(46,407)	(24,670)	(21,237)
Bank borrowings	445,032	219,000	133,220
Repayment of bank borrowings	(436,932)	(188,070)	(84,750)
Principal payments on mortgage loans, notes payable and capital lease obligations	(5,869)	(3,893)	(37)
Repurchase of common stock	-	(1,831)	(18,089)
Other	(1,216)	(166)	(230)
Net cash provided by financing activities	109,396	58,242	74,393
Increase (decrease) in cash and cash equivalents	1,826	1,714	(12,832)
Cash and cash equivalents, beginning of year	3,148	1,434	14,266
Cash and cash equivalents, end of year	$ 4,974	$ 3,148	$ 1,434
Supplemental disclosure of cash flow information:			
Interest paid	$ 23,985	$ 16,631	$ 7,428

See accompanying notes

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

LTC Properties, Inc. (the "Company") was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. The Company, which is organized as a real estate investment trust ("REIT"), invests in long-term care facilities through mortgage loans, facility lease transactions and other investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION. The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and controlled partnerships. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior periods financial statements to conform to the current year presentation.

USE OF ESTIMATES. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS. Cash equivalents consist of highly liquid investments with a maturity of three months or less and are stated at cost which approximates market.

LAND, BUILDINGS AND IMPROVEMENTS. Land, buildings and improvements are recorded at cost. Effective January 1, 1996, the Company adopted SFAS No. 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF". Accordingly, impairment losses are recorded when events or changes in circumstances indicate the carrying amount of an asset is greater than its fair value. Undiscounted cash flows are used to determine the fair value of an asset. Management assesses the recoverability of the carrying value of its assets on a property by property basis. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets which range from 7 years for equipment to 40 years for buildings.

MORTGAGE LOANS RECEIVABLE. The Company maintains a long-term investment interest in its mortgages either through the direct retention of mortgages or through the retention of REMIC Certificates originated in the Company's securitizations. The Company may, from time-to-time, securitize a portion of its mortgage loan portfolio in transactions accounted for as sales, when a securitization provides the Company with the best available form of raising capital to make additional long-term investments. Historically, the Company has sold its mortgages solely in connection with its REMIC securitizations and does not anticipate selling any of its mortgages other than in the course of completing future securitizations. However, because portions of the Company's mortgage loan portfolio are anticipated to be securitized in the future, the Company is required to account for them under the provisions of SFAS No. 65, "ACCOUNTING FOR CERTAIN MORTGAGE BANKING ACTIVITIES". SFAS No. 65 requires classification of the mortgage loans receivable as held for sale and that they be accounted for at the lower of cost-or-market.

In accordance with SFAS No. 65, mortgages that have not yet been securitized are uncommitted mortgages until they have been accepted for securitization by two independent rating agencies. In determining the estimated market value for uncommitted mortgages, the Company considers estimated prices and yields, which are based in part on a spread over the applicable U.S.

Treasury Note Rate, sought by qualified institutional buyers of the REMIC Certificates originated in the Company's securitizations. As of December 31, 1997, the estimated market value of Company's mortgage loan investments, all which are considered uncommitted mortgages, exceeded their amortized cost. The Company determines the lower of cost or market of its mortgage loans on an aggregate basis. To the extent that the aggregate cost basis exceeds the aggregate market value, a valuation allowance is established with the resulting amount included in the determination of net income. Changes in the valuation allowance are included in current period earnings.

INVESTMENTS IN REMIC CERTIFICATES. REMIC Certificates are accounted for under the fair value provisions of SFAS No. 115. Significant judgment is used in estimating the REMIC Certificates' fair value since no ready market exists. Management considers factors which affect the REMIC Certificates' projected cash flows including, but not limited to, actual and estimated prepayments, projected credit losses, if any, on the underlying mortgages, as well as general economic and regulatory factors affecting the long-term care industry and prevailing market interest rate conditions. Since many of these factors are difficult to predict and are beyond the control of the Company's management, changes in the reported fair values may vary widely and may not be indicative of amounts immediately realizable if the Company were forced to liquidate its investment in REMIC Certificates. Changes in the estimated fair value of REMIC Certificates are recorded as a separate component of earnings.

MORTGAGE SERVICING RIGHTS. SFAS No. 125, "ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES" requires the recognition of a separate asset for the right to service mortgage loans acquired through either the purchase or origination of mortgage loans. SFAS No. 125 requires that costs be allocated to servicing rights and the loans, based on their relative fair values. At December 31, 1997, the Company sub-services 81 mortgage loans that are collateral for previous securitization transactions for which the Company receives fees based on prevailing market rates for such services at the time of each REMIC transaction. The Company does not recognize a separate asset for servicing rights since the fees received for servicing result in only adequate compensation after considering the costs to service the loans and the resulting asset would be immaterial.

The fair value of servicing rights for mortgage loans originated and retained by the Company are estimated based on the servicing fees for the mortgage loans the Company services in its REMIC securitizations. Since the fair value of such rights only sufficiently covers the cost of such servicing, no separate servicing asset is recognized since it would be immaterial. Therefore, the entire cost of originating the mortgage loans is allocated to the mortgages.

INTEREST RATE CONTRACTS. The Company has entered into interest rate contracts to hedge certain firm commitments and certain mortgage loans that the Company intends to transfer to a REMIC trust. Firm commitments subject the Company to interest rate risk to the extent that debt or other fixed rate financing will be used to fund such investments. The Company may elect to hedge such financing thereby reducing its exposure to interest rate risk. Interest rate contracts are designated as hedges of mortgage loans when the significant characteristics and expected terms of a securitization transaction are identified and when it is probable that the securitization transaction will occur. These contracts are entered into in notional amounts that generally correspond to the principal amount of the securitization transaction. The market value of these contracts responds inversely to the market value changes of the underlying mortgage loans; therefore, the Company can effectively lock in its net interest margin on a

securitization transaction at the time of the hedge transaction. Any gains or losses on the qualifying hedges deferred and are recognized upon the completion of the hedged transaction.

REVENUE RECOGNITION. Interest income on mortgage loans and REMIC Certificates is recognized on the accrual basis using the effective interest method. The total amount of the base rent payments from operating leases is accrued as earned over the term of the lease. Contingent rental income, which is generated by a percentage of increased revenue over a specified base period revenue of the long-term care facilities, is recognized as earned.

FEDERAL INCOME TAXES. No provision has been made for federal income taxes. The Company qualifies as a real estate investment trust under Sections 856 through 869 of the Internal Revenue Code of 1986, as amended. As such, the Company may deduct distributions to its stockholders from its taxable income. At December 31, 1997, the reported amount of the Company's net assets and liabilities exceeds the tax bases by approximately $29,000,000.

For Federal Tax purposes, depreciation is taken on the Company's owned properties based on the assets' tax basis (which is materially the same as GAAP book value) calculated, in general, at rate of 3.6%, using the straight-line method over a period of 27.5 years.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income for financial statement purposes due to the treatment required under the Internal Revenue Code of certain interest income and expense items, depreciable lives and basis of assets.

CONCENTRATION OF CREDIT RISKS. The Company's credit risks primarily relate to cash and cash equivalents, the investment in REMIC Certificates, mortgage loans receivable, facility leases and interest rate swaps. The Company's financial instruments, principally investments in REMIC

Certificates and mortgage loans receivable, are subject to the possibility of loss of carrying value as a result of the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instrument less valuable. The Company obtains various collateral and other protective rights, and continually monitors these rights, in order to reduce such possibilities of loss. In addition, the Company provides reserves for potential losses based upon management's periodic review of its portfolio.

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 bear the first risk of loss in the event of an 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). Additionally, management believes it employs conservative underwriting policies and to date there have been no credit losses on any of the mortgages underlying the certificates nor are any credit losses currently anticipated.

Certain of the REMIC Certificates retained by the Company have designated certificate principal balances and a stated certificate interest "pass-through" rate. These REMIC Certificates are subject to credit risk to the extent that there are estimated or realized credit losses on the underlying mortgages, and as such their effective yield would be negatively impacted by such losses. The Company also retains the interest-only certificates ("I/O Certificates"), which provide cash flow payments that result from the difference between the interest collected from the underlying mortgages and interest paid on the outstanding pass-through rate certificates. In addition to the risk from credit losses, the I/O Certificates are also subject to prepayment risk, in that prepayments of the underlying mortgages reduce future interest payments of which a portion flows to the I/O Certificates, thus, reducing their effective yield. The I/O Certificates' fair values are estimated, in part, based on a spread over the applicable U.S Treasury rate, and consequently, are inversely affected by increases or decreases in such interest rates. There is no active market in these securities from which to readily determine their value. The estimated fair values of both classes of Certificates are subject to change based on the estimate of future prepayments and credit losses, as well as fluctuations in interest rates and market risk.

As of December 31, 1997, Retirement Care Associates, Inc. ("RCA"), Integrated Health Services, Inc. ("IHS"), Sun Healthcare Group, Inc. ("Sun") and Assisted Living Concepts, Inc. ("ALC") operated, on a combined basis, 118 facilities representing 39.5% ($309.5 million) 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). At December 31, 1997, RCA, IHS, Sun and ALC operated 40, 16, 26 and 36, facilities, respectively, representing approximately 14.1% ($110.2 million), 7.3% ($57.5 million), 7.2% ($56.5 million) and 10.9% ($85.3 million), respectively, of the Company's adjusted gross portfolio. If the proposed merger between Sun and RCA is completed, the combined entity will own 66 facilities representing 21.3% ($166.7 million) of the Company's adjusted gross portfolio. The financial position of the Company and its ability to make distributions may be adversely affected by financial difficulties experienced by any of such operators, or any other major operator of the Company, 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 its borrowers as it expires.

