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

(Mark One)

☒ 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, 1998
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
(State or other jurisdiction of
incorporation or organization)

71-0720518
(I.R.S. Employer
Identification No.)

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

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

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

| Title of Stock ----- | Name of each exchange on which registered ----- |
|---|---|
| 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 |
| 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 |

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 ☒ 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. ☒

The aggregate market value of voting stock held by non-affiliates of the
Company is approximately \$303,587,000 as of March 19, 1999.

27,407,096
(Number of shares of common stock outstanding as of March 19, 1999)

Part III is incorporated by reference from the Company's definitive
proxy statement for the Annual Meeting of Stockholders to be
held on May 25, 1999.

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Item 1. BUSINESS

General

LTC Properties, Inc., 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. We invest primarily in long-term care and other health care
related facilities through mortgage loans, facility lease transactions and other

investments. During 1998, we began making investments in the education industry by investing in private and charter schools from pre-school through eighth grade. Our primary objective 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, we attempt to invest in properties that provide opportunity for additional returns to our stockholders and diversify our investment portfolio by geographic location, operator and form of investment.

In accordance with "plain English" guidelines provided by the Securities and Exchange Commission, whenever we refer to "our company" or to "us," or use the terms "we" or "our," we are referring to LTC Properties, Inc. and its subsidiaries.

We were organized to qualify, and intend to continue to qualify, as a REIT. So long as we qualify, with limited exceptions, we may deduct distributions to our stockholders from our taxable income. We have made distributions, and intend to continue to make distributions to our stockholders, in order to eliminate any federal tax liability.

At December 31, 1998, we had a gross investment portfolio (adjusted to include mortgage loans to third parties underlying our investment in REMIC certificates) of \$918,085,000. Our investments consisted of \$636,774,000 in 274 skilled nursing facilities with 31,276 beds, \$254,861,000 in 90 assisted living facilities with 4,301 units and \$26,450,000 in six schools. The properties in our portfolio are operated by 74 healthcare providers and two education providers in 36 states.

Owned Properties. During 1998, we acquired seven skilled nursing facilities with a total of 816 beds, 23 assisted living residences with a total of 1,500 units and five schools for a gross purchase price of \$161,001,000 (includes the conversion of construction loans of \$7,301,000) and invested approximately \$3,624,000 in the expansion and improvement of existing properties. We also sold three skilled nursing facilities in which we had an initial investment of \$7,654,000 for gross proceeds of \$16,706,000.

Our long-term facilities are leased to operators pursuant to long-term operating leases that generally have an initial term of 10 to 12 years 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. Each lease is a triple net lease that requires the lessee to pay all taxes, insurance, maintenance and other costs of the facilities.

Mortgage Loans. As part of our strategy of making long-term investments in properties used in the provision of long-term health care services, we provide mortgage financing on such properties based on our established investment underwriting criteria. (See "Investment and Other Policies" in this Section.) We also provide construction loans that by their terms convert into purchase/lease transactions or permanent financing mortgage loans upon completion of construction. During 1998, we originated mortgage loans of \$47,452,000, net of construction loans of \$5,467,000 that converted to permanent mortgage financing, secured by six skilled nursing facilities with 762 beds, 11 assisted living facilities with 471 units and one school.

We maintain a long-term investment interest in mortgages we originate either through the direct retention of the mortgages or through the retention of REMIC certificates originated in our securitizations. We are a

REIT and, as such, make our investments with the intent to hold them for long-term purposes. However, we may securitize a portion of our mortgage loan portfolio when a securitization provides us with the best available form of capital to fund additional long-term investments. In addition, we believe that the REMIC certificates we retain from our securitizations provide our stockholders with a more diverse real estate investment while maintaining the returns we desire.

REMIC Certificates. We complete a securitization by transferring mortgage loans to a newly created Real Estate Mortgage Investment Conduit ("REMIC") which, in turn, issues mortgage pass-through certificates aggregating approximately the same amount. A portion of the REMIC certificates are sold to third parties and a portion of the REMIC certificates are retained by us. The REMIC certificates we retain are subordinated in right of payment to the REMIC certificates sold to third parties. A portion of the REMIC certificates we retain are interest-only certificates which have no principal amount and entitle us to receive cash flows designated as interest. In 1998, we completed the securitization of approximately \$129,300,000 of mortgage loans and \$26,400,000 face amount (\$20,700,000 carrying value) of subordinated REMIC certificates retained from a securitization we completed in 1993. In the securitization, we sold approximately \$121,400,000 face amount of senior certificates at a weighted average pass-through rate of 6.3% and retained \$34,300,000 face amount of subordinated certificates along with the interest only certificates. The subordinated and interest only certificates we

retained had an aggregate fair value of approximately \$41,400,000 at the time of the securitization and a weighted average effective yield of 18.9%. Prior to 1997, we securitized mortgage loans with an aggregate outstanding principal of approximately \$354,827,000. At December 31, 1998, we had investments in REMIC certificates with an estimated fair value of \$100,595,000.

Financing and Other Transactions. During 1998, we issued 2,000,000 shares of 8.5% Series C Convertible Preferred Stock in a private placement at \$19.25 per share for net proceeds of \$37,605,000. The Series C Preferred Stock is convertible into 2,000,000 shares of our common stock, has a liquidation value of \$19.25 per share and has an annual coupon of 8.5% payable quarterly.

We have a \$170,000,000 Senior Unsecured Revolving Line of Credit that expires on October 3, 2000. As of December 31, 1998, borrowings of \$100,000,000 bearing interest at LIBOR plus 1.25% were outstanding under the revolving credit facility. Subsequent to December 31, 1998, we obtained a \$25,000,000 term loan that bears interest at LIBOR plus 1.25% and matures on October 2, 2000.

Distribution of LTC Healthcare, Inc. During 1998, we acquired 4,002 shares of LTC Healthcare non-voting common stock for \$2,001,000 in cash. We also contributed equity securities with a book value of \$788,000, 13 real estate properties with a net book value of \$61,462,000 that were encumbered by mortgage debt of \$29,263,000 and a minority interest liability of \$3,461,000 on seven of the properties, and other related assets and liabilities with a book value of \$93,000 in exchange for an additional 36,000 shares of LTC Healthcare non-voting common stock and borrowings by LTC Healthcare under an unsecured line of credit provided by the Company of \$21,396,000. Subsequent to the contribution of the above assets and liabilities to LTC Healthcare, they obtained mortgage financing of \$17,400,000 from a third-party lender on four of the unencumbered properties. LTC Healthcare utilized proceeds from the mortgage debt and cash on hand to repay borrowings of \$17,668,000 under the unsecured line of credit. On September 30, 1998, the 40,002 shares of LTC Healthcare non-voting common stock we held were converted into 3,335,882 shares of LTC Healthcare voting common stock. Concurrently, we completed the spin-off of all LTC Healthcare voting common stock through a taxable dividend distribution to the holders our common stock, Cumulative Convertible Series C Preferred Stock and convertible subordinated debentures. One share of LTC Healthcare common stock was distributed to each holder of LTC common stock, Series C Preferred Stock and convertible subordinated debentures for each ten shares of our common stock owned or that would have been issued upon conversion of the convertible subordinated

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debentures and Series C Preferred Stock. Upon completion of the distribution, LTC Healthcare began operating as a separate public company.

Investment and Other Policies

Objectives and Policies. We currently invest primarily in income-producing long-term care facilities. Our investments consist of:

- o mortgage loans secured by long-term care facilities;
- o fee ownership of long-term care facilities which are leased to operators; or
- o participation 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, we consider such factors as:

- o type of property;
- o the location;
- o construction quality, condition and design of the property;
- o the property's current and anticipated cash flow and its adequacy to meet operational needs and lease obligations or debt service obligations;
- o the quality and reputation of the property's operator;
- o the growth, tax and regulatory environments of the communities in which the properties are located;
- o the occupancy and demand for similar facilities in the area surrounding the property, and
- o the Medicaid reimbursement policies and plans of the state in which the property is located.

We place 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, we attempt to invest in facilities that do not have to rely on a high percentage of private pay patients. We seek to invest in facilities that are located in suburban and rural areas of states with improving reimbursement climates. Prior to every investment, we conduct 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, we review the environmental reports, state survey and financial statements of the facility before the investment is made. We prefer to invest in a facility that has a significant market presence in its community and where state licensing procedures limit the entry of competing facilities. Historically, the majority of our investments consisted of mortgage loans secured by skilled nursing facilities. Due to our belief that assisted living facilities are an increasingly important sector in the long-term care market, the majority of our investments in recent years has consisted of direct ownership of assisted living facilities. We believe that assisted living facilities represent a lower cost long-term care alternative for senior adults than skilled nursing facilities. We invest 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. We believe 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.

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The only limitations regarding investments in any one type of property or joint venture are:

- o our Board of Directors has authorized us to invest up to 30% of our adjusted gross real estate investment portfolio (adjusted to include mortgage loans to third parties underlying the investment in REMIC certificates) in assisted living facilities, and
- o the terms of our existing revolving credit facility limit our investments in the education and child care industry to \$75 million and limit our investments outside of health care real estate and the education and child care industry to \$20 million.

Borrowing Policies. We may incur additional indebtedness when, in the opinion of our Board of Directors, it is advisable. We 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. For other short-term purposes, we may, from time to time, negotiate lines of credit, or arrange for other short-term borrowings from banks or otherwise. We may also arrange for long-term borrowings through public offerings or from institutional investors.

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

Prohibited Investments and Activities. Our policies, which are subject to change by our Board of Directors without stockholder approval, impose certain prohibitions and restrictions on various of our investment practices or activities including prohibition against:

- o acquiring any real property unless the consideration paid for such real property is based on the fair market value of the property;
- o 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 we enter into to establish the priority of our capital investment over the capital invested by others investing with us in a real estate project;
- o investing in commodities or commodity futures contracts (other than interest rate futures, when used solely for hedging purposes);

- o investing more than 1% of our total assets in contracts for sale of real estate unless such contracts are recordable in the chain of title;
- o 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 our assets.

Competition

We compete 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 we do, in the acquisition, leasing and financing of long-term care

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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

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

In addition, we require that our 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 us 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 that may either be uninsurable or not economically insurable. For example, we generally require our 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 our investments are located. Should an uninsured (or less than fully insured) loss occur, we could lose its investment in, and anticipated profits and cash flow from, a property.

Employees

We currently employ 21 persons.

Government Financing and Regulation of Health Care

General. Both the federal and state governments are significant sources of revenues for the operators of skilled nursing facilities who lease properties from us or who have borrowed money from us and used their properties as collateral for those borrowings. In addition, the skilled nursing facilities and our other tenants and borrowers who provide health care related services are often subject to extensive government regulation.

Government Financing. Medicare is a federal program that provides certain health care benefits to beneficiaries who are 65 years of age or older, are disabled, or qualify for the End Stage Renal Disease program. Historically, Medicare covered the reasonable costs of certain post-hospital extended care services furnished by skilled nursing facilities, including capital-related costs, subject to limits on routine operating and capital-related costs.

Medicaid is a program of medical assistance, funded jointly by the federal government and the states for certain needy individuals and their dependents, and certain other eligible persons. Under Medicaid, the federal government provides grants to states that have medical assistance programs that are consistent with federal standards. Medicaid programs or the equivalent are currently in existence in all of the states in which we have 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.

Up until July 1, 1998, Medicare and most state Medicaid programs utilized a cost-based reimbursement system for skilled nursing facilities which reimbursed these facilities for the reasonable direct and indirect allowable costs incurred in providing routine services plus, in certain states, a return on equity, subject to certain cost ceilings. These costs normally included 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 was typically subject to retrospective adjustment through cost report settlement, and for certain states, payments made to a facility on an interim basis that were subsequently determined to be less than or in excess of allowable costs could be adjusted through future payments to the affected facility and to other facilities owned by the same owner. State Medicaid reimbursement programs varied as to the methodology used to determine the level of allowable costs which were reimbursed to operators.

o Prospective Payment System

Beginning on July 1, 1998, the congressionally mandated prospective payment system was implemented for skilled nursing facilities. Under the prospective payment system, skilled nursing facilities are paid a case-mix adjusted federal per diem rate for Medicare-covered services provided by skilled nursing facilities. The per diem rate is calculated to cover routine service costs, ancillary costs and capital-related costs. The phased-in implementation of the prospective payment system for skilled nursing facilities began with the first cost-reporting period beginning in fiscal years starting on or after July 1, 1998. The prospective payment system is expected to be fully implemented over three such cost-reporting periods. The effect of the implementation of the prospective payment system on a particular skilled nursing facility will vary in relation to the amount of revenue derived from Medicare patients for each skilled nursing facility.

Skilled nursing facilities may need to restructure their operations to accommodate the new Medicare prospective payment system reimbursement. In part because of the uncertainty as to the effect of the prospective payment system on skilled nursing facilities, in November 1998, Standard and Poor's, an international rating agency that provides credit analysis and information through the rating of financial instruments, placed many skilled nursing facility companies on a "credit watch" because of the potential negative impact of the implementation of the prospective payment system on the financial condition of skilled nursing facilities, including the ability to make interest and principal payments on outstanding borrowings. In early March 1999, Standard & Poor's lowered the ratings of several skilled nursing facility companies, including companies that operate skilled nursing facilities in which we invest, because of the impact of the implementation of the prospective payment system, particularly those companies with substantial debt.

o Balanced Budget Act of 1997

The Balanced Budget Act of 1997 signed by President Clinton on August 5, 1997 is expected to produce billions in net savings for the Federal government. In addition, the Balanced Budget Act repealed the Boren Amendment under which states were required to pay long-term care providers, including skilled nursing facilities, rates that are "reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities." As a result of the repeal of the Boren Amendment, states are now required by the Balanced Budget Act to:

- o use a public process for determining rates,
- o publish proposed and final rates, the methodologies underlying the rates, and justifications for the rates, and

o give methodologies and justifications.

During rate-setting procedures, states are 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 Balanced Budget Act also provides the federal government with expanded enforcement powers to combat waste, fraud and abuse in delivery of health care services. Though applicable to payments for services furnished on or after October 1, 1997, the new requirements are not retroactive. Thus, states that have not proposed changes in their payment methods or standards, or changes in rates for items and services furnished on or after October 1, 1997, need not immediately implement a Balanced Budget Act public approval process.

The Balanced Budget Act also created the Medicare+Choice program which provides a variety of options for individuals entitled to Medicare Part A and enrolled in Medicare Part B. The options include coordinated care plans (including provider-sponsored organization plans), private fee for service plans, and medical savings accounts plans. Medicare+Choice is effective as of January 1, 1999. It is not possible at this time to predict with any certainty the effect of Medicare+Choice on our tenants and borrowers.