NET INCOME PER SHARE. Effective December 31, 1997, the Company adopted SFAS No. 128, "EARNINGS PER SHARE" which replaced primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share is calculated on the weighted average shares of common stock outstanding during the period excluding common stock equivalents. Diluted earnings per share includes the effect of all dilutive common stock equivalents. Earnings per share amounts for all periods presented have been restated in conformity with the requirements of SFAS No. 128.

SECURITIZATION TRANSACTIONS. SFAS No. 125 provides specific criteria for determining whether a transfer of assets is a sale or a secured borrowing. To qualify as a sale, the following conditions must be met: 1) the transferred assets must be isolated from the transferor, 2) the transferee obtains the right free of any conditional constraints to pledge or exchange the assets, or the transferee is a qualifying special purpose entity of which the holders of the beneficial interests have the right free of any conditional constraints to pledge or exchange those interests, and 3) the transferor does not maintain effective control over the transferred assets. Management believes the structure of its securitization transactions meets the sales accounting standards established by SFAS No. 125. To the extent that recent or future interpretations of SFAS No. 125 would require modification to the structure of the

securitization transactions, the Company would make the necessary modifications to allow future securitizations to be accounted for as sales.

Transfers of mortgage loans to a Real Estate Mortgage Investment Conduit ("REMIC"), a qualifying special-purpose entity, are accounted for in accordance with SFAS No. 125. Accordingly, the transfer of loans to the REMIC is accounted for as a sale and any gain or loss is recorded in earnings. The gain or loss is equal to the excess or deficiency of the cash proceeds and fair market value of any subordinated certificates received when compared with the carrying value of the mortgages sold, net of any transaction costs incurred and any gains or losses associated with the underlying hedge. Subordinated certificates received by the Company are recorded at their fair value at the date of the transaction. The Company has no controlling interest in the REMIC since the majority of the beneficial ownership interests (in the form of REMIC Certificates) are sold to third-party investors. Consequently, the financial statements of the REMIC Trust are not consolidated with those of the Company for financial reporting purposes.

STOCK-BASED COMPENSATION. The Company has elected to adopt the disclosure requirements of SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION" but will continue to account for stock-based compensation using the intrinsic value method prescribed by APB Opinion No. 25.

NEW ACCOUNTING PRONOUNCEMENTS. During 1997, the Financial Accounting Standards Board issued SFAS No. 130, "REPORTING COMPREHENSIVE INCOME" and SFAS No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION" which are effective for fiscal years beginning after December 15, 1997. Adoption of SFAS No. 130 and SFAS No. 131 would not have a material impact on the Company's financial statements or related disclosures.

3. SUPPLEMENTAL CASH FLOW INFORMATION

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>	1995 <C>
Non-cash investing and financing transactions:			
Securitization of mortgage loans for REMIC Certificates	$ -	$80,962	$ -
Issuance of mortgage loans payable for REMIC Certificates	-	31,525	-
Conversion of debentures into common stock	44,005	18,813	19,357
Assumption of mortgage loans payable relating to acquisitions of real estate properties	3,026	9,641	13,407
Assumption of capital lease obligations	-	-	5,965
Note payable for investment in unconsolidated affiliate	5,000	-	-
Notes receivable related to exercise of stock options	9,862	-	-
Conversion of mortgage loans into owned properties	9,348	-	-
Minority interest	647	8,932	1,041

</TABLE>

4. REAL ESTATE INVESTMENTS

As of December 31, 1997, the Company had investments in 351 properties located in 34 states. The properties include 274 skilled nursing facilities with a total of 31,462 beds and 77 assisted living residences with a total of 3,281 units.

In 1997, the Company's Board of Directors authorized an increase in the Company's investment in assisted living residences from 20% to 30% of its adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the $87,811,000 investment in

REMIC Certificates). In addition, the Board of Directors also authorized an increase in the Company's investment in properties operated by ALC to 20% of its adjusted gross real estate investment portfolio. At December 31, 1997, the Company had investments in assisted living residences and in properties operated by ALC of approximately $154,393,000 and $85,292,000, respectively or 19.7% and 10.9%, respectively, of the Company's adjusted gross real estate investment portfolio.

OWNED PROPERTIES AND LEASE COMMITMENTS. During 1997, the Company acquired nine skilled nursing facilities with a total of 823 beds and 42 assisted living residences with a total of 1,619 units for $112,748,000. The Company also invested approximately $2,143,000 in the expansion of existing facilities.

In November 1997, the Company agreed to enter into saleleaseback transactions with Assisted Living Concepts, inc. ("ALC") on 11 assisted living residences totaling $29,864,000. These transactions will be completed by the third quarter of 1998. In connection with the above agreement, the company sold 12 properties back to ALC for $27,690,000 and terminated a commitment of $13,070,000 that was scheduled to expire on December 31, 1997.

During 1997, the Company evaluated three skilled nursing facilities located in Kansas for impairment and as a result recorded a non-cash impairment charge of $1,866,000. Impairment of these facilities is due to adverse changes in local market conditions resulting in current operating losses, anticipated future losses and inadequate cash flows. The impairment charge was determined based on undiscounted future cash flows of each facility and is included as a component of other income, net in the accompanying income statement. The Company leases its owned long-term facilities under operating leases generally with an initial term of ten to twelve years. Many of the leases contain renewal options and some contain options that permit the operators to purchase the facilities. The leases provide for a fixed minimum base rent during the initial and renewal periods. Most of the leases provide for annual fixed rent increases or increases based on increases in consumer price indices over the term of the lease. Certain of the Company's leases provide for additional rent through participation in incremental revenues generated by the facilities, over a defined base period, effective at various times during the term of the lease. Each lease is a triple net lease which requires the lessee to provide for the payment of all taxes, insurance, maintenance and other costs of the facilities by the lessee. Contingent rent income for the years ended December 31, 1997, 1996 and 1995 was immaterial.

Depreciation expense on buildings and improvements, including facilities owned under capital leases, was $9,041,000, $6,214,000 and $2,996,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

Future minimum base rents receivable under the remaining non-cancelable terms of operating leases are: $34,305,000, $34,759,000, $33,762,000, $32,905,000, $33,274,000 and $142,256,000 for the years ending December 31, 1998, 1999, 2000, 2001 and 2002 and thereafter.

MORTGAGE LOANS. During 1997, the Company invested $107,487,000 in mortgage loans. Approximately $98,135,000 of these loans is permanent mortgage financing and is secured by, among other things, first mortgages on 33 skilled nursing facilities located in 11 states with a total of 3,642 beds and nine assisted living residences located in three states with a total of 396 units. The loans contain

certain guarantees and individually range from $1,000,000 to $10,000,000 in principal amount, have initial interest rates ranging from 9.0% to 11.57%, have stated maturities of 10 to 20 years, generally have 25-year amortization schedules, and provide for certain facility fees. Most of the loans provide for an annual increase in the interest rate of 10 to 12.5 basis points. Of the total loans originated during 1997, loans totaling $14,510,000 and bearing interest at 10.14% were repaid during 1997. In addition, prepayments of approximately $8,888,000 on four loans originated prior to 1997 with original scheduled maturities ranging from 2000 to 2007 and scheduled principal payments totaling $1,579,000 were received. During 1997, the Company provided net funding of approximately $9,352,000 for construction of assisted living residences.

At December 31, 1997, the Company had 89 permanent financing and 14 construction funding mortgage loans receivable secured by first mortgages on 101 skilled nursing facilities with 11,766 beds and 20 assisted living residences with 1,076 units. The mortgage loans, which have a carrying amount of approximately $254,094,000 at December 31, 1997, are reflected in the Company's financial statements net of $1,000,000 of loan loss reserves. The mortgage loans individually range from $286,000 to $11,203,000 in principal amount and have a current weighted average interest rate of 10.8%. The scheduled principal payments on mortgage loans are $4,000,000, $6,222,000, $5,303,000, $8,714,000, $3,789,000 and $227,066,000 in 1998, 1999, 2000, 2001, 2002 and thereafter.

At December 31, 1997 and 1996, the fair value of mortgage loans approximated $268,000,000 and $189,483,000, respectively.

REMIC CERTIFICATES. REMIC STRUCTURE. The Company has organized itself as a REIT and, as such, makes its investments with the intent to hold them for long-term purposes. However, mortgage loans may be transferred to a REMIC (securitization) when a securitization provides the Company with the best available form of raising capital for additional long-term investments. When contemplating a securitization, consideration is given to the Company's current and expected future interest rate posture and liquidity and leverage position, as well as overall economic and financial market trends. As of December 31, 1997 the Company had completed three securitization transactions.

A securitization is completed in a two-step process. First, a wholly owned special-purpose bankruptcy remote corporation (the "REMIC Corp.") is formed. Mortgage loans selected for securitization are transferred by the Company to the REMIC Corp. without recourse. Second, the REMIC Corp. then transfers the loans to a trust (the "REMIC Trust") in exchange for commercial mortgage pass-through certificates (the "REMIC Certificates") which represent beneficial ownership interests in the REMIC Trust assets (the underlying mortgage loans). The REMIC Certificates include various levels of senior, subordinated, interest only and residual classes. The subordinated REMIC Certificates generally provide a level of credit enhancement to the senior REMIC Certificates. The senior and residual REMIC Certificates (which historically have represented between 66% and 81% of the total REMIC Certificates for the three securitization transactions) are then sold to outside third-party investors through a private placement under Rule 144A of the Securities Act of 1933, as amended. The subordinated REMIC Certificates along with the cash proceeds from the sale of the senior REMIC Certificates are retained by the REMIC Corp. as consideration for the initial transfer of the mortgage loans to the REMIC Trust. Neither the Company nor the REMIC Corp. is obligated to purchase any of the REMIC Trust assets or assume any liabilities.

DESCRIPTION OF THE REMIC CERTIFICATES. The REMIC Certificates issued represent beneficial ownership interests in the REMIC Trust and can be grouped into four categories; senior, subordinated, subordinated interest-only ("I/O"), and residuals. The REMIC Certificates sold to third-party investors are referred to herein as the "Senior Certificates" while the REMIC Certificates retained by the Company as part of the sale proceeds are referred to as the "Subordinated Certificates." Both classes of these Certificates have stated principal balances and stated interest rates ("pass-through rates"). In addition, the I/O REMIC Certificates have no stated principal but are entitled to interest distributions. Interest distributions on the I/O REMIC Certificates are typically based on the spread between the monthly interest received by the REMIC Trust on the underlying mortgage collateral and the monthly pass-through interest paid by the REMIC Trust the outstanding REMIC Certificates. After payment of the pass-through interest on the outstanding REMIC Certificates and interest distributions on the I/O Certificates, the REMIC Trust distributes the balance of the payments received on the underlying mortgages as a distribution of principal. Interest and principal distributions are made in order of REMIC Certificate seniority. As such, to the extent there are defaults or unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the Subordinated Certificates held by the Company would bear the first risk of loss. As of December 31, 1997 none of the three REMIC pools had experienced any realized losses nor had any of the Company's REMIC Certificate investments been determined to be permanently impaired.

REMIC TRANSACTIONS. During 1996, the Company securitized approximately $112,487,000 of mortgage loans (the "1996-1 Pool"). As part of the securitization, the Company sold approximately $90,552,000 of Senior Certificates at an effective interest rate of 7.19% and retained $21,935,000 face amount of Subordinated Certificates (including I/O Certificates). The net proceeds from the securitization were used to repay borrowings outstanding under the Company's lines of credit. The 1996-1 Pool consisted of 34 mortgage loans with an initial weighted average interest rate of 10.69%, including loans totaling $31,525,000 provided to wholly owned subsidiaries and limited partnerships of the Company. Concurrently with the closing of the securitization, an interest rate swap agreement entered into in May 1995 was terminated at a cost of approximately $1,500,000 and was included as a component of the transaction cost in the determination of the fair value of the assets received.

During 1993 and 1994, the Company completed securitizations of approximately $242,340,000 of mortgage loans (the "1993-1 Pool" and the "1994-1 Pool", respectively). As part of these securitizations, the Company sold approximately $158,664,000 of Senior Certificates and retained approximately $83,676,000 face amount of Subordinated Certificates.

REMIC CERTIFICATES. In June 1997, the Company sold $11,811,000 face amount of Subordinated Certificates from the 1996-1 Pool and recognized a gain of $1,231,000. The gain is recorded in other income, net in the accompanying income statement. As of December 31, 1997 the outstanding principal balance and the weighted average pass-through rate for the Senior Certificates (held by third parties) in the 1993-1 Pool, the 1994-1 Pool and the 1996-1 Pool was $52,829,000 and 7.6%, $42,864,000 and 9.2%, and $96,048,000 and 7.4%, respectively and the estimated fair value of the Subordinated Certificates held by the Company was $25,994,000, $38,242,000 and $23,575,000, respectively. As of December 31, 1996 the outstanding principal balance and the weighted average pass-through rate for the Senior Certificates (held by third parties) in the 1993-1 Pool, the 1994-1 Pool and the 1996-1 Pool was $59,223,000 and 7.5%, $47,649,000 and 9.2%, and $85,338,000 and 7.2%, respectively and the estimated fair value of the Subordinated Certificates held by the Company was $29,461,000, $37,236,000 and $32,237,000, respectively.

At December 31, 1997 and 1996, the aggregate unamortized cost basis of the Subordinated Certificates was $81,365,000 and $92,545,000, respectively. The effective yield on the Subordinated Certificates, based on expected future cash flows with no unscheduled prepayments, was 16.7% and 15.8% at December 31, 1997 and 1996, respectively.

Income on the Subordinated Certificates for the 1993-1 Pool, the 1994-1 Pool and the 1996-1 Pool was $4,992,000, $4,650,000 and 4,547,000 in 1997, $5,603,000, $5,118,000 and $3,662,000 in 1996 and $5,628,000, $5,275,000 and $0 in 1995.

As part of the REMIC transactions, the Company serves as the sub-servicer and, in such capacity, is responsible for performing substantially all of the servicing duties relating to the mortgage loans underlying the REMIC Certificates. The Company receives monthly fees equal to a fixed percentage of the then outstanding mortgage loans that, in management's opinion, represent currently prevailing terms for similar transactions. In addition, the Company will act as the special servicer to restructure any mortgage loans underlying the REMIC Certificates that are in default. At December 31, 1997, all of the payments currently due on the REMIC Certificates were received.

5. DISPOSITIONS OF OTHER ASSETS

During 1997, the Company acquired non-voting common stock of Home and Community Care, Inc. ("HCI"), an owner, operator and developer of assisted living residences, for $5,000,000. Subsequently, the Company received a distribution of $5,000,000 representing a return of investment. Following payment of the distribution, ALC acquired all of the outstanding common stock of HCI for which the Company received gross proceeds of $2,000,000. As a result of the acquisition, certain benefits were accelerated for certain officers who ended their employment with the Company to become employees of ALC. A net gain of $1,015,000 was recorded on the sale of the investment in HCI and is included in other income, net in the accompanying income statement. The Company may receive additional future payments of approximately $3,000 per unit for up to 543 units under development by HCI at the date of the acquisition.

6. DEBT OBLIGATIONS

BANK BORROWINGS. At December 31, 1996, the Company had $38,000,000 outstanding under a repurchase agreement (the "Repurchase Agreement") secured by mortgage loans whereby it could borrow up to $84,000,000 at LIBOR plus 2% and $41,400,000 outstanding under a $45,000,000 unsecured revolving credit agreement (the "Credit Agreement") bearing interest at 7.2%.

In August 1997, the Company obtained a 90-day $10,000,000 bank loan at LIBOR plus 3%. In September 1997, the Company obtained an additional 45-day $10,000,000 bank loan at LIBOR plus 3%. In October, 1997, all amounts outstanding under the 90-day bank loan, the 45-day bank loan, the Repurchase Agreement and the Credit Agreement were refinanced with a $170,000,000 Senior Unsecured Revolving Line of Credit (the "Revolving Credit Facility") which expires on October 3, 2000. The Revolving Credit Facility pricing varies between LIBOR plus 1.25% and LIBOR plus 1.5% depending on the Company's leverage ratio. As of December 31, 1997, borrowings of $87,500,000 bearing interest at LIBOR plus 1.375% were outstanding under the Revolving Credit Facility. The Revolving Credit Facility contains financial covenants including, but not limited to, maximum leverage ratios, minimum debt service coverage ratios, cash flow coverage ratios and minimum consolidated tangible net worth.

CONVERTIBLE SUBORDINATED DEBENTURES.

<TABLE>
<CAPTION>

Interest Rate	Maturity	Conversion Price per share	December 31, 1997	December 31, 1996
9.75%	June 2004	$10.00	$ 549,000	$ 843,000
8.50%	January 2000	$15.00	19,476,000	22,023,000
8.50%	January 2001	$15.50	30,048,000	45,157,000
8.25%	January 1999	$15.50	10,000,000	10,000,000
7.75%	January 2002	$16.50	9,765,000	27,840,000
8.25%	July 2001	$17.25	21,985,000	29,965,000
			$ 91,823,000	$135,828,000

</TABLE>

During 1996, the Company issued $30,000,000 principal amount of 7.75% convertible debentures due January 2002 and $30,000,000 principal amount of 8.25% convertible debentures due 2001. During 1997, $294,000, $2,547,000, $15,109,000, $18,075,000 and $7,980,000 of 9.75% debentures due 2004, 8.5% debentures due 2000, 8.5% debentures due 2001, 7.75% debentures due 2002 and 8.25% debentures due 2001 converted into 29,400, 169,786, 974,765, 1,095,447 and 462,598 shares of common stock, respectively. During 1996, $2,298,000, $7,977,000, $6,343,000, $2,160,000 and $35,000 of 9.75% debentures due 2004, 8.5% debentures due 2000, 8.5% debentures due 2001, 7.75% debentures due 2002 and 8.25% debentures due 2001 converted into 229,800, 531,794, 409,224, 130,908 and 2,028 shares of common stock, respectively.