Both the Medicare and Medicaid programs contain specific requirements which must be adhered to at all times by health care facilities in order to qualify under the programs. The Medicare and Medicaid 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.

Anti-Fraud Laws and Regulations. There are various federal and state laws prohibiting fraud by health care providers, including criminal provisions which prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Violation of these federal provisions is a felony punishable by up to five years imprisonment and/or \$25,000 fines. Civil provisions prohibit the knowing filing of a false claim or the knowing use of false statements to obtain payment. The penalties for such a violation are fines of not less than \$5,000 nor more than \$10,000, plus treble damages, for each claim filed.

There are also laws which govern referrals and financial relationships. The federal Anti-Kickback Law prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in

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return for, or to induce, the referral of Medicare and Medicaid patients. A wide array of relationships and arrangements, including ownership interests in a company by persons who refer or who are in a position to refer patients, as well as personal services agreements, have under certain circumstances, been alleged or been found to violate these provisions. In addition to the Anti-Kickback Statute, the federal government restricts certain financial relationships between physicians and other providers of health care services.

State and federal governments are devoting increasing attention and resources to anti-fraud initiatives against health care providers. The Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act expand the penalties for health care fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Further, under Operation Restore Trust, a major anti-fraud demonstration project, the Office of Inspector General of the U.S. Department of Health and Human Services, in cooperation with other federal and state agencies, has focused on the activities of skilled nursing facilities, home health agencies, hospices and durable medical equipment suppliers in certain states in which we have properties. Due to the success of Operation Restore Trust, the project has been expanded to numerous other states and to additional providers including providers of ancillary nursing home services.

Based upon information we periodically receive from our operators over the terms of their respective leases and loans, we believe that the nursing facilities in which we have investments are in substantial compliance with the various regulatory requirements applicable to them, although there can be no assurance that the operators are in substantial compliance or will remain in compliance in the future.

Other Regulatory and Licensing Requirements. In addition to the requirements to be met by skilled nursing facilities for participation in the Medicare and Medicaid programs, skilled nursing facilities are subject to regulatory and licensing requirements of federal, state and local authorities. The operator of

each skilled nursing 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 the Medicare and Medicaid 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. We believe that the nursing facilities in which we have 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.

We have increased our investments in assisted living facilities in recent years. Assisted living facilities are subject to certain state regulations and licensing requirements. To qualify as a state licensed facility, assisted living facilities must comply with regulations which address, among other things, staffing, physical design, required services and resident characteristics. Assisted living facilities 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, assisted living facilities are not regulated as such by the federal government. State standards required for assisted living facility 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 assisted living facilities 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

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assisted living residences. There can be no assurance that such states will adopt the Medicaid waiver program.

Uncertainty of 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 pressure to control health care costs intensified during 1994 and 1995 as a result of the national health care reform debate and continues into 1999 as Congress attempted to slow the rate of growth of federal health care expenditures as part of its effort to balance the federal budget.

The Balanced Budget 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 established the prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system. In addition, there are numerous initiatives at the federal and state levels for comprehensive reforms affecting the payment for and availability of health care services. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodology may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

In light of forthcoming regulations and continuing state Medicaid program reform, no assurance can be given that the implementation of such regulations and reform will not have a material adverse effect on our financial condition or results of operations.

Taxation of our Company

General. Our management believes that we have been organized and have operated in such a manner as to qualify for taxation as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 1992, and we intend to continue to operate in such a manner. No assurance can be given that we have 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 Internal Revenue Code provisions, rules and regulations, and administrative and judicial interpretations.

If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income taxes on our 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, we will continue to be subject to federal income tax under certain circumstances.

Requirements for Qualification. The Internal Revenue Code defines a REIT as a corporation, trust or association:

- (1) which is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) which would be taxable, but for Sections 856 through 860 of the Internal Revenue Code, as a domestic corporation;

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- (4) which is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) 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 (including specified entities); and
- (7) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets.

The Internal Revenue Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) 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 we must satisfy to qualify as a REIT:

- o First, at least 75% of our 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, including rents from real property, or from certain types of temporary investment income.
- o Second, at least 95% of our 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.

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. Any gain realized from a prohibited transaction is subject to a 100% penalty tax.

Asset Tests. We, at the close of each quarter of our taxable year, must also satisfy three tests relating to the nature of our assets.

- o First, at least 75% of the value of our 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 (at least five years) public debt offering of our company), cash, cash items and government securities.
- o Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class.
- o Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of any one issuer's outstanding voting securities.

Ownership of a Partnership Interest or Stock in a Corporation. We own 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.

We also own interests in a number of subsidiaries which are intended to be treated as qualified real estate investment trust subsidiaries. The Internal Revenue 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 our company.

We further own 100% of the nonvoting preferred stock in one subsidiary, LTC Development Company, Inc., which represents approximately 99% of the economic value of all classes of stock of LTC Development. LTC Development does not qualify for treatment as a qualified REIT subsidiary.

If any partnership or qualified real estate investment trust subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership or qualified real estate investment trust subsidiary) for federal income tax purposes, we would likely fail to satisfy the REIT asset test prohibiting a REIT from owning greater than 10% of the voting power of the stock of any issuer, as described above, and would therefore fail to qualify as a REIT. We believe that each of the partnerships and subsidiaries in which we own an interest (except LTC Development) will be treated for tax purposes as a partnership or qualified real estate investment trust subsidiary, respectively, although no assurance can be given that the Internal Revenue Service will not successfully challenge the status of any such organization.

President Clinton's fiscal year 2000 budget proposal contains a provision which would amend the Internal Revenue Code to prohibit REITs from owning stock of a corporation (other than a qualified real estate investment trust subsidiary) 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. 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 (1) engaged in a trade or business in which it was not engaged on the date of the first Congressional committee action on the proposal, or (2) acquired substantial new assets on or after such date. In the event that such grandfathered status were so terminated with respect to LTC Development, and we did not dispose of our interest in LTC Development, we would fail the third asset test discussed above and therefore fail to qualify as a REIT.

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. We believe that our REMIC interests fully qualify for purposes of the REIT income and asset tests.

Annual Distribution Requirements. In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders annually in an amount at least equal to

- (1) the sum of:
 - (A) 95% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and our net capital gain); and

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- (B) 95% of the net income, if any (after tax), from foreclosure property; minus

- (2) the excess of certain items of non-cash income over 5% of our real estate investment trust taxable income.

These annual distributions must be paid in the taxable year to which they relate, or in the following taxable year if:

- o declared before we timely file our tax return for such year;
- o paid on or before the first regular dividend payment date after such declaration; and
- o we so elect and specify the dollar amount in our tax return.

Amounts distributed must not be preferential; that is, every stockholder of the class of stock with respect to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class.

To the extent that we do not distribute all of our net long-term capital gain or distribute at least 95%, but less than 100%, of our "real estate investment trust taxable income," as adjusted, it will be subject to tax on such amounts at regular corporate tax rates. Furthermore, if we should fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates in the last three months of the calendar year, by the end of the following January) at least the sum of:

- (1) 85% of our real estate investment trust ordinary income for such year;
- (2) 95% of our real estate investment trust capital gain income for such year; and
- (3) any undistributed taxable income from prior periods;

we would be subject to a 4% excise tax on the excess of such required distributions over the amounts actually distributed. Any real estate investment trust taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

Failure to Qualify. If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, nor will any distributions be required to be made. Unless entitled to relief under specific statutory provisions, we 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 we would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in our 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 year 2000 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, 2000, and thus could effectively preclude us from re-electing to be taxed as a REIT following a loss of its REIT status.

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State and local taxation. We may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or reside. The state and local tax treatment of our company may not conform to the federal income tax consequences discussed above.

Statement Regarding Forward Looking Disclosure

Certain information contained in this annual 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 of those terms. 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. Exhibit 99 to this annual report contains a more comprehensive discussion of risks and uncertainties associated with our business.

Item 2. PROPERTIES

Investment Portfolio

At December 31, 1998, our real estate investment portfolio consisted of investments in 274 skilled nursing facilities with 31,276 beds, 90 assisted living facilities with 4,301 units and six schools in 36 states. We had approximately \$410,659,000 (before accumulated depreciation of \$26,972,000)

invested in facilities we own and lease to operators, approximately \$180,964,000 invested in mortgage loans (before allowance for doubtful accounts of \$1,250,000), and approximately \$100,595,000, at estimated fair value, 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 which are paid either by the patient, the patient's family, or through 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 usually 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.

The schools in our real estate investment portfolio are charter and private schools. Charter schools provide an alternative to the traditional public school. Charter schools are generally autonomous entities authorized by the state or locality to conduct operations independent from the surrounding public school district. Laws vary by state, but generally charters are granted by state boards of education either directly or in conjunction with local school districts or public universities. Operators are granted charters to establish and operate schools based on the goals and objectives set forth in the charter. Upon receipt of a charter, schools receive an annuity from the state for each student enrolled. Unlike public or charter schools, private schools receive a majority of their revenues from the students' parents.

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Owned Properties. At December 31, 1998, we owned 54 skilled nursing facilities with a total of 6,535 beds, 74 assisted living facilities with a total of 3,402 units and five schools in 24 states, representing a net investment of approximately \$383,687,000. The properties are leased pursuant to non-cancelable leases generally with an initial term of 10 to 12 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 our owned properties as of December 31, 1998:

| <TABLE> <CAPTION> | | | | | | | | |
|---|----------------|----------------|-------------------|--------------------------|---------------|----------------|-------------------|-----|
| Current Annual Location Rent Payments | No. of SNFs | No. of ALFs | No. of Schools | No. of Beds /Units(3) | Encumbrances | Lease Term (4) | Purchase Price | |
| ----- | | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Alabama 3,441,000 | 8 | 1 | | 912 | \$ 14,392,000 | 72 | \$ 29,288,000 | \$ |
| Arizona 3,950,000 | 2 | 3 | 3 | 597 | 7,452,000 | 129 | 37,581,000 | |
| California 1,601,000 | 2 | 2 | | 346 | | 137 | 16,516,000 | |
| Colorado 1,173,000 | | 4 | | 184 | | 122 | 11,841,000 | |
| Florida 6,412,000 | 10 | 5 | | 1,682 | | 103 | 63,121,000 | |
| Georgia 261,000 | 1 | | | 100 | | 115 | 2,500,000 | |
| Idaho 977,000 | | 4 | | 148 | | 128 | 9,756,000 | |
| Illinois 747,000 | 1 | | | 148 | | 73 | 6,627,000 | |
| Indiana 487,000 | | 2 | | 78 | | 140 | 5,070,000 | |
| Iowa 1,369,000 | 6 | 1 | | 483 | 10,431,000 | 31 | 12,214,000 | |
| Kansas 872,000 | 3 | 4 | | 290 | 5,339,000 | 108 | 8,917,000 | |
| Minnesota 379,000 | | | 1 | - | | 178 | 3,788,000 | |
| Nebraska 959,000 | | 4 | | 156 | | 128 | 9,332,000 | |
| New Jersey 931,000 | | 1 | 1 | 39 | | 180 | 9,025,000 | |
| New Mexico 745,000 | | 1 | | 109 | | 172 | 8,432,000 | |
| N. Carolina | | 1 | | 42 | | 122 | 2,905,000 | |

| | | | | | | | | |
|------------|----|----|-------|------------|-----------------|--|-------------------|----|
| 278,000 | | | | | | | | |
| Ohio | 6 | | 237 | | 132 | | 15,386,000 | |
| 1,553,000 | | | | | | | | |
| Oklahoma | 6 | | 221 | | 106 | | 12,315,000 | |
| 1,193,000 | | | | | | | | |
| Oregon | 1 | 5 | 432 | 4,191,000 | 127 | | 25,620,000 | |
| 2,531,000 | | | | | | | | |
| Tennessee | 2 | | 224 | | 115 | | 5,550,000 | |
| 580,000 | | | | | | | | |
| Texas | 13 | 13 | 2,386 | 20,564,000 | 87 | | 66,093,000 | |
| 7,435,000 | | | | | | | | |
| Virginia | 3 | | 443 | | 82 | | 11,013,000 | |
| 1,273,000 | | | | | | | | |
| Washington | 2 | 8 | 497 | 10,659,000 | 174 | | 24,959,000 | |
| 2,529,000 | | | | | | | | |
| Wyoming | | 3 | 183 | | 168 | | 12,810,000 | |
| 1,115,000 | | | | | | | | |
| ----- | | | | | | | | |
| TOTAL | 54 | 74 | 5 | 9,937 | \$73,028,000(1) | | \$ 410,659,000(2) | \$ |
| 42,791,000 | | | | | | | | |
| ===== | | | | | | | | |

</TABLE>

- (1) Consists of: i) \$55,432,000 of non-recourse mortgages payable by the Company secured by 27 skilled nursing facilities containing a total of 3,265 beds, ii) \$8,065,000 of tax-exempt bonds secured by 5 assisted living facilities in Washington with 184 units, iii) \$5,340,000 of capital lease obligations on 4 assisted living facilities in Kansas with 134 units, and iv) \$4,191,000 of multi-unit housing tax-exempt revenue bonds on one skilled nursing facility in Oregon with 112 units.
- (2) Of the total purchase price, \$178,762,000 relates to investments in 54 skilled nursing facilities with 6,535 beds, \$211,947,000 relates to investments in 74 assisted living facilities with 3,402 units and \$19,950,000 relates to investments in five schools.
- (3) Number of beds/units applies to skilled nursing facilities and assisted living residences only.
- (4) Weighted average remaining months in lease term.

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.

At December 31, 1998, three of our controlled partnerships owned five skilled nursing facilities that were leased to Sensitive Care, Inc., a Ft. Worth, Texas-based skilled nursing operator. In January 1999, the state of

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Texas took control of the operations at these five facilities and placed a trustee to oversee resident care. Subsequent to the actions by the state of Texas, we entered into leases on the five properties with BMW Healthcare, Inc., another Texas-based skilled nursing operator. These leases commenced on March 1, 1999 and will continue for 10 years as long as the state of Texas issues licenses to BMW Healthcare to operate these facilities. Prior to licensure, BMW Healthcare is operating the properties under trustee supervision.

Mortgage Loans. At December 31, 1998, the Company had 71 mortgage loans secured by first mortgages on 63 skilled nursing facilities with a total of 7,034 beds, 16 assisted living residences with 899 units and one school located in 23 states. At December 31, 1998, the mortgage loans had a weighted average interest rate of 10.89%, generally have 25-year amortization schedules, have balloon payments due from 1999 to 2018 and provide for certain facility fees. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

The following table sets forth certain information regarding our mortgage loans as of December 31, 1998:

<TABLE>
<CAPTION>

| Current Annual Debt Service Location | No. of | | | | Average | | | |
|--|----------------|----------------|-------------------|----------------|--------------------|-----------------------|----------------------------------|-------------------------------------|
| | No. of SNFs | No. of ALFs | No. of Schools | Beds /Units | Interest Rate % | Months to Maturity | Face Amount of Mortgage Loans | Current Amount of Mortgage Loans |

(1)

| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
|--------------------------|-----|-----|-----|-------|-------------|-----|----------------|------------------|-----|
| Alabama 58,000 | 1 | | | 40 | 10.00 | 238 | \$ 500,000 | \$ 497,000 | \$ |
| Arizona 2,022,000 | 2 | 1 | 1 | 479 | 10.25-11.00 | 63 | 17,150,000 | 16,941,000 | |
| Arkansas 403,000 | 2 | | | 274 | 10.25-10.45 | 149 | 3,400,000 | 3,238,000 | |
| California 1,612,000 | 6 | | | 886 | 9.78-12.75 | 148 | 13,076,000 | 12,799,000 | |
| Colorado 1,399,000 | 5 | 1 | | 476 | 8.91-12.52 | 85 | 12,440,000 | 12,270,000 | |
| Florida 3,069,000 | 6 | 2 | | 908 | 9.90-12.05 | 116 | 25,929,000 | 25,485,000 | |
| Georgia 1,340,000 | 4 | 1 | | 445 | 10.00-11.18 | 97 | 11,450,000 | 11,329,000 | |
| Illinois 347,000 | 2 | | | 191 | 9.58-11.30 | 94 | 3,150,000 | 3,121,000 | |
| Iowa 1,032,000 | 5 | | | 590 | 11.05-12.00 | 150 | 8,900,000 | 8,727,000 | |
| Kansas 433,000 | 2 | | | 197 | 10.16-12.13 | 160 | 3,600,000 | 3,560,000 | |
| Mississippi 662,000 | 1 | | | 180 | 11.32 | 94 | 5,465,000 | 5,443,000 | |
| Missouri 547,000 | 2 | | | 264 | 8.88-11.13 | 129 | 4,301,000 | 4,470,000 | |
| Montana 268,000 | | 1 | | 34 | 11.00 | 181 | 2,346,000 | 2,345,000 | |
| Nebraska 1,017,000 | | 3 | | 135 | 10.23-11.00 | 117 | 8,979,000 | 8,957,000 | |
| Nevada 145,000 | 1 | | | 100 | 10.63 | 141 | 1,200,000 | 1,129,000 | |
| N. Carolina 1,383,000 | 2 | 4 | | 369 | 8.91-10.90 | 89 | 14,384,000 | 14,280,000 | |
| Ohio 586,000 | 1 | | | 150 | 10.39 | 88 | 5,200,000 | 5,083,000 | |
| Oklahoma 163,000 | 1 | | | 161 | 11.15 | 152 | 1,300,000 | 1,250,000 | |
| S. Carolina 2,087,000 | 5 | 3 | | 637 | 8.91-12.10 | 94 | 18,927,000 | 18,850,000 | |
| Tennessee 574,000 | 3 | | | 201 | 10.98 | 82 | 4,842,000 | 4,746,000 | |
| Texas 1,243,000 | 7 | | | 791 | 10.25-11.70 | 145 | 10,145,000 | 9,909,000 | |
| Washington 564,000 | 4 | | | 310 | 10.40-11.90 | 146 | 4,500,000 | 4,387,000 | |
| Wisconsin 272,000 | 1 | | | 115 | 11.00 | 221 | 2,200,000 | 2,148,000 | |
| TOTAL 21,226,000 | 63 | 16 | 1 | 7,933 | | | \$ 183,384,000 | \$180,964,000(2) | \$ |

</TABLE>

(1) Includes principal and interest payments.

(2) Of the total current principal balance, \$131,550,000, \$42,914,000 and \$6,500,000 relates to investments in skilled nursing facilities, assisted living facilities and schools, respectively.

In general, the 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 terms of the 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 us. 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, 1998, the estimated fair value of the REMIC certificate investments was \$100,595,000 (\$100,814,000, at amortized cost). The REMIC certificates we retain are subordinate in rank and right of payment to the REMIC 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 REMIC certificates are collateralized by four pools consisting of 117 first mortgage loans secured by 184 skilled nursing facilities with a total of 20,972 beds in 26 states. Each mortgage loan, all of which we originated, 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. The \$381,894,000 current principal amount of mortgage loans represented by the REMIC certificates have a weighted average interest rate of approximately 11.03%, and scheduled maturities ranging from 1999 to 2028.

The following table sets forth certain information regarding the mortgage loans securing the REMIC certificates as of December 31, 1998:

| 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 | 9 | 1,189 | \$ 22,526,000 | \$ 21,807,000 | \$ 2,771,000 |
| Arizona | 5 | 955 | 26,018,000 | 25,206,000 | 2,882,000 |
| California | 23 | 2,532 | 52,870,000 | 39,400,000 | 5,385,000 |
| Colorado | 1 | 177 | 2,000,000 | 1,964,000 | 235,000 |
| Connecticut | 4 | 499 | 10,656,000 | 10,299,000 | 1,316,000 |
| Florida | 7 | 945 | 32,310,000 | 31,371,000 | 3,713,000 |
| Georgia | 12 | 1,318 | 27,272,000 | 26,526,000 | 3,307,000 |
| Illinois | 6 | 679 | 12,426,000 | 11,928,000 | 1,508,000 |
| Iowa | 11 | 810 | 16,731,000 | 16,746,000 | 1,893,000 |
| Kansas | 1 | 66 | 1,200,000 | 1,172,000 | 143,000 |
| Kentucky | 1 | 67 | 726,000 | 702,000 | 89,000 |
| Louisiana | 1 | 127 | 1,600,000 | 1,557,000 | 199,000 |
| Michigan | 3 | 444 | 6,800,000 | 6,551,000 | 848,000 |
| Mississippi | 3 | 400 | 10,685,000 | 10,532,000 | 1,193,000 |
| Missouri | 6 | 645 | 10,989,000 | 10,663,000 | 1,325,000 |
| Montana | 6 | 543 | 15,508,000 | 15,130,000 | 1,778,000 |
| Nebraska | 6 | 570 | 10,014,000 | 9,692,000 | 1,206,000 |
| New Mexico | 8 | 673 | 20,833,000 | 20,182,000 | 2,196,000 |
| N. Carolina | 1 | 168 | 2,950,000 | 2,874,000 | 359,000 |
| Ohio | 3 | 243 | 7,000,000 | 6,504,000 | 823,000 |
| Oklahoma | 1 | 112 | 1,300,000 | 1,216,000 | 169,000 |
| Oregon | 2 | 168 | 1,610,000 | 1,595,000 | 165,000 |
| S. Dakota | 1 | 50 | 585,000 | 567,000 | 66,000 |
| Tennessee | 7 | 650 | 19,027,000 | 18,693,000 | 2,283,000 |
| Texas | 52 | 6,653 | 88,491,000 | 84,574,000 | 10,471,000 |
| Washington | 4 | 289 | 4,583,000 | 4,443,000 | 550,000 |
| TOTAL | 184 | 20,972 | \$406,710,000 | \$381,894,000 | \$46,873,000 |

(1) Included in the balances of the mortgages underlying the REMIC certificates are \$55,432,000 of non-recourse mortgages payable by our subsidiaries. We originated these mortgages which were subsequently transferred to the REMIC. The properties and the mortgage debt are reflected in our balance sheet.

The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 1999 to 2028, unless prepaid prior thereto. Contractual principal and interest distributions with respect to the \$100,814,000 amortized cost basis of REMIC certificates (excluding unrealized losses on changes in estimated fair value of \$219,000) we retained are subordinated to distributions of interest and principal with respect to the \$299,215,000 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 we retained will commence in August 2003 with final maturity in April 2028. 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 security provisions as our mortgage loans.

As part of the REMIC transactions discussed above, we serve as the sub-servicer and, in such capacity, are responsible for performing substantially all of the servicing duties relating to the mortgage loans represented by the REMIC

certificates. We receive monthly fees equal to a fixed percentage of the then outstanding mortgage loan balance in the REMIC which, in management's opinion, represent currently prevailing terms for similar transactions. In addition, we will act as the special servicer to restructure any mortgage loans in the REMIC that default.

At December 31, 1998, the REMIC certificates we held had an effective interest rate of approximately 17.76% based on the expected future cash flows with no unscheduled prepayments.

Major Operators

As of December 31, 1998, Sun Healthcare Group, Inc. operated 70 facilities representing 19% (\$174.3 million) of our adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the investment in REMIC certificates). Our real estate investments that are operated by Sun Healthcare consists of \$46.3 million of properties we own and lease directly to Sun Healthcare and \$31.7 million of mortgage loans and mortgage loans underlying the REMIC certificates that are secured by properties owned directly by Sun Healthcare. The remaining \$96.3 million consists of mortgage loans and mortgage loans underlying the REMIC certificates that are secured by properties that are owned by independent entities that either lease the properties to Sun Healthcare or have Sun Healthcare operate the property pursuant to a management agreement.

Other than Sun Healthcare, no long-term care provider operated over 10% of our adjusted gross real estate investment portfolio. Sun Healthcare is a publicly traded company, and as such is subject to the filing requirements of the Securities and Exchange Commission. Our financial position and our ability to make distributions may be adversely affected by financial difficulties experienced by Sun Healthcare, or any of our other major operators, including bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires. See "Exhibit 99 -Risk Factors" for a more comprehensive discussion of risks and uncertainties.

Item 3. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and lawsuits arising in the ordinary course of business which, in our opinion, are not singularly or in the aggregate material to our results of operations or financial condition.

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

None.

Item 4a. EXECUTIVE OFFICERS

| Name | Age | Position |
|-------------------------|-----|--|
| Andre C. Dimitriadis | 58 | Chairman, Chief Executive Officer and Director |
| James J. Pieczynski | 36 | President, Chief Financial Officer, and Director |
| Christopher T. Ishikawa | 35 | Senior Vice President and Chief Investment Officer |
| Raad K. Shawaf | 33 | Senior Vice President and General Counsel |

Mr. Dimitriadis founded LTC 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 LTC since May 1994. From May 1994 to September 1997, he also served as Senior Vice President of LTC. He joined LTC 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.

Mr. Ishikawa has served as Senior Vice President and Chief Investment Officer since September 8, 1997. Prior to that, he served as Vice President and Treasurer of LTC since April 1995. Prior to joining LTC, 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.

Mr. Shawaf has served as Senior Vice President and General Counsel since March 1, 1999. Prior to that, he served as Vice President and Assistant General

Counsel of LTC since September 1997. Prior to joining LTC, he was employed by Pamela J. Privett, A Professional Law Corporation, which served as outside General Counsel to LTC from June 1997 to September 1997. From November 1996 to June 1997, he was the sole owner of Raad K. Shawaf, Attorney At Law, a real estate law practice. From June 1993 to June 1996, he was an associate attorney at Stern, Neubauer, Greenwald & Pauly.

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

- (a) Our common stock is listed on the New York Stock Exchange. Set forth below are the high and low reported sale prices for our common stock as reported on the NYSE.

| | 1998 | | 1997 | |
|----------------|-----------|-----------|-----------|-----------|
| | High | Low | High | Low |
| First Quarter | \$21.9375 | \$18.9375 | \$ 18.625 | \$ 16.625 |
| Second Quarter | 20.3125 | 18.00 | 18.25 | 16.125 |
| Third Quarter | 19.00 | 16.25 | 19.3125 | 18.00 |
| Fourth Quarter | 18.00 | 15.5625 | 21.50 | 18.8125 |

- (b) As of December 31, 1998, we had approximately 927 stockholders of record of our common stock.

- (c) We declared total cash distributions as set forth below:

| | 1998 | 1997 |
|----------------|----------|----------|
| First Quarter | \$.365 | \$.34 |
| Second Quarter | .39 | .365 |
| Third Quarter | .39 | .365 |
| Fourth Quarter | .39 | .365 |
| | \$ 1.535 | \$ 1.435 |

In addition, in connection with our distribution of our investment in LTC Healthcare common stock to our common stockholders, Series C preferred stockholders and convertible debenture holders, we declared a stock dividend in the form of LTC Healthcare common stock equal to \$0.469 per share.

We intend to distribute to its stockholders a majority of our 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 subject to approval of the Board of Directors and will depend on the earnings of LTC, 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 Internal Revenue Code, we are required to make distributions to holders of our shares equal to at least 95% of our "REIT taxable income."

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Item 6. SELECTED FINANCIAL INFORMATION

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

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|---------------------------------|--|-----------|-----------|-----------|-----------|
| | | | | | |
| | (In thousands, except per share amounts) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Operating Information: | | | | | |
| Revenues | \$ 89,391 | \$ 73,434 | \$ 54,930 | \$ 35,569 | \$ 27,641 |
| Expenses: | | | | | |
| Interest expense | 22,267 | 23,795 | 20,604 | 9,407 | 6,563 |
| Depreciation and amortization | 12,561 | 9,132 | 6,298 | 3,072 | 1,781 |
| Amortization of founders' stock | -- | 31 | 114 | 221 | 372 |
| Provision for loan losses | 600 | -- | -- | -- | 550 |
| Minority interest | 1,415 | 1,205 | 898 | 57 | -- |
| Operating and other expenses | 5,084 | 4,393 | 4,479 | 2,772 | 3,037 |
| Total expenses | 41,927 | 38,556 | 32,393 | 15,529 | 12,303 |
| Other income (loss) | 3,129 | 885 | 6,173 | (1,656) | 667 |

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Income before cumulative effect of change in accounting | 50,593 | 35,763 | 28,710 | 18,384 | 16,005 |
| Cumulative effect of accounting change | -- | -- | -- | -- | 1,205 |
| Net income | 50,593 | 35,763 | 28,710 | 18,384 | 17,210 |
| Preferred dividends | (12,896) | (6,075) | -- | -- | -- |
| Net income available to common stockholders | \$ 37,697 | \$ 29,688 | \$ 28,710 | \$ 18,384 | \$ 17,210 |
| Per share Information: | | | | | |
| Basic net income before cumulative effect of accounting change | \$ 1.39 | \$ 1.26 | \$ 1.51 | \$ 1.02 | \$ 1.05 |
| Cumulative effect of change in method of accounting for REMIC Certificates | -- | -- | -- | -- | 0.08 |
| Basic net income | \$ 1.39 | \$ 1.26 | \$ 1.51 | \$ 1.02 | \$ 1.13 |
| Diluted net income | \$ 1.39 | \$ 1.25 | \$ 1.44 | \$ 1.01 | \$ 1.11 |
| Distributions declared (1) | \$ 1.535 | \$ 1.435 | \$ 1.335 | \$ 1.21 | \$ 1.10 |
| Balance Sheet Information: | | | | | |
| Real estate investments, net | \$ 663,996 | \$ 640,733 | \$ 488,134 | \$ 340,441 | \$ 220,025 |
| Total assets | 689,814 | 656,664 | 500,538 | 357,378 | 241,241 |
| Total debt | 229,695 | 249,724 | 283,472 | 174,083 | 55,835 |
| Total liabilities | 237,900 | 259,378 | 299,207 | 185,458 | 66,148 |
| Minority interest | 10,514 | 11,159 | 10,528 | 1,098 | -- |
| Total stockholders' equity | 441,400 | 386,127 | 190,803 | 170,822 | 175,093 |
| Other Information: | | | | | |
| Cash flows from operating activities | \$ 61,885 | \$ 43,230 | \$ 33,789 | \$ 24,197 | \$ 19,242 |
| Cash flows (used in) investing activities | (51,529) | (150,800) | (90,317) | (111,422) | (73,546) |
| Cash flows provided by (used in) financing activities | (13,827) | 109,396 | 58,242 | 74,393 | 65,465 |
| Funds from operations | \$ 47,559 | \$ 38,735 | \$ 28,793 | \$ 23,944 | \$ 17,078 |
| Basic funds from operations per share | \$ 1.76 | \$ 1.65 | \$ 1.52 | \$ 1.33 | \$ 1.12 |
| Diluted funds from operations per share | \$ 1.71 | \$ 1.57 | \$ 1.44 | \$ 1.29 | \$ 1.09 |

</TABLE>

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

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

Operating Results

Year ended December 31, 1998 compared to year ended December 31, 1997

Revenues for the year ended December 31, 1998 increased \$15,957,000 or 22% to \$89,391,000 from \$73,434,000 in 1997. The increase in revenues resulted from increased rental income of \$11,732,000, increased interest income from REMIC certificates of \$2,756,000 and an increase in interest and other income of \$4,381,000. Partially offsetting the above increases was a decrease of approximately \$2,912,000 in interest income on mortgage loans.