The 9.75% debentures due 2004 are redeemable by the Company at any time at 100% of the principal plus accrued interest. The 8.5% debentures due 2000 are redeemable by the Company as of January 1, 1998. The 8.5% debentures due 2001, the 8.25% debentures due 1999 and the 8.25% debentures due 2001 are not redeemable by the Company. The 7.75% debentures are not redeemable by the Company prior to January 1, 2001.

Based on the quoted market price of the Company's common stock and the conversion price of the convertible debentures, the fair value of the debentures approximated $120,419,000 and $159,365,000 at December 31, 1997 and 1996, respectively.

MORTGAGE LOANS PAYABLE. In 1996, the Company provided non-recourse mortgage loans to three of its wholly owned subsidiaries and to certain newly formed limited partnerships in which the Company is a general partner totaling $31,525,000. During 1996, in connection with the acquisition of 16 skilled nursing facilities, the Company assumed mortgage loans of approximately $9,641,000. Also during 1996, the Company paid off one of its outstanding mortgage loans totaling $3,331,000. In 1997, the Company acquired a skilled nursing facility and in connection therewith, assumed a mortgage loan of $3,026,000.

As of December 31, 1997 and 1996, the Company had mortgage loans of

$18,826,000 and $35,261,000 payable to the 1993-1 Pool, $3,021,000 and $0 payable to the 1994-1 Pool and $34,938,000 and $18,944,000 payable to the 1996-1 Pool, respectively. Weighted average interest rates for mortgages payable to the 1993-1 Pool, the 1994-1 Pool and the 1996-1 Pool were 12.0%, 11.3% and 9.5%, respectively. Scheduled maturities range from 2002 to 2006.

BONDS PAYABLE AND CAPITAL LEASES. At December 31, 1997 and 1996, the Company had outstanding principal of $8,065,000 and $8,300,000, respectively, on multifamily tax-exempt revenue bonds. These bonds bear interest at a variable rate that is reset weekly and mature during 2015. For the year ended December 31, 1997, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 5.51%.

As of December 31, 1997 and 1996, the Company had outstanding principal of $5,551,000 and $5,739,000, respectively, under capital lease obligations. The capital leases are secured by four assisted living residences, have a weighted average interest rate of 7.64% and mature at various dates through 2013.

SCHEDULED PRINCIPAL PAYMENTS. Aggregate scheduled principal payments for the mortgage loans payable, bonds payable and capital lease obligations as of December 31, 1997 were $976,000, $1,057,000, $1,155,000, $1,259,000, $5,659,000 and $60,295,000 in 1998, 1999, 2000, 2001, 2002 and thereafter.

7. COMMITMENTS

INTEREST RATE CONTRACTS. In 1996, the Company provided a $50,180,000 commitment to purchase assisted living residences. In connection therewith, the Company entered into a one-year forward ten-year interest rate swap agreement. Under this agreement, the Company was credited interest at three month LIBOR and incurred interest at a fixed rate of 6.835% on a $40,000,000 notional amount. In 1997, the Agreement was terminated concurrently with the completion of an equity offering and the Company recognized interest income of approximately $440,000.

In September 1995, the Company entered into a seven year forward interest rate swap agreement that has been extended and is scheduled to be settled on June 30, 1998. Under this agreement, the Company is credited interest semi-annually at the six month LIBOR and incurs interest at a fixed rate of 6.655% on a notional amount of $60,000,000. In August 1997, the Company entered into a Treasury lock agreement that has been extended and is scheduled to be settled by April 30, 1998. Under this agreement, the Company locked into a rate of 6.484% on the seven year Treasury Note Rate on a notional amount of $65,000,000. Upon settlement of the Treasury lock agreement the Company will either receive or make a payment based on the change in the seven year Treasury Note Rate. The interest rate swap and the Treasury lock agreements are accounted for as hedges and were entered into to minimize the Company's exposure to interest rate risk on mortgage loans that the Company intends to transfer to a REMIC trust. The fair value of mortgage loans may vary with changes in interest rates.

Notional amounts do not represent amounts exchanged with other parties and, thus are not a measure of the Company's exposure to loss through its use of these agreements. The amounts exchanged are determined by reference to the notional amounts and the other terms of the agreements.

8. STOCKHOLDERS' EQUITY

ISSUANCE OF STOCK. During 1997, the Company completed public offerings for 2,000,000 shares of common stock resulting in aggregate net proceeds of $35,065,000. In addition, the Company issued 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock ("Series A Preferred Stock") and 2,000,000 shares of 9.0% Series B Cumulative Preferred Stock ("Series B Preferred Stock") for net proceeds of $121,600,000. Dividends on the Series A Preferred Stock and Series B Preferred Stock

are cumulative from the date of original issue and are payable monthly to stockholders of record on the first day of each month. Dividends on the Series A Preferred Stock and the Series B Preferred Stock accrue at 9.5% and

9.0% per annum, respectively, on the $25 liquidation preference per share (equivalent to a fixed annual amount of $2.375 and $2.25 per share, respectively). The Series A Preferred Stock is not redeemable prior to April 1, 2001 and the Series B Preferred Stock is not redeemable prior to January 1, 2002, except in certain circumstances relating to preservation of the Company's qualification as a REIT. The net proceeds from these offerings were used to repay short-term borrowings outstanding under the Company's lines of credit.

On April 24, 1997, the Company filed a shelf registration statement with the Securities and Exchange Commission covering up to $150,000,000 of debt and equity securities. The registration statement was declared effective May 6, 1997. As of December 31, 1997, the Company has $81,675,000 available under its shelf registration statement.

REPURCHASE OF COMMON STOCK. During 1996, the Company repurchased and retired 120,000 shares of common stock for an aggregate price of approximately $1,831,000.

OPTION PLAN. The Company has a stock option plan ("the Plan") that provides for issuance of incentive and nonqualified options and restricted shares of common stock. Incentive options may be granted only to officers and employees of the Company, while nonqualified options and restricted stock may be granted to directors, officers and other key persons who provide services to the Company. Options vest over two to five years and are exercisable within seven years from the date of vesting. In general, each option shall expire on the date specified in the option agreement, but not later than the tenth anniversary of the date on which the option was granted.

The following summarizes transactions regarding the nonqualified options for the years ended December 31, 1997, 1996 and 1995:

<TABLE>
<CAPTION>

	SHARES			WEIGHTED AVERAGE PRICE		
	1997	1996	1995	1997	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, January 1	873,300	861,500	839,500	$11.30	$11.23	$11.20
Granted	15,000	18,000	27,000	$17.00	$15.13	$12.22
Exercised	(717,800)	(3,200)	(2,000)	$11.44	$12.17	$12.25
Canceled	(1,000)	(3,000)	(3,000)	$12.00	$12.25	$12.00
Outstanding, December 31	169,500	873,300	861,500	$11.21	$11.30	$11.23
Exercisable, December 31	31,500	436,466	272,333	$11.21	$11.88	$11.79
Available for grant, December 31	31,000	358,000	533,000			

</TABLE>

In 1996, the Board of Directors approved the issuance of 160,000 shares of restricted stock to certain employees and non-employee directors (the "1996 Grant"). During 1997, the Board of Directors authorized the accelerated vesting of 64,000 shares of the 1996 Grant and the Company recognized compensation expense of $1,120,000. An additional 27,000 shares of the 1996 Grant vested upon certain employees ending their employment with the Company in connection with the sale of HCI resulting in a charge of $515,000. During 1997, the Board of Directors approved the issuance of 313,000 shares of restricted stock to certain employees and non-employee directors (the "1997 Grant"). As of December 31, 1997, 69,000 and 313,000 shares were restricted under the 1996 Grant and the 1997 Grant, respectively. The shares outstanding under the 1996 Grant and the 1997 Grant vest over three and four years, respectively, beginning January 2000. Dividends are payable on the restricted shares to the extent and on the same date as dividends are paid on all of the Company's common stock.

As of December 31, 1997, 1996 and 1995, there were 31,000, 44,000 and 27,000 options outstanding, respectively, subject to the disclosure requirements of SFAS No. 123. The fair value of these options was estimated utilizing the Black-Scholes valuation model and assumptions as of each respective grant date. In determining the estimated fair values for the options granted in 1997, 1996 and 1995, the weighted average expected life assumption was three years for 1997 and seven years for 1996 and 1995, the weighted average volatility was .16, .15 and .16, respectively and the weighted average risk free interest rate was 6.6%. The weighted average fair value of the options granted was estimated to be $.67, $0.63 and $0.62 in 1997, 1996 and 1995, respectively. There was no material effect on net income or earnings per share for the years ended December 31, 1997, 1996 and 1995. The weighted average exercise price of the options were $14.99, $13.55 and $12.45 and the weighted average remaining contractual life was 7.6, 7.7 and 8.3 years as of December 31, 1997, 1996 and 1995, respectively.

NOTES RECEIVABLE FROM STOCKHOLDERS. In 1997, the Board of Directors adopted a loan program designed to encourage executives, key employees, consultants and directors to acquire common stock through the exercise of options. Under the program, the Company will make full recourse, secured loans to participants equal to the exercise price of vested options plus up to 50% of the taxable income resulting from the exercise of options. Such loans will bear interest at the then current Applicable Federal Rate and are payable in quarterly installments over nine years. For the first five years the principal due each quarter will be equal to 50% of the difference between the cash dividends received on the shares purchased and the quarterly interest due. In addition, 25% of cash bonuses and 50% of the dividends on restricted stock granted under the 1997 Grant received by the borrower must be used to reduce the principal balance. The loans will convert to fully amortizing loans with 16 quarterly payments beginning in year six. Unless the Board of Directors approves otherwise, loans must be repaid within 90 days after termination of employment for any reason, other than in connection with a change in control of the Company. In 1997, the Company's management, consultants and directors purchased 686,500 of the Company's common stock under the loan program. At December 31, 1997, loans totaling $9,429,000 bearing interest at rates ranging from 5.97% to 6.63% per annum were outstanding. These loans are secured by a pledge of the shares of common stock acquired through the exercise of options and are full recourse to the borrower. The market value of the common stock securing these loans was $14,245,000 at December 31, 1997.