Rental income increased \$5,814,000 as a result of property acquisitions completed during 1997 and \$7,941,000 due to property acquisitions completed during 1998. "Same-store" rents increased \$955,000 due to the receipt of contingent rents and rental increases as provided for in the lease agreements. Partially offsetting the above increases in rental income was a decrease of \$2,978,000 resulting from the sale of properties. During May 1998, the Company completed its fourth securitization transaction resulting in an increase in interest income from REMIC certificates and a decrease in interest income on mortgage loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -Liquidity and Capital Resources." Increased interest and other income for 1998 resulted primarily from interest income on notes receivable from stockholders and increased commitment fees.

Total expenses for the year ended December 31, 1998 decreased to 47% of net revenues compared to 53% in 1997. The decrease was primarily due to a decrease in total interest expense as a result of the conversion of subordinated debentures. Depreciation and amortization increased due the larger investment base of owned properties in 1998 versus 1997. During 1998, a \$600,000 provision for loan losses was recorded for two loans that are currently on non-accrual status. The increase in operating and other expenses is due to increased

salaries and benefits attributable to an increase in the number of full time employees.

Other income for the year ended December 31, 1998 includes a gain of approximately \$9,926,000 on the sale of three skilled nursing facilities. Offsetting the increase in other income attributable to the gain on the sale of real estate was a decrease in the estimated fair value of REMIC certificates that resulted in an unrealized loss of \$6,797,000 during the current period as compared to the prior period's unrealized gain of \$57,000.

During the year ended December 31, 1998, the Company declared cash dividends of \$41,837,000 (\$1.535 per share) and a stock dividend in the form of LTC Healthcare common stock of \$10,724,000 (fair value of \$0.469 per share, unaudited) on its common stock and dividends on its preferred stock totaling \$12,896,000. The dividends on the preferred stock represent the regular annual dividend of \$2.375 per share on the Series A Cumulative Preferred Stock and \$2.25 per share on the Series B Cumulative Preferred Stock and a partial dividend on its Series C Convertible Preferred Stock (issued in September 1998). Dividends declared during the year ended December 31, 1997 represent a partial dividend for the month of March 1997 and the regular monthly dividend for the remainder of the year on the Series A Cumulative Preferred Stock (issued in March 1997) and a partial dividend for the month of December 1997 on the Series B Cumulative Preferred Stock (issued in December 1997).

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As a result of the changes in revenues and expenses discussed above, net income available to common stockholders increased \$8,009,000 to \$37,697,000 for the year ended December 31, 1998 from \$29,688,000 in 1997.

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 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 stockholders increased \$978,000 to \$29,688,000 in 1997 from \$28,710,000 in 1996.

Liquidity and Capital Resources

As of December 31, 1998, the Company's real estate investment portfolio consisted of approximately \$410,659,000 invested primarily in owned skilled nursing and assisted living facilities (before accumulated depreciation of \$26,972,000), approximately \$180,464,000 invested in mortgage loans (before allowance for doubtful accounts of \$1,250,000) and approximately \$100,595,000 (fair value) in REMIC Certificates. As of December 31, 1998, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was \$299,215,000 and 7.29%, respectively. The effective yield on the subordinated REMIC certificates held by the Company, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated

credit losses was 17.76% at December 31, 1998. The Company's portfolio consists of 274 skilled nursing facilities, 90 assisted living facilities and six schools in 36 states.

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As of December 31, 1998, \$100,000,000 was outstanding under the Company's \$170,000,000 Senior Unsecured Revolving Line of Credit 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 1.25%. On March 8, 1999, the Company obtained a \$25,000,000 term loan that bears interest at LIBOR plus 1.25% and matures on October 2, 2000.

As of December 31, 1998 the Company had \$581,323,000 of unencumbered real estate investments consisting of \$300,264,000 in owned properties (before accumulated depreciation), \$180,464,000 in mortgage loans (before allowance for doubtful accounts) and \$100,595,000 in REMIC certificates. The Company believes that its current cash from operations available for distribution or reinvestment, its borrowing capacity (including borrowings against unencumbered real estate investments), and the Company's ability to access the capital markets are sufficient to provide for payment of its operating costs, provide funds for distribution to its stockholders and to fund additional investments.

During the year ended December 31, 1998, the Company completed approximately \$204,776,000 in new investments consisting of approximately \$47,452,000 in mortgage loans and approximately \$157,324,000 in owned properties. The Company financed its investments with proceeds from its recently completed securitization transaction as discussed below and the sale of real estate properties, the assumption of mortgage loans and bonds of \$11,224,000 bearing interest at a weighted average rate of 11.6%, issuance of \$3,432,000 in minority interests, short-term borrowings and cash on hand.

During June 1998, the Company sold a skilled nursing facility that was acquired in 1992 for approximately \$11,600,000 and in September 1998 sold two skilled nursing facilities that were acquired in 1994 for approximately \$5,106,000. The Company's initial and net investment in these three facilities was approximately \$7,654,000 and \$6,332,000, respectively. In connection with the sale, proceeds of approximately \$4,271,000 were used to repay an outstanding mortgage loan secured by one of the facilities. The mortgage loan was payable to the pool of mortgage loans securing the Company's investment in REMIC Certificates. The remaining proceeds were used to repay borrowings outstanding under the Company's line of credit. The Company recognized a gain of approximately \$9,926,000 on the sale of these facilities.

During May 1998, the Company completed a securitization of approximately \$129,300,000 of mortgage loans with a weighted average interest rate of 10.2% and \$26,400,000 face amount (\$20,700,000 carrying value) of subordinated certificates, retained from a securitization completed in 1993, with an interest rate of 9.78% on the face value (15.16% on the amortized cost) (the "1998-1 Pool"). As part of the securitization, the Company sold approximately \$121,400,000 face amount of senior certificates at a weighted average pass-through rate of 6.3% and retained \$34,300,000 face amount of subordinated certificates along with the interest only certificates. The subordinated and interest only certificates retained by the Company had an aggregate fair value of approximately \$41,400,000 at the time of the securitization and a weighted average effective yield of 18.9%. Included in the 1998-1 Pool were 40 mortgage loans, including mortgage loans of approximately \$25,741,000 with a weighted average interest rate of approximately 8.7% provided to wholly owned subsidiaries and limited partnerships of the Company. Net proceeds of approximately \$108,613,000 from the above securitization were used to repay borrowings outstanding under the Company's line of credit.

On September 2, 1998, the Company issued 2,000,000 shares of 8.5% Series C Convertible Preferred Stock at \$19.25 per share for net proceeds of \$37,605,000. The Series C Preferred Stock is convertible into 2,000,000 shares of the Company's common stock, has a liquidation value of \$19.25 per share and has an annual coupon of 8.5%, payable quarterly. During 1998, the Company repurchased and retired 200,000 shares of common stock for an aggregate purchase price of approximately \$3,345,000. On February 3,

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1999, the Company announced a stock repurchase plan of up to \$5,000,000 of common stock. As of March 19, 1999, the Company had repurchased and retired 316,800 shares of common stock for an aggregate purchase price of approximately \$4,108,000 under this plan.

On July 1, 1998, the Company redeemed the outstanding \$90,000 principal amount of its 8.5% Convertible Subordinated Debentures due 2000 (the "8.5% Debentures") and the outstanding \$20,000 principal amount of its 9.75% Convertible Subordinated Debentures due 2004 (the "9.75% Debentures"). Including conversions made in connection with the redemption of the 8.5% Debentures and the 9.75%

Debentures, during the year ended December 31, 1998, holders of approximately \$35,046,000 in principal amount of convertible subordinated debentures elected to convert the debentures into 2,283,213 shares of common stock at prices ranging from \$15.00 to \$17.25 per share. At December 31, 1998, the Company had \$56,667,000 principal amount of convertible subordinated debentures outstanding which were convertible into 3,512,089 shares of common stock.

During 1998, LTC acquired 4,002 shares of LTC Healthcare, Inc. ("Healthcare") non-voting common stock for \$2,001,000 in cash. LTC also contributed equity securities with a book value of \$788,000, 13 real estate properties with a net book value of \$61,462,000 that were encumbered by mortgage debt of \$29,263,000 and a minority interest liability of \$3,461,000 on seven of the properties, and other related assets and liabilities with a book value of \$93,000 in exchange for an additional 36,000 shares of Healthcare non-voting common stock and borrowings by Healthcare under the unsecured line of credit provided by the Company of \$21,396,000. During 1998, the Company provided additional funding of \$8,635,000 under the unsecured line of credit. Subsequent to the contribution of the above assets and liabilities by the Company to Healthcare, Healthcare obtained mortgage financing of \$17,400,000 from a third-party lender on four of the unencumbered properties. Healthcare utilized proceeds from the mortgage debt and cash on hand to repay borrowings of \$17,668,000 under the unsecured line of credit provided by the Company.

On September 30, 1998, the 40,002 shares of Healthcare non-voting common stock held by the Company were converted into 3,335,882 shares of Healthcare voting common stock. Concurrently, the Company completed the spin-off of all Healthcare voting common stock through a taxable dividend distribution to the holders of Company common stock, Cumulative Convertible Series C Preferred Stock ("Series C Preferred Stock") and Convertible Subordinated Debentures (the "Debentures"). One share of Healthcare common stock was distributed to each holder of Company common stock, Series C Preferred Stock and Debentures for each ten shares of Company common stock owned and for each ten shares of Company common stock that would have been issued upon conversion of the Debentures and Series C Preferred Stock. The Company incurred costs of approximately \$500,000 in connection with the distribution. Upon completion of the distribution, Healthcare began operating as a separate public company.

For book purposes, no gain was recognized on the distribution of Healthcare common stock which had a net book value of approximately \$10,724,000. The distribution was a taxable dividend distribution and accordingly, for tax purposes, the net assets were transferred at their net fair market value of approximately \$15,650,000 (\$4.69 per share of Healthcare common stock) which resulted in a taxable gain of approximately \$4,900,000.

The Company and Healthcare have entered into various agreements which, among other things, provide for a sharing of corporate overhead under an administrative services agreement. During the year ended December 31, 1998, the Company charged Healthcare an administrative services fee of approximately \$350,000. In addition, the Company provided Healthcare with a \$20.0 million unsecured line of credit that bears interest at 10% and matures in March 2008. As of December 31, 1998 approximately \$16,528,000 was outstanding under the line of credit. The Company recorded interest income related to the unsecured line of credit of \$711,000 for the year ended December 31, 1998.

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During 1998 but subsequent to the spin-off, the Company acquired 299,900 shares of Healthcare common stock, representing approximately 9.0% of Healthcare's outstanding common stock, for an aggregate purchase price of approximately \$659,000.

On November 2, 1998, the Company entered into an interest rate swap agreement whereby the Company effectively fixed the interest rate on LIBOR based variable rate debt. Under this agreement, which expires in November 2000, the Company will be credited interest at three month LIBOR and will incur interest at a fixed rate of 4.74% on a notional amount of \$50,000,000. The notional amounts of interest rate agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss.

The Company expects its future income and ability to make distributions from cash flows from operations to depend on the collectibility of its mortgage loans receivable, REMIC Certificates and rents. The collection of these loans, certificates and rents will be dependent, in large part, upon the successful operation by the operators of the skilled nursing facilities, assisted living residences and schools 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 will make future revisions to the provision, if considered necessary.

The Company's investments, principally its investments in mortgage loans, REMIC Certificates, and owned properties, are subject to the possibility of loss of their carrying values as a result of changes in market prices, interest rates and inflationary expectations. The effects on interest rates may affect the Company's costs of financing its operations and the fair market value of its financial assets. The Company generally makes loans which have predetermined increases in interest rates and leases which have agreed upon annual increases. In as much 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 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, in most cases, 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).

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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 (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. See "Exhibit 99 - Risk Factors" for a more comprehensive discussion of risks and uncertainties.

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

Funds From Operations

The Company has adopted the definition of Funds From Operations ("FFO") prescribed by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO is defined as net income applicable to common stockholders (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real property and after adjustments for unconsolidated entities in which a REIT holds an interest. In addition, the Company excludes any unrealized gains or losses resulting from temporary changes in the estimated fair value of its REMIC Certificates from the computation of FFO.

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

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

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Net income available to common stockholders | \$ 37,697 | \$ 29,688 | \$ 28,710 |
| Real estate depreciation | 12,561 | 9,104 | 6,256 |
| Real estate depreciation included in equity earnings | 430 | -- | -- |
| Gain on sale of real estate | (9,926) | -- | -- |
| Unrealized (gain) loss on REMIC Certificates | 6,797 | (57) | (6,173) |
| | ----- | ----- | ----- |
| FFO available to common stockholders | \$ 47,559 | \$ 38,735 | \$ 28,793 |
| | ===== | ===== | ===== |
| Diluted FFO available to common stockholders | \$ 55,871 | \$ 47,533 | \$ 38,764 |
| | ===== | ===== | ===== |
| Basic FFO per share | \$ 1.76 | \$ 1.65 | \$ 1.52 |
| | ===== | ===== | ===== |
| Diluted FFO per share | \$ 1.71 | \$ 1.57 | \$ 1.44 |
| | ===== | ===== | ===== |
| Shares for basic FFO per share | 27,077 | 23,511 | 18,983 |
| Shares for diluted FFO per share | 32,762 | 30,281 | 26,828 |

</TABLE>

Year 2000

Currently many computer programs assume the first two digits of a year are "19" and simply identify a year by the last two digits. It is widely anticipated that, beginning in the year 2000 when the first two digits of a year are "20" rather than "19", these computer programs will incorrectly identify the year (i.e. the year 2000 will be incorrectly identified as 1900). Such miscalculations could result in the disruption of operations that are reliant on these computer programs. Computer programs that identify a year by four digits are deemed to be year 2000 compliant. The statements in this section include year 2000 readiness disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998.

Status of the Company's Information Technology Systems and Non-Information Technology Systems. Our primary use of information technology systems is its internal accounting and information management software (collectively the "Systems"). We have evaluated the Systems to assess whether they will function properly with respect to dates in the year 2000 and beyond. Systems that were determined to be non-compliant with the year 2000 and beyond will be upgraded or replaced. Implementation of year 2000 compliant Systems and upgrades to existing Systems are expected to be completed by mid-1999. The total cost associated with modifications required to become year 2000 compliant will not be material to our financial position, results of operations or liquidity. Due to our limited reliance on complex Systems, we believe the year 2000 issue, as it relates to its internal Systems, will not have a material adverse effect upon our financial position, results of operations or liquidity.

We will also have year 2000 exposure in non-information technology areas as it relates to owned properties and our leased corporate offices. There is a risk that embedded chips in elevators, security systems, electrical systems and similar technology-driven devices may stop functioning on January 1, 2000. All of our owned properties are leased under triple-net leases and as such, the cost to repair any of these items will be paid by the lessee. While any disruption in services at our corporate offices due to failure of non-information technology systems may be inconvenient and disruptive to day-to-day activities,

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it is not expected to have a material adverse effect on our financial position, results of operations or liquidity.

Exposure to Third Party Year 2000 Issues. We depend upon the following third parties:

- o our tenants and borrowers for rents and cash flows;
- o our financial institutions for availability of working capital and capital markets financing; and
- o our transfer agent to maintain and track investor information.

If our primary tenants or borrowers are not year 2000 compliant, or if they face disruptions in their cash flows due to year 2000 issues, we could face significant temporary disruptions in our cash flows after that date. These disruptions could be compounded if the commercial banks that process our cash receipts and disbursements are not year 2000 compliant. If there are significant disruptions to the capital markets as a result of year 2000 issues, our ability to access the capital markets to fund investments could be impaired.

Neither we nor our lessees or mortgagors can be assured that the federal and state governments, upon which our lessees rely for Medicare and Medicaid revenue, will be in compliance in a timely manner. The General Accounting Office has reported that the Health Care Financing Administration, which runs Medicare, is behind schedule in taking steps to deal with the year 2000 issue and that it is highly unlikely that all of the Medicare systems will be compliant in time to ensure the delivery of uninterrupted benefits and services into the year 2000. The General Accounting Office has also reported that, based upon its survey of the states, the District of Columbia and three territories, less than 16% of the automated systems used by state and local government to administer Medicaid are reported to be year 2000 compliant. Due to the general uncertainty surrounding the readiness of third-party tenants and other third-parties, including the federal and state governments, with which our lessees do business, we are unable at this time to determine whether non-compliance with the year 2000 issue by third-parties will have a material impact on our financial position, results of operations or liquidity.

Contingency Plan. In the event we experience a significant disruption in cash receipts due to a delay in Medicare or Medicaid receipts by our tenants or due to other year 2000 non-compliance issues, we would seek additional liquidity from our lenders and slow our investment activity.

Readers are cautioned that forward-looking statements contained in the above discussion regarding year 2000 compliance should be read in conjunction with the disclosure under the heading "-Statement Regarding Forward Looking Disclosure" set forth below.

Statement Regarding Forward Looking Disclosure

Certain information contained in this annual 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 of those terms. 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. Exhibit 99 to this annual report contains a more comprehensive discussion of risks and uncertainties associated with our business.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Readers are cautioned that statements contained in this section "Quantitative and Qualitative Disclosures About Market Risk" are forward looking and should be read in conjunction with the disclosure under the heading "-Statement Regarding Forward Looking Disclosure" set forth above.

We are exposed to market risks associated with changes in interest rates as they relate to our mortgage loans receivable, investments in REMIC certificates and debt. Interest rate risk is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

To modify and manage the interest characteristics of our outstanding debt and limit the effects of interest rates on our operations, we may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other

interest rate exchange contracts. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks such as counter-party credit risk and legal enforceability of hedging contracts. We do not enter into any transactions for speculative or trading purposes.

Our future earnings, cash flows and estimated fair values relating to financial instruments are dependent upon prevalent market rates of interest, such as LIBOR or term rates of U.S. Treasury Notes. Changes in interest rates generally impact the fair value, but not future earnings or cash flows, of mortgage loans receivable, our investment in REMIC certificates and fixed rate debt. For variable rate debt, such as our revolving line of credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows. We have partially mitigated the impact of interest rate changes on our revolving line of credit with an interest rate swap agreement.

At December 31, 1998, based on the prevailing interest rates for comparable loans and estimates made by management, the fair value of our mortgage loans receivable was approximately \$181.7 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately \$7.5 million while a 1% decrease in such rates would increase their estimated fair value by approximately \$8.2 million. A 1% increase or decrease in applicable interest rates would not have a material impact on the fair value of our investment in REMIC certificates or fixed rate debt.

Assuming the borrowings outstanding under our revolving line of credit at December 31, 1998 remain constant and after giving effect to our interest rate swap agreement, a 1% increase in interest rates would increase annual interest expense on our revolving line of credit by approximately \$500,000. Conversely, a 1% decrease in interest rates would decrease annual interest expense on our revolving line of credit by \$500,000.

These estimated impact of changes in interest rates discussed above are determined by considering the impact of the hypothetical interest rates on our borrowing costs, interest rate swap agreement, lending rates and current U.S. Treasury rates from which our financial instruments may be priced. We do not believe that future market rate risks related to our financial instruments will be material to our financial position or results of operations. These analyses do not consider the effects of industry specific events, changes in the real estate markets, or other overall economic activities that could increase or decrease the fair value of our financial instruments. If such events or changes were to occur, we would consider taking actions to mitigate and/or reduce any negative exposure to such changes. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

Item 8. FINANCIAL STATEMENTS

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| Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996 | 34 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996 | 35 |
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| Notes to Consolidated Financial Statements | 37 |

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, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 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 19, 1999

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

<TABLE>
<CAPTION>

| | December 31, | |
|---|--------------|------------|
| | 1998 | 1997 |
| | <C> | <C> |
| <S> | | |
| ASSETS | | |
| Real Estate Investments: | | |
| Buildings and improvements, net of accumulated depreciation and amortization: 1998 - \$26,972; 1997 - \$20,042 | \$ 366,891 | \$ 282,582 |
| Land | 16,796 | 16,246 |
| Mortgage loans receivable held for sale, net of allowance for doubtful accounts: 1998 - \$1,250; 1997 - \$1,000 | 179,714 | 254,094 |
| REMIC Certificates at estimated fair value | 100,595 | 87,811 |
| | ----- | ----- |
| Real estate investments, net | 663,996 | 640,733 |
| Other Assets: | | |
| Cash and cash equivalents | 1,503 | 4,974 |
| Debt issue costs, net | 2,040 | 3,733 |
| Interest receivable | 3,350 | 3,862 |
| Prepaid expenses and other assets | 2,397 | 3,362 |
| Note receivable from LTC Healthcare, Inc. | 16,528 | -- |
| | ----- | ----- |
| | 25,818 | 15,931 |
| | ----- | ----- |
| Total assets | \$ 689,814 | \$ 656,664 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Convertible subordinated debentures due 1999 - 2002 | \$ 56,667 | \$ 91,823 |
| Bank borrowings | 100,000 | 87,500 |
| Mortgage loans payable | 55,432 | 56,785 |
| Bonds payable and capital lease obligations | 17,596 | 13,616 |
| Accrued interest | 3,135 | 4,453 |
| Accrued expenses and other liabilities | 4,085 | 4,429 |
| Distributions payable | 985 | 772 |
| | ----- | ----- |
| Total liabilities | 237,900 | 259,378 |
| Minority interest | 10,514 | 11,159 |
| Commitments | -- | -- |
| Stockholders' equity: | | |
| Preferred stock \$0.01 par value; 10,000,000 shares authorized; shares issued and outstanding: 1998 - 7,080,000; 1997 - 5,080,000 | 165,500 | 127,000 |
| Common stock \$0.01 par value; 40,000,000 shares authorized; shares issued and outstanding: 1998 - 27,660,712; 1997 - 25,025,003 | 277 | 250 |
| Capital in excess of par value | 311,113 | 277,732 |
| Cumulative net income | 158,270 | 107,677 |
| Notes receivable from stockholders | (11,200) | (9,429) |
| Cumulative distributions | (182,560) | (117,103) |
| | ----- | ----- |

| | | |
|--|------------|------------|
| Total stockholders' equity | 441,400 | 386,127 |
| Total liabilities and stockholders' equity | \$ 689,814 | \$ 656,664 |
| | ===== | ===== |

</TABLE>

See accompanying notes

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

<TABLE>

<CAPTION>

| | Years ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 1998 | 1997 | 1996 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Revenues: | | | |
| Rental income | \$ 42,534 | \$ 30,802 | \$ 20,529 |
| Interest income from mortgage loans | 23,030 | 25,942 | 17,498 |
| Interest income from REMIC Certificates | 16,945 | 14,189 | 14,383 |
| Interest and other income | 6,882 | 2,501 | 2,520 |
| | ----- | ----- | ----- |
| Total revenues | 89,391 | 73,434 | 54,930 |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Interest expense | 22,267 | 23,795 | 20,604 |
| Depreciation and amortization | 12,561 | 9,163 | 6,412 |
| Provision for loan losses | 600 | -- | -- |
| Minority interest | 1,415 | 1,205 | 898 |
| Operating and other expenses | 5,084 | 4,393 | 4,479 |
| | ----- | ----- | ----- |
| Total expenses | 41,927 | 38,556 | 32,393 |
| | ----- | ----- | ----- |
| Other income /(loss): | | | |
| Unrealized holding gain/(loss) on changes in estimated fair value of REMIC Certificates | (6,797) | 57 | 6,173 |
| Gain on sales of real estate investments | 9,926 | -- | -- |
| Other income, net | -- | 828 | -- |
| | ----- | ----- | ----- |
| Total other income, net | 3,129 | 885 | 6,173 |
| | ----- | ----- | ----- |
| Net income | 50,593 | 35,763 | 28,710 |
| Preferred dividends | 12,896 | 6,075 | -- |
| | ----- | ----- | ----- |
| Net income available to common stockholders | \$ 37,697 | \$ 29,688 | \$ 28,710 |
| | ===== | ===== | ===== |
| Net Income Per Common Share: | | | |
| Basic net income per common share | \$ 1.39 | \$ 1.26 | \$ 1.51 |
| | ===== | ===== | ===== |
| Diluted net income per common share | \$ 1.39 | \$ 1.25 | \$ 1.44 |
| | ===== | ===== | ===== |

</TABLE>

See accompanying notes

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

<TABLE>

<CAPTION>

| Shares | Capital in | Cumulative | Notes Receivable |
|--------|------------|------------|------------------|
| ----- | | | |

| Cumulative | Preferred | Common | Preferred | Common | Excess of | Net | from |
|--|-----------|--------|-----------|--------|------------|-----------|--------------|
| Distributions | Stock | Stock | Stock | Stock | Par Value | Income | Stockholders |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | | | |
| Balance December 31, 1995 \$ (51,018) | -- | 18,297 | \$ -- | \$ 183 | \$ 178,453 | \$ 43,204 | \$ -- |
| 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 (\$1.335 per share) (25,585) | -- | -- | -- | -- | -- | -- | -- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance-December 31, 1996 (76,603) | -- | 19,484 | -- | 195 | 195,297 | 71,914 | -- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 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 | -- | -- | -- | -- | -- | -- | 433 |
| Amortization of restricted stock | -- | 91 | -- | 1 | 1,639 | -- | -- |
| Conversion of debentures | -- | 2,732 | -- | 27 | 42,915 | -- | -- |
| Net income | -- | -- | -- | -- | -- | 35,763 | -- |
| Preferred stock dividends (6,075) | -- | -- | -- | -- | -- | -- | -- |
| Common stock distributions (\$1.435 per share) (34,425) | -- | -- | -- | -- | -- | -- | -- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance - December 31, 1997 (117,103) | 5,080 | 25,025 | 127,000 | 250 | 277,732 | 107,677 | (9,429) |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Issuance of Series C Preferred Stock | 2,000 | -- | 38,500 | -- | (895) | -- | -- |
| Exercise of stock options | -- | 147 | -- | 2 | 1,557 | -- | (2,313) |
| Payments on stockholder notes | -- | -- | -- | -- | -- | -- | 542 |
| Conversion of debentures | -- | 2,283 | -- | 23 | 34,622 | -- | -- |
| Repurchase of common stock | -- | (200) | -- | (2) | (3,343) | -- | -- |
| Issuance of restricted stock | -- | 406 | -- | 4 | (4) | -- | -- |
| Amortization of restricted stock | -- | -- | -- | -- | 1,491 | -- | -- |
| Conversion of partnership units | -- | -- | -- | -- | (47) | -- | -- |
| Net income | -- | -- | -- | -- | -- | 50,593 | -- |
| Preferred stock dividends (12,896) | -- | -- | -- | -- | -- | -- | -- |
| Common stock distributions - cash (\$1.535 per share) (41,837) | -- | -- | -- | -- | -- | -- | -- |
| Common stock distributions - stock | | | | | | | |

| | | | | | | | |
|--|-------|--------|------------|-------|------------|---------|----------|
| (\$0.469 per share) (10,724) | -- | -- | -- | -- | -- | -- | -- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance - December 31, 1998 \$(182,560) | 7,080 | 27,661 | \$ 165,500 | 277 | \$ 311,113 | 158,270 | (11,200) |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