FOUNDERS' STOCK. The Company issued 300,000 shares of restricted common stock to the founders of the Company. The market value at the time of grant was estimated at $5.00 per share and was recorded as a reduction of capital in excess of par value as unearned stock grant compensation. The unearned compensation was charged to expense over the vesting period. For the years ended December 31, 1997, 1996 and 1995 amortization of founders' stock was $31,000, $114,000 and $221,000, respectively.

9. DISTRIBUTIONS

The Company must distribute at least 95% of its taxable income in order to continue to qualify as a REIT. Distributions in a given year may exceed the Company's earnings and profits due to non-cash expenses such as depreciation and amortization. Under special tax rules for REITs, dividends declared in the last quarter of the calendar year and paid by January 31 of the following year are treated as paid on December 31 of the year declared. Distributions on the common stock per share are broken down according to the following categories for income tax purposes:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Ordinary income	$1.293	$1.228	$1.05
Non-taxable distribution	0.037	0.107	.16
Section 1250 capital gain	0.030	-	-
Long term capital gain	0.075	-	-
Total	$1.435	$1.335	$1.21

</TABLE>

10. NET INCOME PER SHARE

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

	1997	1996	1995
Net income	$35,763	$28,710	$18,384
Preferred dividends	(6,075)	-	-
Net income for basic net income per share	29,688	28,710	18,384
7.75% debentures due 2002	-	2,187	-
8.5% debentures due 2001	-	4,509	-
8.5% debentures due 2000	-	2,350	-
Other dilutive securities	32	977	1,296
Net income for diluted net income per share	$29,720	$38,733	$19,680
Shares for basic net income per share	23,511	18,983	18,030
Stock options	277	374	-
7.75% debentures due 2002	-	1,757	-
8.5% debentures due 2001	-	3,174	-
8.5% debentures due 2000	-	1,751	-
Other dilutive securities	75	824	1,475
Shares for diluted net income per share	23,863	26,863	19,505
Basic net income per share	$1.26	$1.51	$1.02
Diluted net income per share	$1.25	$1.44	$1.01

11. SUBSEQUENT EVENTS

For the period January 1, 1998 through March 20, 1998, the Company acquired six skilled nursing facilities and three assisted living residences for approximately $31,000,000. Five of the skilled nursing facilities were purchased subject to mortgage loans of approximately $7,000,000. For the period January 1, 1998 through March 20, 1998, $15,506,000 principal amount of convertible subordinated debentures converted into 986,156 shares of common stock. In addition, certain executives and non-employee directors exercised stock options, under the stock option loan program, for 146,500 shares of common stock at an average exercise price of $10.64.

As of March 13, 1998, the Company had outstanding commitments to provide financing through mortgage loans or sale/lease-back transactions totaling approximately $242,250,000. Of the outstanding commitments, $50,000,000 expire in 1999 and $50,000,000 expire in 2000.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following quarterly financial data summarizes the unaudited quarterly results for the years ended December 31, 1997 and 1996 (in thousands, except per share amounts):

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1997				
Revenues	$16,487	$18,115	$18,809	$20,023
Net income available to common stockholders	6,107	8,098	7,545	7,938
Basic net income available to common stockholders per share	0.28	0.35	0.32	0.31
Diluted net income available to				

common stockholders per share	0.27	0.35	0.31	0.31
Dividends per share	0.34	0.365	0.365	0.365
1996				
Revenues	$12,363	$12,920	$14,292	$15,355
Net income	11,831	4,906	5,636	6,337
Basic net income per share	0.78	0.26	0.30	0.32
Diluted net income per share	0.55	0.26	0.29	0.32
Dividends per share	0.315	0.34	0.34	0.34

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held May 19, 1998, to be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held May 19, 1998, to be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held May 19, 1998, to be filed pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held May 19, 1998, to be filed pursuant to Regulation 14A.

ITEM 14. FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K.

(a) Financial Statement Schedules

The financial statement schedules listed in the accompanying index to financial statement schedules are filed as part of this annual report.

(b) Exhibits

The exhibits listed in the accompanying index to exhibits are filed as part of this annual report.

(c) Reports on Form 8-K

None.

INDEX TO FINANCIAL STATEMENT SCHEDULES
(ITEM 14(a))

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<S>		<C>
VII.	Valuation and Qualifying Accounts	52
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XII.	Mortgage Loans on Real Estate	56

</TABLE>

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule.

LTC PROPERTIES, INC.

SCHEDULE VII
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Period	Charge to Operations	Balance at End of Period
Allowance for Doubtful Accounts:			
1997	$1,000	-	$1,000
1996	$ 997	3	$1,000
1995	$ 997	-	$ 997

LTC PROPERTIES, INC.
SCHEDULE XI
REAL ESTATE AND ACCUMULATED DEPRECIATION
(in thousands)

		INITIAL COST TO COMPANY		COSTS CAPITALIZED SUBSEQUENT TO	GROSS AMOUNT IN WHICH CARRIED AT DECEMBER 31, 1997					
	ENCUMBRANCES	LAND	BUILDING AND IMPROVE-MENTS	ACQUISITION	LAND	BUILDING AND IMPROVE-MENTS	TOTAL(1)	ACCUM. DEPREC. (2)	CONSTRUCTION/ RENOVATION DATE	ACQUISITION DATE
Skilled Nursing Facilities:										
Demopolis, AL	$10,602(3)	$ 71	$ 2,141	-	$ 71	$ 2,141	$ 2,212	$ 187	1972	Jun. 1995
Fort Payne, AL	(3)	37	3,588	-	37	3,588	3,625	338	1967/73	Jun. 1995
Jackson, AL	(3)	64	2,620	-	64	2,620	2,684	223	1964	Jun. 1995
Madison, AL	(3)	30	2,328	-	30	2,328	2,358	213	1964/74	Jun. 1995
Phoenix, AL	(3)	59	2,123	-	59	2,123	2,182	200	1969	Jun. 1995
Phoenix, AZ	7,707	432	6,764	-	432	6,764	7,196	903	1985/92	May 1994
Tucson, AZ	6,516	145	3,932	-	145	3,932	4,077	638	1985	Mar. 1993
East Whittier, CA	-	170	1,742	-	170	1,742	1,912	231	1964	Sep. 1994
West Whittier, CA	-	726	1,185	-	726	1,185	1,911	178	1964	Sep. 1994
Bradenton, FL	-	330	2,720	-	330	2,720	3,050	397	1989	Sep. 1993
Clearwater, FL	-	454	2,903	-	454	2,903	3,357	504	1965/93	Sep. 1993
Crestview, FL	-	140	2,306	-	140	2,306	2,446	279	1988	Jun. 1994
San Destin, FL	-	175	3,875	-	175	3,875	4,050	399	1986	Feb. 1995
Gulf Breeze, FL	-	600	6,020	-	600	6,020	6,620	725	1984	Jun. 1994
Lecanto, FL	-	351	2,665	2,252	351	4,917	5,268	594	1988	Sep. 1993
Pensacola, FL	-	190	4,295	-	190	4,295	4,485	526	1972	Jun. 1994
Pensacola, FL	-	230	4,663	-	230	4,663	4,893	562	1991	Jun. 1994
Starke, FL	-	113	4,783	-	113	4,783	4,896	574	1989	Jun. 1994
Chicago Heights, IL	-	221	6,406	-	221	6,406	6,627	750	1988	Sep. 1994