See accompanying notes

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

<TABLE>
<CAPTION>

| | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 1998 | 1997 | 1996 |
| <S> | <C> | <C> | <C> |
| OPERATING ACTIVITIES: | | | |
| Net income | \$ 50,593 | \$ 35,763 | \$ 28,710 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 12,561 | 9,163 | 6,412 |
| Unrealized holding (gain)/loss on estimated fair value of REMIC Certificates | 6,797 | (57) | (6,173) |
| Gain on sale of real estate investments | (9,926) | (2,799) | -- |
| Gain on disposition of other assets | -- | (1,015) | -- |
| Expense related to vesting of restricted stock | 1,491 | 1,120 | -- |
| Non-cash impairment charge | -- | 1,866 | -- |
| Other non-cash charges | 2,220 | 1,832 | 1,883 |
| (Increase) decrease in interest receivable | 512 | (1,204) | (875) |
| (Increase) in prepaid, other assets and allowance | (122) | (1,249) | (99) |
| Increase (decrease) in accrued interest | (1,118) | (1,562) | 2,819 |
| Increase (decrease) in accrued expenses and other liabilities | (1,123) | 1,372 | 1,112 |
| Net cash provided by operating activities | 61,885 | 43,230 | 33,789 |
| INVESTING ACTIVITIES: | | | |
| Investment in real estate mortgages | (47,452) | (107,487) | (99,440) |
| Acquisition of real estate properties, net | (142,668) | (114,891) | (95,285) |
| Proceeds from sale of real estate properties, net | 16,706 | 29,004 | 7,589 |
| Proceeds from sale of REMIC Certificates, net | 108,613 | 11,811 | 86,674 |
| Principal payments on mortgage loans receivable | 10,758 | 24,977 | 2,272 |
| Investment in LTC Healthcare, Inc. | (2,001) | -- | -- |
| Advances to LTC Healthcare, Inc. | (12,800) | -- | -- |
| Repayment of advances to LTC Healthcare, Inc. | 17,668 | -- | -- |
| Return of investment in unconsolidated affiliates | -- | 5,000 | -- |
| Proceeds from sale of investments, net | -- | 1,015 | -- |
| Restricted cash | -- | -- | 8,300 |
| Other | (353) | (229) | (427) |
| Net cash used in investing activities | (51,529) | (150,800) | (90,317) |
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of convertible debentures | -- | -- | 60,000 |
| Proceeds from issuance of common stock, net | -- | 35,065 | 39 |
| Proceeds from issuance of preferred stock, net | 37,605 | 121,600 | -- |
| Debt issue costs | -- | (1,877) | (2,167) |
| Distributions paid | (54,520) | (46,407) | (24,670) |
| Bank borrowings | 276,000 | 445,032 | 219,000 |
| Repayment of bank borrowings | (263,500) | (436,932) | (188,070) |
| Principal payments on mortgage loans, notes payable and capital lease obligations | (5,077) | (5,869) | (3,893) |
| Repurchase of common stock | (3,345) | -- | (1,831) |
| Other | (990) | (1,216) | (166) |
| Net cash provided by financing activities | (13,827) | 109,396 | 58,242 |
| Increase (decrease) in cash and cash equivalents | (3,471) | 1,826 | 1,714 |
| Cash and cash equivalents, beginning of year | 4,974 | 3,148 | 1,434 |
| Cash and cash equivalents, end of year | \$ 1,503 | \$ 4,974 | \$ 3,148 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | \$ 22,478 | \$ 23,985 | \$ 16,631 |

See accompanying notes

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

LTC Properties, Inc. (the "Company"), a Maryland corporation, commenced operations on August 25, 1992. The Company is a real estate investment trust ("REIT") that invests primarily in long-term care facilities through mortgage loans, facility lease transactions and other investments. As of December 31, 1998, the Company had investments in 274 skilled nursing facilities, 90 assisted living residences and 6 schools in 36 states.

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 its controlled partnerships. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

Use of Estimates. 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. Impairment losses are recorded when events or changes in circumstances indicate the asset is impaired and the estimated undiscounted cash flows to be generated by the asset are less than its carrying amount. Management assesses the impairment of properties individually and impairment losses are calculated as the excess of the carrying amount of the real estate over its fair value. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 7 years for equipment to 40 years for buildings.

Mortgage Loans Receivable. The Company may securitize certain of the mortgage loans it originates in transactions accounted for as sales when a securitization provides the best available form of capital to fund additional long-term investments. Historically, the Company has sold its mortgage loans solely in connection with its REMIC securitizations and does not anticipate selling any mortgage loans other than in the course of completing future securitizations. However, since certain mortgage loans may be securitized in the future, direct investments in mortgage loans are classified as held for sale and carried at the lower of cost or market. If the mortgage loans aggregate cost basis exceeds their aggregate market value, a valuation allowance is established and the resulting amount is included in the determination of net income. Changes in the valuation allowance are included in current period earnings. In determining the estimated market value for mortgage loans, the Company considers estimated prices and yields, 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.

Investments in REMIC Certificates. Generally, the Company maintains a long-term investment interest in mortgage loans it securitizes through the retention of a portion of the resulting REMIC Certificates which are carried at fair value. Significant judgment is used in estimating the REMIC Certificates' fair value since no ready market exists. Management considers factors which affect the REMIC

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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. The Company sub-services mortgage loans that are collateral for REMIC Certificates issued in its securitization transactions for which it receives servicing fees, based on market rates for such services at the time the securitization is completed, equal to a fixed percentage of the outstanding principal on the collateral loans. A separate asset for servicing rights is not recognized since the servicing fees received only adequately compensate the Company for the cost of servicing the loans. The fair value of servicing rights for mortgage loans originated and retained by the Company are estimated based on the fees received for servicing mortgage loans that serve as collateral for REMIC Certificates. All costs to originate mortgage loans are allocated to the mortgage loans since the fair value of servicing rights only sufficiently covers the servicing costs.

Interest Rate Contracts. Firm commitments subject the Company to interest rate risk to the extent that debt or other fixed rate financing will be used to finance the commitments. The Company may elect to enter into interest rate contracts to hedge such financing thereby reducing its exposure to interest rate risk. Interest rate contracts are designated as hedges of assets intended for securitization when the significant characteristics and expected terms of the securitization are identified and it is probable the securitization will occur. These contracts are entered into in notional amounts that generally correspond to the principal amount of the assets to be securitized. The Company effectively locks in its net interest margin on the securitization when the interest rate contract is entered into since changes in the market value of these contracts respond inversely to changes in the market value of the hedged assets. Gains or losses on interest rate contracts designated as hedges of assets to be securitized are deferred and recognized upon the completion of the securitization. The Company may also manage interest rate risk by entering into interest rate swap agreements whereby the Company effectively fixes the interest rate on variable rate debt. The differential between interest paid and received on interest rate swaps is recognized as an adjustment to interest expense.

Revenue Recognition. Interest income on mortgage loans and REMIC Certificates is recognized using the effective interest method. Base rent under operating leases are accrued as earned over the terms of the leases. Contingent rental income, equal to a percentage of increased revenue over defined base period revenue of the long-term care facility operations, is recognized as earned.

Federal Income Taxes. The Company qualifies as a REIT under the Internal Revenue Code of 1986, as amended and as such, no provision for Federal income taxes has been made. A REIT may deduct distributions to its stockholders from its taxable income. If at least 100% of a REIT's taxable income is distributed to its stockholders and it complies with other Internal Revenue Code requirements, a REIT generally is not subject to Federal income taxation.

For Federal tax purposes, depreciation is generally calculated at a rate of 3.6% based on the assets' tax basis (which approximates cost) using the straight-line method over a period of 27.5 years. At Earnings and profits, which determine the taxability of dividends to stockholders, differ from net

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

income for financial statement purposes due to the treatment of certain interest income and expense items and depreciable lives and basis of assets under the Internal Revenue Code.

Concentrations of Credit Risks. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, REMIC Certificates, mortgage loans receivable, operating leases on owned properties and interest rate swaps. The Company's financial instruments, principally 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 Company's REMIC Certificates are subordinate in rank and right of payment to the certificates sold to third-party investors and as such, in most cases, would bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The returns on the REMIC Certificates are subject to certain uncertainties and contingencies including, without limitation, the level of prepayment, prevailing interest rates and the timing and magnitude of credit losses on the mortgages underlying the securities that are a result of the

general condition of the real estate market or long-term care industry. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter management's estimations and assumptions therefore, 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).

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, 1998, Sun Healthcare Group, Inc. ("Sun") operated 70 facilities representing 19% (\$174.3 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). Our real estate investments that are operated by Sun consists of \$46.3 million of properties we own and lease directly to Sun Healthcare and \$31.7 million of mortgage loans and mortgage loans underlying the REMIC certificates that are secured by

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

properties owned directly by Sun. The remaining \$96.3 million consists of mortgage loans and mortgage loans underlying the REMIC certificates that are secured by properties that are owned by independent entities that either lease the properties to Sun or have Sun operate the property pursuant to a management agreement.

Sun is a publicly traded company, and as such is subject to the filing requirements of 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 Sun, 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. Basic earnings per share is calculated using 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.

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 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 an 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 adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" but continues to account for stock-based compensation using the intrinsic value method prescribed by APB Opinion No. 25, as permitted by SFAS No. 123.

New Accounting Pronouncements. In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective for fiscal years beginning after June 1999. SFAS No. 133 requires all derivatives to be recorded at fair value and establishes unique accounting for fair value hedges. Because of the Company's limited use of derivatives, management does not anticipate that the adoption of SFAS No. 133 will have a significant effect on the Company's financial position or results of operations. The FASB also issued SFAS No. 134, "Accounting for Mortgage-Backed

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Securities Retained after the Securitization of Mortgage Loans Held For Sale by a Mortgage Banking Entity" which is effective for the first fiscal quarter beginning after December 15, 1998. See Note.4 Real Estate Investments -REMIC Certificates for a discussion regarding the impact of the adoption of SFAS No. 134.

3. Supplemental Cash Flow Information

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 |
|--|-----------|--------|-----------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Non-cash investing and financing transactions: | | | |
| Exchange of mortgage loans for REMIC Certificates | \$129,300 | \$ -- | \$ 80,962 |
| Exchange of previously issued REMIC Certificates for REMIC Certificates | 20,700 | | |
| Issuance of mortgage loans payable for REMIC Certificates | -- | -- | 31,525 |
| Conversion of debentures into common stock | 35,046 | 44,005 | 18,813 |
| Assumption of mortgage loans payable relating to acquisitions of real estate properties | 11,224 | 3,026 | 9,641 |
| Distribution of investment in LTC Healthcare, Inc. | 10,724 | -- | -- |
| Note payable for investment in unconsolidated affiliate | -- | 5,000 | -- |
| Notes receivable related to exercise of stock options | 2,313 | 9,862 | -- |
| Conversion of mortgage loans into owned properties | 7,301 | 9,348 | -- |
| Minority interest | 3,432 | 647 | 8,932 |

</TABLE>

4. Real Estate Investments

The Company may invest 30% of its adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the \$100,595,000 investment in REMIC Certificates) in assisted living residences. At December 31, 1998, aggregate investments in assisted living residences were \$254,861,000 or 28% of its adjusted gross real estate investment portfolio.

During 1998, the Company began making investments in the child-care and education industry consisting of investments in private and charter schools from pre-school through twelfth grade. The Company's existing line of credit was amended to permit the Company to invest up to \$75 million in the child-care and education industry. As of December 31, 1998, the Company's total investment in the child-care and education industry was \$26,450,000.

Mortgage Loans. During 1998, the Company invested \$47,452,000 in mortgage loans, net of conversion of construction loans on eight assisted living residences totaling \$5,467,000 to permanent mortgage financing. The mortgage loans are secured by, among other things, 6 skilled nursing facilities with a total of 762 beds, 11 assisted living residences with a total of 471 units and one school. The loans contain certain guarantees, have initial interest rates of 8.9% to 11.0%, 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 25 basis points.

For the year ended December 31, 1998, sale/lease-back financing was provided on six assisted living facilities that were previously financed with construction loans of \$7,301,000. In addition, prepayments totaling \$9,099,000 were received on two loans originally scheduled to mature in 2004 and 2006 and scheduled

principal payments totaling \$1,659,000 were received.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At December 31, 1998, the investment in mortgage loans consisted of 71 mortgage loans secured by first mortgages on 63 skilled nursing facilities with 7,034 beds, 16 assisted living residences with 899 units and one school. The mortgage loans have a gross carrying amount of \$180,964,000 and a weighted average interest rate of 10.9% at December 31, 1998. At December 31, 1998 and 1997, the fair value of mortgage loans was approximately \$181,666,000 and \$268,000,000, respectively. Scheduled principal payments on mortgage loans are \$4,986,000, \$3,932,000, \$7,191,000, \$2,103,000, \$21,265,000 and \$141,487,000 in 1999, 2000, 2001, 2002, 2003 and thereafter.

Owned Properties and Lease Commitments. During 1998, the Company acquired seven skilled nursing facilities with a total of 816 beds, 23 assisted living residences with a total of 1,500 units and five schools for \$153,700,000. Included in this amount were six assisted living residences with 260 units that were purchased for \$9,877,000 net of the construction loans discussed above of \$7,301,000. The Company also invested approximately \$3,624,000 in the expansion and improvement of existing facilities.

During 1998, the Company sold three skilled nursing facilities for aggregate gross proceeds of \$16,706,000 and recognized a gain of \$9,926,000. The total initial investment in these facilities was \$7,654,000 and the total net investment was \$6,332,000. Proceeds of \$4,271,000 from the sale were used to repay an outstanding mortgage loan secured by one of the facilities that was payable to the pool of mortgage loans securing the Company's investment in REMIC Certificates. The remaining proceeds were used to repay borrowings outstanding under the line of credit.

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 was 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 cash flows of each facility and is included as a component of other income, net.

Owned facilities are leased pursuant to non-cancelable 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 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 leases provide for additional rent through revenue participation (as defined in the lease agreements) 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 all taxes, insurance, maintenance and repair, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Contingent rent income for the years ended December 31, 1998, 1997 and 1996 was immaterial.

Depreciation expense on buildings and improvements, including facilities owned under capital leases, was \$11,959,000, \$9,041,000 and \$6,214,000 for the years ended December 31, 1998, 1997 and 1996.

Future minimum base rents receivable under the remaining non-cancelable terms of operating leases are: \$43,199,000, \$42,217,000, \$41,048,000, \$41,130,000, \$41,057,000 and \$199,553,000 for the years ending December 31, 1999, 2000, 2001, 2002 and 2003 and thereafter.