Alamagordo, NM Mar. 1993	-	314	3,567	-	314	3,567	3,881	612	1985
Roswell, NM Nov. 1992	-	85	2,932	-	85	2,932	3,017	635	1979
Great Falls, MT Dec. 1992	4,285	397	3,433	-	397	3,433	3,830	755	1960/90
Rusk, TX Mar. 1994	-	34	2,399	-	34	2,399	2,433	377	1969
Chesapeake, VA Oct. 1995	-	373	3,298	-	373	3,298	3,671	312	1977
Richmond, VA Oct. 1995	-	373	3,298	-	373	3,298	3,671	312	1970/75/80
Tappahannock, VA Oct. 1995	-	373	3,298	-	373	3,298	3,671	312	1977/78
Toppanish, WA Jun. 1995	2,612(4)	132	2,654	-	132	2,654	2,786	244	1960/70
Vancouver, WA Jun. 1995	(4)	60	3,031	-	60	3,031	3,091	288	1952/94
Jefferson, IA Jan. 1996	10,496(5)	36	1,933	-	36	1,933	1,969	128	1968/72
Houston, TX Jun. 1996	-	202	4,458	-	202	4,458	4,660	255	1961
Houston, TX Jun. 1996	-	362	3,772	-	362	3,772	4,134	241	1964/68
Montgomery, AL Jan. 1996	3,904(6)	144	5,426	-	144	5,426	5,570	368	1967/74
Carroll, IA Jan. 1996	(5)	60	1,020	-	60	1,020	1,080	71	1969
Houston, TX Jun. 1996	-	202	4,458	-	202	4,458	4,660	255	1967
Woodbury, TN May 1996	-	100	2,900	-	100	2,900	3,000	165	1972/75/90
Whiteright, TX Jan. 1996	1,120	100	2,923	-	100	2,923	3,023	214	1962/64/65
Granger,IA Jan. 1996	(5)	93	1,325	-	93	1,325	1,418	92	1979
Bedford, TX Jan. 1996	(5)	345	3,195	-	345	3,195	3,540	229	1960
Midland, TX Feb. 1996	2,030	32	2,285	-	32	2,285	2,317	166	1973
Tiptonville, TN May 1996	-	100	2,450	-	100	2,450	2,550	140	1975
Gardendale, AL May 1996	-	84	6,316	-	84	6,316	6,400	352	1976/84
Polk City, IA Jan. 1996	(5)	88	1,351	-	88	1,351	1,439	90	1976
Atmore, AL Jan. 1996	(6)	23	2,985	-	23	2,985	3,008	197	1967/74
Mesa, AZ Jun. 1996	4,492	305	6,909	1,696	305	8,605	8,910	366	1975/96
Houston, TX Jun. 1996	-	572	5,965	-	572	5,965	6,537	381	1967
Roberta, GA May 1996	-	100	2,400	-	100	2,400	2,500	137	1964
Norwalk, IA Jan. 1996	(5)	45	1,035	-	45	1,035	1,080	71	1975
Altoona, IA Jan. 1996	(5)	102	2,312	-	102	2,312	2,414	151	1973
Los Angeles, CA Jan. 1997	-	100	2,475	-	100	2,475	2,575	92	1963
Sacramento, CA Feb. 1997	-	220	2,929	-	220	2,929	3,149	102	1968
Coffeyville, KS May 1997	-	100	335	-	100	335	435	153	1962
Salina, KS May 1997	-	100	1,066	-	100	1,066	1,166	425	1985
South Haven, KS May 1997	-	100	-	-	100	-	100	13	1969
Portland, OR Jun. 1997	-	100	1,925	43	100	1,968	2,068	39	1956/74
Nacogdoches, TX Oct. 1997	-	100	1,738	-	100	1,738	1,838	11	1973
Cushing, TX Oct. 1997	-	100	1,679	-	100	1,679	1,779	10	1973/84
Mesa, AZ Oct. 1997	3,021	100	4,578	-	100	4,578	4,678	26	1972
SNFs	56,785	10,794	177,112	3,991	10,794	181,103	191,897	17,208	

</TABLE>

LTC PROPERTIES, INC.
SCHEDULE XI

REAL ESTATE AND ACCUMULATED DEPRECIATION
(in thousands)

		INITIAL COST TO COMPANY			GROSS AMOUNT IN WHICH CARRIED AT DECEMBER 31, 1997					
	ENCUMBRANCES	LAND	BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	LAND	BUILDING AND IMPROVEMENTS	TOTAL(1)	ACCUM. DEPREC. (2)	CONSTRUCTION/ RENOVATION DATE	ACQUISITION DATE
Assisted Living Facilities:										
Dodge City, KS	1,626	88	1,663	-	88	1,663	1,751	100	1995	Dec. 1995
Great Bend, KS	1,370	87	1,563	-	87	1,563	1,650	94	1995	Dec. 1995
McPherson, KS	1,189	75	1,575	-	75	1,575	1,650	94	1994	Dec. 1995
Salina, KS	1,366	72	1,578	-	72	1,578	1,650	94	1994	Dec. 1995
Longview, TX	-	38	1,568	-	38	1,568	1,606	94	1995	Oct. 1995
Marshall, TX	-	38	1,568	450	38	2,018	2,056	102	1995	Oct. 1995
Walla Walla, WA	8,065(7)	100	1,940	-	100	1,940	2,040	93	1996	Apr. 1996
Greenville, TX	-	42	1,565	-	42	1,565	1,607	86	1995	Jan. 1996
Camas, WA	(7)	100	2,175	-	100	2,175	2,275	94	1996	May 1996
Grandview, WA	(7)	100	1,940	-	100	1,940	2,040	98	1996	Mar. 1996
Vancouver, WA	(7)	100	2,785	-	100	2,785	2,885	120	1996	Jun. 1996
Athens, TX	-	96	1,512	-	96	1,512	1,608	83	1995	Jan. 1996
Lufkin, TX	-	100	1,950	-	100	1,950	2,050	94	1996	Apr. 1996
Kennewick. WA	(7)	100	1,940	-	100	1,940	2,040	102	1996	Feb. 1996
Gardendale, AL	-	16	1,234	-	16	1,234	1,250	69	1988	May 1996
Jacksonville, TX	-	100	1,900	-	100	1,900	2,000	97	1996	Mar. 1996
Kelso, WA	-	100	2,500	-	100	2,500	2,600	79	1996	Nov. 1996
Battleground, WA	-	100	2,500	-	100	2,500	2,600	73	1996	Nov. 1996
Hayden, ID	-	100	2,450	243	100	2,693	2,793	73	1996	Dec. 1996
Klamath Falls, OR	-	100	2,300	-	100	2,300	2,400	68	1996	Dec. 1996
Newport, OR	-	100	2,050	-	100	2,050	2,150	56	1996	Dec. 1996
Tyler, TX	-	100	1,800	-	100	1,800	1,900	50	1996	Dec. 1996
Wichita Falls, TX	-	100	1,850	-	100	1,850	1,950	51	1996	Dec. 1996
Ada, OK	-	100	1,650	-	100	1,650	1,750	46	1996	Dec. 1996
Nampa, ID	-	100	2,240	23	100	2,263	2,363	61	1997	Jan. 1997
Tulsa, OK	-	200	1,650	-	200	1,650	1,850	39	1997	Feb. 1997
Durant, OK	-	100	1,769	-	100	1,769	1,869	33	1997	Apr. 1997
San Antonio, TX	-	100	1,900	-	100	1,900	2,000	35	1997	May 1997
Troy,OH	-	100	2,435	306	100	2,741	2,841	39	1997	May 1997
Waco, TX	-	100	2,235	-	100	2,235	2,335	35	1997	Jun. 1997
Tulsa, OK	-	100	2,395	-	100	2,395	2,495	38	1997	Jun. 1997
San Antonio, TX	-	100	2,055	-	100	2,055	2,155	32	1997	Jun. 1997

Norfolk, NE	-	100	2,123	-	100	2,123	2,223	29	1997	Jun. 1997
Wahoo, NE	-	100	2,318	-	100	2,318	2,418	26	1997	Jul. 1997
York, NE	-	100	2,318	-	100	2,318	2,418	26	1997	Aug. 1997
Hoquiam, WA	-	100	2,500	-	100	2,500	2,600	28	1997	Aug. 1997
Tiffin, OH	-	100	2,435	-	100	2,435	2,535	27	1997	Aug. 1997
Millville, NJ	-	100	2,825	-	100	2,825	2,925	31	1997	Aug. 1997
Fremont, OH	-	100	2,435	-	100	2,435	2,535	27	1997	Aug. 1997
Lake Havasu, AZ	-	100	2,420	-	100	2,420	2,520	27	1997	Aug. 1997
Greeley, CO	-	100	2,310	-	100	2,310	2,410	26	1997	Aug. 1997
Springfield, OH	-	100	2,035	-	100	2,035	2,135	19	1997	Aug. 1997
Watauga, TX	-	100	1,667	-	100	1,667	1,767	16	1996	Aug. 1997
Bullhead City, AZ	-	100	2,500	-	100	2,500	2,600	22	1997	Aug. 1997
Arvada, CO	-	100	2,810	-	100	2,810	2,910	25	1997	Aug. 1997
Edmond, OK	-	100	1,365	4	100	1,369	1,469	13	1996	Aug. 1997
Wetherford, OK	-	100	1,668	3	100	1,671	1,771	15	1996	Aug. 1997
Eugene, OR	-	100	2,600	-	100	2,600	2,700	23	1997	Sep. 1997
Caldwell, ID	-	100	2,200	-	100	2,200	2,300	20	1997	Sep. 1997
Burley, ID	-	100	2,200	-	100	2,200	2,300	20	1997	Sep. 1997
Wheelersburg, OH	-	100	2,435	-	100	2,435	2,535	16	1997	Sep. 1997
Loveland, CO	-	100	2,865	-	100	2,865	2,965	19	1997	Sep. 1997

</TABLE>

LTC PROPERTIES, INC.
SCHEDULE XI
REAL ESTATE AND ACCUMULATED DEPRECIATION
(in thousands)

<TABLE>
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		INITIAL COST TO COMPANY		COSTS	GROSS AMOUNT IN WHICH CARRIED AT DECEMBER 31, 1997					
	ENCUMBRANCES	LAND	BUILDING AND IMPROVE-MENTS	CAPITALIZED SUBSEQUENT TO ACQUISITION	LAND	BUILDING AND IMPROVE-MENTS	TOTAL(1)	ACCUM. DEPREC. (2)	CONSTRUCTION/ RENOVATION DATE	ACQUISITION DATE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assisted Living Residences:										
Wichita Falls, TX	-	100	2,750		100	2,750	2,850	25	1997	Sep. 1997
Beatrice, NE	-	100	2,173		100	2,173	2,273	10	1997	Oct. 1997
Madison, IN	-	100	2,435		100	2,435	2,535	11	1997	Oct. 1997
Newark, OH	-	100	2,435		100	2,435	2,535	11	1997	Oct. 1997
Elkhart, IN	-	100	2,435		100	2,435	2,535	-	1997	Dec. 1997
ALFs	13,616	5,452	120,492	1,029	5,452	121,521	126,973	2,834		
	$70,401	$16,246	$297,604	$5,020	$16,246	$302,624	$318,870	$20,042		

</TABLE>

(1) The aggregate cost for federal income tax purposes.