REMIC Structure. The Company is 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

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(securitization) when a securitization provides the Company with the best available form of capital to fund 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, 1998 the Company has completed four 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 sold to the REMIC Corp. without recourse. Second, the REMIC Corp. 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) 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. REMIC Certificates represent beneficial ownership interests in the REMIC Trust and can be grouped into four categories; senior, subordinated, subordinated interest-only ("I/O"). The REMIC Certificates sold to third-party investors are the senior certificates and the REMIC Certificates retained by the Company as part of the sale proceeds are the subordinated certificates. The senior and the subordinated certificates have stated principal balances and stated interest rates ("pass-through rates"). 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 on the outstanding pass-through rate 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 in general bear the first risk of loss. As of December 31, 1998, none of the 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. In May 1998, the Company completed a securitization of approximately \$129,300,000 of mortgage loans with a weighted average interest rate of 10.2% and \$26,400,000 face amount (\$20,700,000 carrying value) of subordinated certificates, retained from a securitization completed in 1993, with an interest rate of 9.78% on the face value (15.16% on the amortized cost) (the "1998-1 Pool"). In the securitization, the Company sold approximately \$121,400,000 face amount of senior certificates at a weighted average pass-through rate of 6.3% and retained \$34,300,000 face amount of subordinated certificates along with the interest only certificates. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

subordinated and interest only certificates retained by the Company had an aggregate fair value of approximately \$41,400,000 at the time of the securitization and a weighted average effective yield of 18.9%. Included in the 1998-1 Pool were 40 mortgage loans, including mortgage loans of approximately \$25,741,000 with a weighted average interest rate of approximately 8.7% provided to wholly owned subsidiaries and limited partnerships of the Company. Net proceeds of approximately \$108,613,000 from the above securitization were used to repay borrowings outstanding under the Company's line of credit.

In 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. The outstanding principal balance and the weighted-average pass through rate for the senior certificates (held by third parties) and the estimated fair value of the subordinated certificates (held by the Company) as of December 31, 1998 and 1997 were as follows:

<TABLE>
<CAPTION>

| | 1998 | | | 1997 | | |
|-------------|---------------------|------|---------------------------|---------------------|------|---------------------------|
| | Senior Certificates | | Subordinated Certificates | Senior Certificates | | Subordinated Certificates |
| | Principal | Rate | Fair Value | Principal | Rate | Fair Value |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| 1993-1 Pool | \$ 78,570,000 | 8.3% | \$ 6,351,000 | \$ 52,829,000 | 7.6% | \$ 25,994,000 |
| 1994-1 Pool | 37,495,000 | 9.2% | 38,896,000 | 42,864,000 | 9.2% | 38,242,000 |
| 1996-1 Pool | 89,156,000 | 7.4% | 16,088,000 | 96,048,000 | 7.4% | 23,575,000 |
| 1998-1 Pool | 120,394,000 | 6.3% | 39,260,000 | -- | -- | -- |

Included in the total assets securing the 1998-1 Pool is a senior certificate from the 1993-1 Pool with principal of \$26,400,000 and an interest rate of 9.78% that was previously held by the Company. 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.

At December 31, 1998 and 1997, the aggregate effective yield of the subordinated certificates, based on expected future cash flows with no unscheduled prepayments, was 17.8% and 16.7%, respectively.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Income on the subordinated certificates was as follows for the years ended December 31, 1998, 1997 and 1996:

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 |
|-------------|--------------|--------------|--------------|
| <S> | <C> | <C> | <C> |
| 1993-1 Pool | \$ 2,656,000 | \$ 4,992,000 | \$ 5,603,000 |
| 1994-1 Pool | 4,898,000 | 4,650,000 | 5,118,000 |
| 1996-1 Pool | 3,908,000 | 4,547,000 | 3,662,000 |
| 1998-1 Pool | 5,483,000 | -- | -- |
| | \$16,945,000 | \$14,189,000 | \$14,383,000 |

</TABLE>

As sub-servicer for all of the above REMIC pools, the Company is responsible for performing substantially all of the servicing duties relating to the mortgage loans underlying the REMIC Certificates and will act as the special servicer to restructure any mortgage loans that default. At December 31, 1998, payments on all of the mortgage loans underlying the REMIC Certificates were current.

The Company will adopt SFAS No. 134 in the first quarter of 1999. Currently, under the provisions of SFAS No. 115, the Company is required to classify its investment in REMIC Certificates as trading securities, without regard to investment intent or the ability to hold such securities, which are accounted for at fair value with unrealized holding gains and losses recorded in earnings. SFAS No. 134 permits the transfer of mortgage-backed securities from the trading category to the available-for-sale or held-to-maturity categories based on the Company's ability and intent, as of the date of adoption of SFAS No. 134, to hold such investments. For the year ended December 31, 1998, the Company recorded an unrealized holding loss on its REMIC Certificates of \$6,797,000. For the years ended December 31, 1997 and 1996, the Company recorded unrealized holding gains of \$57,000 and \$6,173,000, respectively, on its REMIC Certificates.

Upon application of SFAS No. 134, based on the Company's intent and investment posture and the marketability of the subordinated certificates, the Company will transfer its investment in REMIC Certificates to the following categories at the current fair value: (i) certificates with an investment rating of "BB" or above and interest only certificates with no stated principal balance will be classified as available-for-sale securities, and (ii) certificates with an investment rating of "B" or lower and unrated will be classified as

held-to-maturity securities. The transfer of REMIC Certificates rated "B" or lower to held-to-maturity at fair value will create a discount or premium that will be amortized as an adjustment to the current yield. The transfer of the "BB" rated and I/O certificates to available-for-sale, will have no effect other than unrealized holding gains and losses on changes in fair value will be reported as a separate component of stockholders' equity rather than in current period earnings. As of December 31, 1998, subordinated certificates that will be transferred into the available-for-sale category had a fair value of \$49,248,000, amortized cost of \$47,630,000 and a weighted average yield of approximately 25%. Held-to-maturity certificates will be accounted for at amortized cost and fair value disclosure will be provided. As of December 31, 1998, subordinated certificates that will be transferred into the held-to-maturity category had a fair value of \$51,347,000, amortized cost of \$53,205,000 and a weighted average yield of approximately 11%. After adoption of SFAS No. 134 on January 1, 1999 the Company's available-for-sale REMIC Certificates and held-to-maturity REMIC Certificates will have an amortized cost equal to their fair value of \$49,248,000 and \$51,347,000, respectively and a weighted average yield of 23% and 12%, respectively.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Disposition of Other Assets

LTC Healthcare, Inc. ("Healthcare"). During 1998, LTC acquired 4,002 shares of LTC Healthcare, Inc. ("Healthcare") non-voting common stock for \$2,001,000 in cash. LTC also contributed equity securities with a book value of \$788,000, 13 real estate properties with a net book value of \$61,462,000 that were encumbered by mortgage debt of \$29,263,000 and a minority interest liability of \$3,461,000 on seven of the properties, and other related assets and liabilities with a book value of \$93,000 in exchange for an additional 36,000 shares of Healthcare non-voting common stock and borrowings by Healthcare under the unsecured line of credit provided by the Company of \$21,396,000. During 1998, the Company provided additional funding of \$12,800,000 under the unsecured line of credit. Subsequent to the contribution of the above assets and liabilities by the Company to Healthcare, Healthcare obtained mortgage financing of \$17,400,000 from a third-party lender on four of the unencumbered properties. Healthcare utilized proceeds from the mortgage debt and cash on hand to repay borrowings of \$17,668,000 under the unsecured line of credit provided by the Company.

On September 30, 1998, the 40,002 shares of Healthcare non-voting common stock held by the Company were converted into 3,335,882 shares of Healthcare voting common stock. Concurrently, the Company completed the spin-off of all Healthcare voting common stock through a taxable dividend distribution to the holders of Company common stock, Cumulative Convertible Series C Preferred Stock ("Series C Preferred Stock") and Convertible Subordinated Debentures (the "Debentures"). One share of Healthcare common stock was distributed to each holder of Company common stock, Series C Preferred Stock and Debentures for each ten shares of Company common stock owned and for each ten shares of Company common stock that would have been issued upon conversion of the Debentures and Series C Preferred Stock. The Company incurred costs of approximately \$500,000 in connection with the distribution. Upon completion of the distribution, Healthcare began operating as a separate public company.

For book purposes, no gain was recognized on the distribution of Healthcare common stock which had a net book value of approximately \$10,724,000. The distribution was a taxable dividend distribution and accordingly, for tax purposes, the net assets were transferred at their net fair market value of approximately \$15,650,000 (\$4.69 per share of Healthcare common stock - unaudited) which resulted in a taxable gain of approximately \$4,900,000 (unaudited).

The Company and Healthcare have entered into various agreements which, among other things, provide for a sharing of corporate overhead under an administrative services agreement. During 1998, the Company charged Healthcare an administrative services fee of approximately \$350,000. In addition, the Company provided Healthcare with a \$20.0 million unsecured line of credit that bears interest at 10% and matures in March 2008. As of December 31, 1998, approximately \$16,528,000 was outstanding under the line of credit. During 1998, the Company recorded interest income related to the unsecured line of credit of \$711,000.

As of December 31, 1998, the Company acquired 299,900 shares of Healthcare common stock, representing approximately 9% of Healthcare's outstanding common stock, for an aggregate purchase price of \$659,000.

Home and Community Care, Inc. ("HCI"). During 1997, the Company acquired non-voting common stock of HCI, an owner, operator and developer of assisted living residences, for \$5,000,000.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Subsequently, the Company received a distribution of \$5,000,000 representing a return of investment and Assisted Living Concepts, Inc. ("ALC") acquired all of the outstanding common stock of HCI for which the Company received gross proceeds of \$2,000,000. Certain benefits were accelerated for 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 and is included in other income, net. During 1998, the Company received additional payments of \$698,000 for units under development by HCI at the date of the acquisition.

6. Debt Obligations

Bank Borrowings. During 1997, the Company refinanced all amounts outstanding under various bank financing agreements 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. At December 31, 1998, borrowings of \$100,000,000 bearing interest at LIBOR plus 1.25% were outstanding under the Revolving Credit Facility.

During 1998, the Revolving Credit Facility was amended to permit the Company to invest up to \$75 million in the education and child-care industry. 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.

On November 2, 1998, the Company entered into an interest rate swap agreement whereby the Company effectively fixed the interest rate on LIBOR based variable rate debt. Under this agreement, which expires in November 2000, the Company will be credited interest at three month LIBOR and will incur interest at a fixed rate of 4.74% on a notional amount of \$50,000,000. The notional amount of the interest rate swap is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap is recognized as an adjustment to interest expense.

Convertible Subordinated Debentures.

| Interest Rate | Maturity | Conversion Price per Share | Outstanding Principal at December 31, | |
|------------------|----------------|----------------------------------|--|--------------|
| | | | 1998 | 1997 |
| 9.75% | June 2004 | \$10.00 | \$ -- | \$ 549,000 |
| 8.50% | January 2000 | \$15.00 | -- | 19,476,000 |
| 8.50% | January 2001 | \$15.50 | 22,969,000 | 30,048,000 |
| 8.25% | September 1999 | \$15.50 | 10,000,000 | 10,000,000 |
| 7.75% | January 2002 | \$16.50 | 4,518,000 | 9,765,000 |
| 8.25% | July 2001 | \$17.25 | 19,180,000 | 21,985,000 |
| | | | ----- | ----- |
| | | | \$56,667,000 | \$91,823,000 |
| | | | ===== | ===== |

On July 1, 1998, the Company redeemed the outstanding \$90,000 principal amount of its 8.5% Convertible Subordinated Debentures due 2000 and \$20,000 principal amount of its 9.75% Convertible Subordinated Debentures due 2004. 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. During 1998, the

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

maturity for the 8.25% debentures originally scheduled to mature in January 1999 was extended to September 1999.

As of December 31, 1998, the convertible subordinated debentures outstanding were convertible into 3,512,089 shares of common stock. 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 \$58,388,000 and \$120,419,000 at December 31, 1998 and 1997, respectively.

Mortgage Loans Payable. During 1998, the Company acquired five skilled nursing facilities that were subject to mortgage loans of approximately \$7,018,000. These mortgage loans have a current weighted average interest rate of 12%, are due in September 2002 and are payable to a REMIC formed by the Company in 1993. The Company also provided non-recourse mortgage loans of approximately

\$11,826,000 to a wholly owned subsidiary and a newly formed limited partnership. In May 1998, the Company completed a securitization transaction that included loans provided to wholly owned subsidiaries and limited partnerships of the Company of approximately \$25,741,000. Such loans included \$11,826,000 of loans originated in 1998 and approximately \$13,915,000 of loans originated in 1996.

In 1998, in connection with the sale of a skilled nursing facility, a mortgage loan of \$4,271,000 that was secured by the facility was repaid. See "Note 2. Real Estate Investments -Owned Properties." Mortgage loans totaling \$29,263,000 that secured seven properties were included in the contribution of net assets to Healthcare. See "Note 5. Disposition of Other Assets -LTC Healthcare, Inc."

Mortgage loans and weighted average interest rates for loans payable to REMIC's formed by the Company were:

| | December 31, 1998 | Rate | December 31, 1997 | Rate |
|-------------|-------------------|-------|-------------------|-------|
| 1993-1 Pool | \$ 22,283,000 | 12.0% | \$ 18,826,000 | 12.0% |
| 1994-1 Pool | 2,992,000 | 11.4 | 3,021,000 | 11.3 |
| 1996-1 Pool | 16,312,000 | 9.8 | 34,938,000 | 9.5 |
| 1998-1 Pool | 13,845,000 | 9.3 | -- | -- |
| | \$ 55,432,000 | | \$ 56,785,000 | |

Bonds Payable and Capital Leases. At December 31, 1998 and 1997, the Company had outstanding principal of \$8,065,000 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, 1998, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 5.1%. In May 1998, the Company acquired a skilled nursing facility subject to a multi-unit housing tax-exempt revenue bond of approximately \$4,206,000. As of December 31, 1998, principal of \$4,191,000 was outstanding on the bond which bears interest at 10.9% and matures in 2025.

At December 31, 1998 and 1997, the Company had outstanding principal of \$5,340,000 and \$5,551,000, respectively, under capital lease obligations. The capital leases are secured by four assisted living residences, have a weighted average interest rate of 7.6% and mature at various dates through 2013.