(2) Depreciation for building is calculated rising a 35 year life for skilled nursing facilities and 40 year life for assisted living residences and additions to facilities. Depreciation for furniture and fixtures is calculated based on a 7 year life for all facilities.

(3) Single note backed by five facilities in Alabama.

(4) Single note backed by two facilities in Washington,

(5) Single note backed by six facilities in Iowa and one facility in Texas.

(6) Single note backed by two facilities in Alabama.

(7) Single note backed by five facilities in Washington.

Activity for the years ended December 31, 1995, 1996 and 1997 is as follows:

<TABLE>
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	Real Estate & Equipment	Accumulated Depreciation
Balance at December 31, 1994	$ 73,118	$ 2,490
Additions	44,151	2,997
Cost of real estate sold	-	-
Balance at December 31, 1995	117,269	5,487
Additions	113,959	6,214
Cost of real estate sold	(7,650)	(61)
Balance at December 31, 1996	223,578	11,640
Additions	127,937	9,040
Write-down of properties	(1,400)	-
Cost of real estate sold	(31,245)	(638)
Balance at December 31, 1997	$318,870	$20,042

</TABLE>

LTC PROPERTIES, INC.
SCHEDULE XII
MORTGAGE LOANS ON REAL ESTATE
(Dollars in thousands)

<TABLE>
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STATE	NUMBER OF FACILITIES	NUMBER OF UNITS/BEDS	INTEREST RATE(1)	FINAL MATURITY DATE	BALLOON AMOUNT(2)	FACE AMOUNT OF MORTGAGES	CARRYING AMOUNT OF MORTGAGES DECEMBER 31, 1997	CURRENT MONTHLY DEBT SERVICE
SC	5	509	11.90%	2003	$ 11,212	$ 11,250	$ 11,203	$ 112
MS	3	400	10.32%	2006	10,564	11,250	11,197	98
MT/NE/IA	4	305	11.22%	2007	8,752	10,000	9,963	93
TN	2	245	11.38%	2007	7,763	8,675	8,646	83
FL	2	251	10.75%	2006	7,260	8,200	8,093	74
Various(2)	105	11,132	9.00-14.32%	1998-2018	129,759	230,859	205,992	1,840
	121	12,842			$175,310	$280,234	$255,094(3)	$2,300

</TABLE>

(1) Represents current stated interest rate. Generally, the loans have 25 year amortization with principal and interest payable at varying amounts over the life to maturity with annual interest adjustments

through specified fixed rate increases effective either on the first anniversary or calendar year of the loan.

(2) Balloon payment is due upon maturity, generally the 10th year of the loan, with various prepayment penalties (as defined in the loan agreement).

(3) The carrying amount equals the aggregate cost for federal income tax purposes. No loan has been extended or renewed or has any prior liens.

(4) Includes 84 first-lien mortgage loans and 14 construction loans as follows:

<TABLE>
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NO. OF LOANS	ORIGINAL LOAN AMOUNTS,
<S>	<C>
49	$ 305 - $2,000
29	$2,001 - $3,000
7	$3,001 - $4,000
7	$4,001 - $5,000
4	$5,001 - $6,000
0	$6,001 - $7,000
2	$7,001 - $7,706

</TABLE>

Activity for the years ended December 31, 1995, 1996 and 1997 is as follows:

<TABLE>
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<S>	<C>
Balance at December 31, 1994	$ 62,782
New Mortgage loans	101,908
Collections of principal	(2,634)
Balance at December 31, 1995	162,056
New Mortgage loans	130,965
Sales of notes to REMIC	(112,487)
Collections of principal	(2,272)
Balance at December 31, 1996	178,262
New Mortgage loans	111,157
Conversion of notes to owned properties	(9,348)
Collections of principal	(24,977)
Balance at December 31, 1997	$ 255,094

</TABLE>

INDEX TO EXHIBITS
(ITEM 14(b))

<TABLE>
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EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
3.1	Amended and Restated Articles of Incorporation of LTC Properties, Inc. (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Current Report on Form 8-K dated June 19, 1997)
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Form 10-Q for the quarter ended June 30, 1996)
3.3	Articles Supplementary Classifying 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 3.2 to LTC Properties, Inc.'s Current Report on Form 8-K dated June 19, 1997)
3.4	Articles of Amendment of LTC Properties, Inc. (incorporated by reference to Exhibit 3.3 to LTC Properties, Inc.'s Current Report on Form 8-K dated June 19, 1997)
3.5	Articles Supplementary Classifying 2,000,000 Shares of 9.0% Series B Cumulative Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 2.5 to LTC Properties, Inc.'s Registration Statement on Form 8-A filed on December 15, 1997)
4.1	Indenture dated August 25, 1992 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to 9.75% Convertible Subordinated Debentures due 2004 (incorporated by

reference to Exhibit 4.1 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1992)

4.2 Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee (incorporated by reference to Exhibit 4.2 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)

4.3 First Supplemental Indenture dated as of September 23, 1994 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to $30,000,000 in principal amount of 8.5% Convertible Subordinated Debentures due 2000 (incorporated by reference to Exhibit 4.3 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)

4.4 Second Supplemental Indenture dated as of September 21, 1995 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to $51,500,000 in principal amount of 8.5% Convertible Subordinated Debentures due 2001 (incorporated by reference to Exhibit 10.17 to LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 1995)

4.5 Third Supplemental Indenture dated as of September 26, 1995 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to $10,000,000 in principal amount of 8.25% Convertible Subordinated Debentures due 1999 (incorporated by reference to Exhibit 10.19 to LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 1995)

4.6 Fourth Supplemental Indenture dated as of February 5, 1996 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to $30,000,000 in principal amount of 7.75% Convertible Subordinated Debentures due 2002 (incorporated by reference to Exhibit 4.6 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1995)

10.1 Master Repurchase Agreement dated May 14, 1993 between LTC Properties, Inc. and Goldman Sachs Mortgage Company (incorporated by reference to Exhibit 10.5 to LTC Properties, Inc.'s Form 10-Q for the quarter ended June 30, 1993)

10.2 Purchase Agreement dated July 28, 1993 between LTC Properties, Inc., LTC REMIC Corporation and Goldman Sachs Mortgage Company (incorporated by reference to Exhibit 10.6 to LTC Properties, Inc.'s Form 10-Q for the quarter ended June 30, 1993)

<CAPTION>

EXHIBIT NUMBER — DESCRIPTION

<S> <C>

10.4 Transfer and Repurchase Agreement, dated as of July 20, 1993, between LTC Properties, Inc. and LTC REMIC Corporation (incorporated by reference to Exhibit 10.10 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)

10.5 Pooling and Servicing Agreement, dated as of July 20, 1993, among LTC REMIC Corporation, as depositor, Bankers Trust Company, as master servicer, LTC Properties, Inc., as special servicer and originator and Union Bank, as trustee (incorporated by reference to Exhibit 10.11 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)

10.6 Transfer and Repurchase Agreement, dated as of November 1, 1994, between LTC Properties, Inc. and LTC REMIC Corporation (incorporated by reference to Exhibit 10.12 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)

10.7 Pooling and Servicing Agreement, dated as of November 1, 1994, among LTC REMIC Corporation, as depositor, Bankers Trust Company, as master servicer, LTC Properties, Inc., as special servicer and originator and Marine Midland Bank, as trustee (incorporated by reference to Exhibit 10.13 to LTC Properties, Inc.'s Form 10-K dated December 31, 1994)

10.8 Amended Deferred Compensation Plan (incorporated by reference to Exhibit 10.17 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1995)

10.9 Pooling and Servicing Agreement dated as of March 1, 1996, among LTC REMIC Corporation, as depositor, GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc., as Special Servicer and Originator, LaSalle National Bank, as Trustee and ABN AMRO Bank, N.V., as fiscal agent (incorporated by reference to Exhibit 10.1 to LTC

	Properties, Inc.'s Form 10-Q for the quarter ended March 31, 1996)
10.10	Transfer and Repurchase Agreement by and between LTC Properties, Inc. and LTC REMIC Corporation dated as of March 1, 1996 (incorporated by reference to Exhibit 10.2 to LTC Properties, Inc.'s Form 10-Q for the quarter ended March 31, 1996)
10.11	Guarantee Agreement between Kansas-LTC Corporation, L-Tex GP, Inc., and L-Tex LP, Inc., Rusk-Tex, LP, Inc., Texas-LTC Limited Partnership, as guarantors, and Sanwa Bank California, as the agent, dated as of May 21, 1996 (incorporated by reference to LTC Properties, Inc.'s Form 10-Q for the quarter ended June 30, 1996)
10.12	Amended and Restated 1992 Stock Option Plan (incorporated by reference to Exhibit 10.22 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1996)
10.13	Subservicing Agreement dated as July 20, 1993 by and between Bankers Trust Company, as Master Servicer and LTC Properties, Inc., as Special Servicer (incorporated by reference to Exhibit 10.25 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)
10.14	Custodial Agreement dated as of July 20, 1993 by and among Union Bank, as Trustee, LTC REMIC Corporation, as Depositor, and Bankers Trust Company as Master Servicer and Custodian (incorporated by reference to Exhibit 10.26 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)
10.15	Form of Certificates as Exhibit as filed herewith to the Pooling and Servicing Agreement dated as of July 20, 1993 among LTC REMIC Corporation, as Depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and Union Bank as Trustee (incorporated by reference to Exhibit 10.11 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
10.16	Purchase Agreement dated November 16, 1994 between LTC REMIC Corporation, LTC Properties, Inc. and Goldman Sachs & Co. Trustee (incorporated by reference to Exhibit 10.28 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)

<CAPTION>

<S>	<C>
10.17	Form of Certificates, Form of Custodial Agreement and Form of Subservicing Agreement as Exhibits as filed herewith to the Pooling and Servicing Agreement dated as of November 1, 1994 among LTC REMIC Corporation, as Depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and Marine Midland Bank as Trustee (incorporated by reference to Exhibit 10.13 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
10.18	Purchase Agreement dated March 27, 1996 between LTC REMIC Corporation, LTC Properties, Inc. and Goldman Sachs & Co. (incorporated by reference to Exhibit 10.30 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)
10.19	Form of Certificates, Form of Custodial Agreement and Form of Subservicing Agreement as Exhibits as filed herewith to the Pooling and Servicing Agreement dated as of March 1, 1996 among LTC REMIC Corporation, as Depositor, GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and LaSalle National Bank as Trustee and ABN AMRO Bank N.V., as Fiscal Agent (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Form 10-Q for the quarter ended March 31, 1996)
10.20	Senior Unsecured Revolving Line of Credit Agreement dated October 3, 1997 between LTC Properties, Inc. and Banque National de Paris, Sanwa Bank, California and The Sumitomo Bank (incorporated by reference to Exhibit 10.2 to LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 1997)
21.1	List of subsidiaries as filed herewith
23.1	Consent of Ernst & Young LLP with respect to the financial information of the Company as filed herewith
27.1	Financial data schedule for the year ended December 31, 1997 as filed herewith.
27.2	Restated financial data schedules for the three months ended March 31, 1997, June 30, 1997 and September 30, 1997 as filed herewith.
27.3	Financial data schedules for the years ended December 31, 1996 and 1995 as filed herewith.
27.4	Restated financial data schedules for the three months ended March 31, 1996, June 30, 1996 and September 30, 1996 as

filed herewith.
</TABLE>

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: March 25, 1998

By: /s/ JAMES J. PIECZYNSKI

JAMES J. PIECZYNSKI
President, Chief Financial Officer
and Director

/s/ ANDRE C. DIMITRIADIS --------------------------- ANDRE C. DIMITRIADIS	Chairman of the Board, Chief Executive Officer and Director	March 25, 1998
/s/ EDMUND C. KING ----------------------------- EDMUND C. KING	Director	March 25, 1998
/s/ WENDY L. SIMPSON ----------------------------- WENDY L. SIMPSON	Director	March 25, 1998
/s/ SAM YELLEN ----------------------------- SAM YELLEN	Director	March 25, 1998

LTC PROPERTIES, INC.

EXHIBIT 21.1

LIST OF SUBSIDIARIES

COMPANY	STATE OF ORGANIZATION
LTC REMIC Corporation	Delaware
LTC GP I, Inc.	Delaware
LTC GP II, Inc.	Delaware
LTC GP III, Inc.	Delaware
LTC GP IV, Inc.	Delaware
LTC GP V, Inc.	Delaware
Coronado Corporation	Delaware
LTC Partners I, L.P.	Delaware
LTC Partners II, L.P.	Delaware
LTC Partners III, L.P.	Delaware
LTC Partners IV, L.P.	Delaware
LTC Partners V, L.P.	Delaware
LTC Partners VI, L.P.	Delaware
LTC Partners VII, L.P.	Delaware
LTC Partners VIII, L.P.	Delaware
L-Tex GP, Inc.	Delaware
L-Tex LP Corporation	Delaware
Texas-LTC Limited Partnership	Texas
Missouri River Corporation	Delaware
Park Villa Corporation	Delaware
Kansas-LTC Corporation	Delaware

LTC PROPERTIES, INC.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-2444) and in the Registration Statement (Form S-8 No. 33-85252) of LTC Properties, Inc. of our report dated January 20, 1998, except Note 11, as to which the date is March 20, 1998, with respect to the consolidated financial statements and schedules of LTC Properties, Inc., as amended, included in its Annual Report (Form 10-K) for the year ended December 31, 1997.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 25, 1998

```
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LTC
PROPERTIES, INC.'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER
31, 1997  FILED HEREWITH AND IS QULIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL STATEMENTS.
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<SALES>                                              0
<TOTAL-REVENUES>                                73,434
<CGS>                                                0
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<INTEREST-EXPENSE>                              23,795
<INCOME-PRETAX>                                 35,763
<INCOME-TAX>                                         0
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<DISCONTINUED>                                       0
<EXTRAORDINARY>                                      0
<CHANGES>                                            0
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<EPS-DILUTED>                                     1.25


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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LTC PROPERTIES, INC.'S QUARTERLY REPORTS ON FORM 10-Q/A FOR THE THREE MONTHS ENDED MARCH 31, JUNE 30, AND SEPTEMBER 30, 1997 INCORPORATED BY REFERENCE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<RESTATED>
<CIK> 0000887905
<NAME> LTC PROPERTIES, INC
<MULTIPLIER> 1,000

<S>	<C>	<C>	<C>
<PERIOD-TYPE>	3-MOS	3-MOS	3-MOS
<FISCAL-YEAR-END>	DEC-31-1997	DEC-31-1997	DEC-31-1997
<PERIOD-START>	JAN-01-1997	APR-01-1997	JUL-01-1997
<PERIOD-END>	MAR-31-1997	JUN-30-1997	SEP-30-1997
<CASH>	1,602	5,894	1,398
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<RECEIVABLES>	237,083	232,506	240,574
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<INVENTORY>	0	0	0
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<CURRENT-LIABILITIES>	0	0	0
<BONDS>	8,300	8,300	8,300
<PREFERRED-MANDATORY>	0	0	0
<PREFERRED>	73,800	73,800	73,800
<COMMON>	228	230	249
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<TOTAL-COSTS>	8,881	9,172	9,692
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<DISCONTINUED>	0	0	0
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<NET-INCOME>	6,107	8,098	7,545
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<NAME> LTC PROPERTIES, INC.
<MULTIPLIER> 1,000

<S>	<C>	<C>
<PERIOD-TYPE>	12-MOS	12-MOS
<FISCAL-YEAR-END>	DEC-31-1996	DEC-31-1995
<PERIOD-START>	JAN-01-1996	JAN-01-1995
<PERIOD-END>	DEC-31-1996	DEC-31-1995
<CASH>	3,148	1,434
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LTC
PROPERTIES,INC.'S QUARTERLY REPORTS ON FORM 10-Q/A FOR THE THREE MONTHS ENDED
MARCH 31, JUNE 30, AND SEPTEMBER 30,1997 AND QUARTERLY REPORTS ON FORM 10-Q FOR
THE THREE MONTHS ENDED MARCH 31, JUNE 30, AND SEPTEMBER 30, 1996 INCORPORATED BY
REFERENCE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STMTS.
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<CIK> 0000887905
<NAME> LTC PROPERTIES,INC.
<MULTIPLIER> 1,000

<S>                             <C>                     <C>                     <C>
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<FISCAL-YEAR-END>                          DEC-31-1996             DEC-31-1996             DEC-31-1996
<PERIOD-START>                             JAN-01-1996             APR-01-1996             JUL-01-1996
<PERIOD-END>                               MAR-31-1996             JUN-30-1996             SEP-30-1996
<CASH>                                           2,597                   4,328                   1,434
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<DEPRECIATION>                                   6,733                   8,191                   9,799
<TOTAL-ASSETS>                                 385,020                 452,675                 456,899
<CURRENT-LIABILITIES>                                0                       0                       0
<BONDS>                                          8,300                   8,300                   8,300
<PREFERRED-MANDATORY>                                0                       0                       0
<PREFERRED>                                          0                       0                       0
<COMMON>                                           186                     185                     194
<OTHER-SE>                                     174,180                 178,223                 183,013
<TOTAL-LIABILITY-AND-EQUITY>                   385,020                 452,675                 456,899
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<TOTAL-REVENUES>                                12,363                  12,920                  14,292
<CGS>                                                0                       0                       0
<TOTAL-COSTS>                                    6,908                   7,303                   8,674
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<LOSS-PROVISION>                                     0                       0                       0
<INTEREST-EXPENSE>                               4,654                   4,835                   5,501
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<INCOME-TAX>                                         0                       0                       0
<INCOME-CONTINUING>                             11,831                   4,906                   5,636
<DISCONTINUED>                                       0                       0                       0
<EXTRAORDINARY>                                      0                       0                       0
<CHANGES>                                            0                       0                       0
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