Scheduled Principal Payments. Total scheduled principal payments for the mortgage loans payable, bonds payable and capital lease obligations as of December 31, 1998 were \$1,219,000, \$1,060,000, \$1,156,000, \$8,999,000, \$14,781,000 and \$45,813,000 in 1999, 2000, 2001, 2002, 2003 and thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Interest Rate Contracts

As of December 31, 1997, the Company was party to a seven year forward interest rate swap agreement whereby the Company was credited interest at the six month LIBOR and incurred interest at a fixed rate of 6.655% on a notional amount of \$60,000,000. The Company was also party to a Treasury lock agreement whereby the Company locked into a rate of 6.484% on the seven year Treasury Note Rate on a notional amount of \$65,000,000. As of December 31, 1997, these agreements were accounted for as hedges and were entered into to minimize the Company's exposure to interest rate risk on mortgage loans that the Company anticipated to securitize. In May 1998, the interest rate swap and the Treasury lock agreements were terminated in connection with the completion of the securitization transaction and the Company made an aggregate payment of approximately \$5,000,000 that was included in the cost of the recently completed securitization transaction. See "Note 2. Real Estate Investments -REMIC Certificates -REMIC Transactions."

On November 2, 1998, the Company entered into an interest rate swap agreement whereby the Company effectively fixed the interest rate on LIBOR based variable rate debt. See "Note 6. Debt Obligations -Bank Borrowings."

8. Stockholders' Equity

Issuance of Stock. On September 2, 1998, the Company issued 2,000,000 shares of 8.5% Series C Convertible Preferred Stock (the "Series C Preferred Stock") at \$19.25 per share for net proceeds of \$37,605,000. The Series C Preferred Stock is convertible into 2,000,000 shares of the Company's common stock, has a liquidation value of \$19.25 per share and has an annual coupon of 8.5%, payable quarterly.

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.

Stock Based Compensation Plans. During 1998, the Company adopted and its stockholders approved the 1998 Equity Participation Plan under which 500,000 shares of common stock have been reserved for stock based compensation awards. The 1998 Equity Participation Plan and the Company's Restated 1992 Stock Option Plan under which 500,000 shares of common stock were reserved (collectively "the Plans") provide for the issuance of incentive and nonqualified stock options, restricted stock and other stock based awards to officers, employees, non-employee directors and consultants. The terms of awards granted under the Plans are set by the Company's compensation committee at its discretion however, in the case of incentive stock options, the term may not exceed ten years from the date of grant. As of

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1998, all grants of stock based compensation awards were made under the Company's Restated 1992 Stock Option Plan. Total shares available for grant under the Plans as of December 31, 1998, 1997 and 1996 were 507,000, 31,000 and 358,000, respectively.

Nonqualified stock option activity for the years ended December 31, 1998, 1997 and 1996 was as follows:

<TABLE>
<CAPTION>

| | Shares | | | Weighted Average Price | | |
|--------------------------|-----------|-----------|---------|------------------------|---------|---------|
| | 1998 | 1997 | 1996 | 1998 | 1997 | 1996 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Outstanding, January 1 | 169,500 | 873,300 | 861,500 | \$11.21 | \$11.30 | \$11.23 |
| Granted | -- | 15,000 | 18,000 | \$ - | \$17.00 | \$15.13 |
| Exercised | (146,500) | (717,800) | (3,200) | \$10.64 | \$11.44 | \$12.17 |
| Canceled | -- | (1,000) | (3,000) | \$ - | \$12.00 | \$12.25 |
| Outstanding, December 31 | 23,000 | 169,500 | 873,300 | \$14.86 | \$11.21 | \$11.30 |
| Exercisable, December 31 | 12,000 | 31,500 | 436,466 | \$13.83 | \$11.21 | \$11.88 |

</TABLE>

All options outstanding as of December 31, 1998 vest over three years from the original date of grant. Unexercised options expire seven years after the date of vesting.

Restricted stock activity for the years ended December 31, 1998, 1997 and 1996 was as follows:

| | 1998 | 1997 | 1996 |
|--------------------------|--------------|--------------|---------|
| Outstanding, January 1 | 382,000 | 160,000 | -- |
| Granted | 24,000 | 313,000 | 160,000 |
| Vested | (13,000) | (91,000) | -- |
| Canceled | -- | -- | -- |
| Outstanding, December 31 | 393,000 | 382,000 | 160,000 |
| Compensation Expense | \$ 1,492,000 | \$ 1,640,000 | \$ -- |

Outstanding shares of restricted stock under the 1996 grant vest equally over three years beginning January 1, 2000 and shares under the 1997 grant vest equally over four years beginning January 1, 2001. 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, 1998, 1997 and 1996, there were 18,000, 31,000 and 44,000

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 and 1996, the weighted average expected life assumption was three years for 1997 and seven years for 1996, the weighted average volatility was .16, and .15, 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 and \$.63 in 1997 and 1996, respectively. There was no material effect on net income or earnings per share for the years ended December 31, 1997 and 1996. The weighted average exercise price of the options was \$15.65, \$14.99 and \$13.55 and the weighted average remaining contractual life was 6.9, 7.6 and 7.7 years as of December 31, 1998, 1997 and 1996, 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

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

through the exercise of options. Under the program, the Company may 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 in 1997 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 1998 and 1997, the Company's management, consultants and directors purchased 146,500 and 686,500 of the Company's common stock under the loan program. At December 31, 1998 and 1997, loans totaling \$11,200,000 and \$9,429,000 bearing interest at rates ranging from 5.77% 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 \$13,849,000 at December 31, 1998.

9. Distributions

The Company must distribute at least 95% of its taxable income in order to continue to qualify as a REIT. Annual distributions 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 for 1997 and 1996 were cash distributions. The 1998 distribution consisted of \$1.535 per share in cash and \$.469 per share (unaudited) in the form of Healthcare common stock. See "Note 5. Disposition of Other Assets -LTC Healthcare, Inc."

The Federal income tax classification of the per share common stock distributions are as follows (unaudited):

| | 1998 | 1997 | 1996 |
|---------------------------|----------|----------|----------|
| Ordinary income | \$ 1.355 | \$ 1.293 | \$ 1.228 |
| Non-taxable distribution | 0.397 | 0.037 | 0.107 |
| Section 1250 capital gain | 0.051 | 0.030 | -- |
| Long term capital gain | 0.201 | 0.075 | -- |
| Total | \$ 2.004 | \$ 1.435 | \$ 1.335 |

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Net Income Per Share

Basic and diluted net income per share were as follows (in thousands, except per share amounts):

| | 1998 | 1997 | 1996 |
|---|-----------|-----------|-----------|
| Net income | \$ 50,593 | \$ 35,763 | \$ 28,710 |
| Preferred dividends | (12,896) | (6,075) | -- |
| Net income for basic net income per share | 37,697 | 29,688 | 28,710 |
| 7.75% debentures due 2002 | 516 | -- | 2,187 |
| 8.5% debentures due 2001 | -- | -- | 4,509 |
| 8.5% debentures due 2000 | 684 | -- | 2,350 |
| 8.25% debentures due 1999 | 860 | -- | -- |
| Other dilutive securities | 192 | 32 | 977 |
| Net income for diluted net income per share | \$ 39,949 | \$ 29,720 | \$ 38,733 |
| Shares for basic net income per share | 27,077 | 23,511 | 18,983 |
| Stock options | 11 | 277 | 374 |
| 7.75% debentures due 2002 | 417 | -- | 1,757 |
| 8.5% debentures due 2001 | -- | -- | 3,174 |
| 8.5% debentures due 2000 | 497 | -- | 1,751 |
| 8.25% debentures due 1999 | 645 | -- | -- |
| Other dilutive securities | 176 | 75 | 824 |
| Shares for diluted net income per share | 28,823 | 23,863 | 26,863 |
| Basic net income per share | \$ 1.39 | \$ 1.26 | \$ 1.51 |
| Diluted net income per share | \$ 1.39 | \$ 1.25 | \$ 1.44 |

12. Quarterly Financial Information (Unaudited)

<TABLE>

<CAPTION>

| | Quarter ended | | | |
|--|---------------|-----------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| 1998 | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | \$ 21,219 | \$ 22,579 | \$ 23,251 | \$ 22,342 |
| Net income available to Common stockholders | 8,551 | 17,124 | 3,537 | 8,485 |
| Basic net income per share | 0.33 | 0.64 | 0.13 | 0.30 |
| Diluted net income per share | 0.33 | 0.59 | 0.13 | 0.30 |
| Dividends per share | 0.365 | 0.39 | 0.39 | 0.39 |
| 1997 | | | | |
| Revenues | \$ 16,487 | \$ 18,115 | \$ 18,809 | \$ 20,023 |
| Net income | 6,107 | 8,098 | 7,545 | 7,938 |
| Basic net income per share | 0.28 | 0.35 | 0.32 | 0.31 |
| Diluted net income per share | 0.27 | 0.35 | 0.31 | 0.31 |
| Dividends per share | 0.34 | 0.365 | 0.365 | 0.365 |

</TABLE>

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 25, 1999, 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 25, 1999, 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 25, 1999, 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 25, 1999, 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.

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

| | |
|---|----|
| VII. Valuation and Qualifying Accounts | 55 |
| XI. Real Estate and Accumulated Depreciation..... | 56 |
| XII. Mortgage Loans on Real Estate | 59 |

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.

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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: | | | |
| 1998 | \$1,000 | \$ 250 | \$1,250 |
| 1997 | \$1,000 | -- | \$1,000 |
| 1996 | \$ 997 | 3 | \$1,000 |

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

<TABLE>
<CAPTION>

| | | Initial Cost to Company | | Costs | Gross Amount at which Carried at December 31, 1998 | | |
|--------------------------------|--------------|-------------------------|------------------------------|------------------------------|---|------------------------------|-----------|
| | | ----- | | Capitalized | ----- | | |
| | Encumbrances | Land | Building and Improvements | Subsequent to Acquisition | Land | Building and Improvements | Total (1) |
| | ----- | ---- | ----- | ----- | ---- | ----- | ----- |
| Skilled Nursing Facilities: | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Demopolis, AL | \$10,528(3) | \$ 71 | \$ 2,141 | \$ -- | \$ 71 | \$ 2,141 | \$ 2,212 |
| Fort Payne, AL | (3) | 37 | 3,588 | -- | 37 | 3,588 | 3,625 |
| Jackson, AL | (3) | 64 | 2,620 | -- | 64 | 2,620 | 2,684 |
| Madison, AL | (3) | 30 | 2,328 | -- | 30 | 2,328 | 2,358 |
| Phoenix, AL | (3) | 59 | 2,123 | -- | 59 | 2,123 | 2,182 |
| Bradenton, FL | -- | 330 | 2,720 | -- | 330 | 2,720 | 3,050 |

| | | | | | | | |
|---------------------|--------|-------|---------|-------|-------|---------|---------|
| Clearwater, FL | -- | 454 | 2,903 | -- | 454 | 2,903 | 3,357 |
| Crestview, FL | -- | 140 | 2,306 | -- | 140 | 2,306 | 2,446 |
| San Destin, FL | -- | 175 | 3,875 | -- | 175 | 3,875 | 4,050 |
| Gulf Breeze, FL | -- | 600 | 6,020 | -- | 600 | 6,020 | 6,620 |
| Lecanto, FL | -- | 351 | 2,665 | 2,247 | 351 | 4,912 | 5,263 |
| Pensacola, FL | -- | 190 | 4,295 | -- | 190 | 4,295 | 4,485 |
| Pensacola, FL | -- | 230 | 4,663 | -- | 230 | 4,663 | 4,893 |
| Starke, FL | -- | 113 | 4,783 | -- | 113 | 4,783 | 4,896 |
| Chicago Heights, IL | -- | 221 | 6,406 | -- | 221 | 6,406 | 6,627 |
| Rusk, TX | -- | 34 | 2,399 | -- | 34 | 2,399 | 2,433 |
| Chesapeake, VA | -- | 373 | 3,298 | -- | 373 | 3,298 | 3,671 |
| Richmond,h VA | -- | 373 | 3,298 | -- | 373 | 3,298 | 3,671 |
| Tappahannock, VA | -- | 373 | 3,298 | -- | 373 | 3,298 | 3,671 |
| Toppanish, WA | 2,594 | 132 | 2,654 | -- | 132 | 2,654 | 2,786 |
| Vancouver, WA | (4) | 60 | 3,031 | -- | 60 | 3,031 | 3,091 |
| Jefferson, IA | 10,431 | 36 | 1,933 | -- | 36 | 1,933 | 1,969 |
| Houston, TX | 7,100 | 202 | 4,458 | -- | 202 | 4,458 | 4,660 |
| Houston, TX | 6,746 | 361 | 3,773 | -- | 361 | 3,773 | 4,134 |
| Montgomery, AL | 3,864 | 144 | 5,426 | -- | 144 | 5,426 | 5,570 |
| Carroll, IA | (5) | 60 | 1,020 | -- | 60 | 1,020 | 1,080 |
| Houston, TX | (9) | 202 | 4,458 | -- | 202 | 4,458 | 4,660 |
| Woodbury, TN | -- | 100 | 2,900 | -- | 100 | 2,900 | 3,000 |
| Whiteright, TX | 1,112 | 100 | 2,923 | -- | 100 | 2,923 | 3,023 |
| Granger,IA | (5) | 93 | 1,325 | -- | 93 | 1,325 | 1,418 |
| Bedford, TX | (5) | 345 | 3,195 | -- | 345 | 3,195 | 3,540 |
| Midland, TX | 2,017 | 32 | 2,285 | -- | 32 | 2,285 | 2,317 |
| Tiptonville, TN | -- | 100 | 2,450 | -- | 100 | 2,450 | 2,550 |
| Gardendale, AL | -- | 84 | 6,316 | -- | 84 | 6,316 | 6,400 |
| Polk City, IA | (5) | 88 | 1,351 | -- | 88 | 1,351 | 1,439 |
| Atmore, AL | (6) | 23 | 2,985 | -- | 23 | 2,985 | 3,008 |
| Mesa, AZ | 4,460 | 305 | 6,909 | 1,696 | 305 | 8,605 | 8,910 |
| Houston, TX | (10) | 572 | 5,965 | -- | 572 | 5,965 | 6,537 |
| Roberta, GA | -- | 100 | 2,400 | -- | 100 | 2,400 | 2,500 |
| Norwalk, IA | (5) | 45 | 1,035 | -- | 45 | 1,035 | 1,080 |
| Altoona, IA | (5) | 102 | 2,312 | -- | 102 | 2,312 | 2,414 |
| Los Angeles, CA | -- | 100 | 2,475 | -- | 100 | 2,475 | 2,575 |
| Sacramento, CA | -- | 220 | 2,929 | -- | 220 | 2,929 | 3,149 |
| Coffeyville, KS | -- | 100 | 335 | 148 | 100 | 483 | 583 |
| Salina, KS | -- | 100 | 1,153 | 352 | 100 | 1,505 | 1,605 |
| South Haven, KS | -- | -- | 13 | -- | -- | 13 | 13 |
| Portland, OR | -- | 100 | 1,925 | 393 | 100 | 2,318 | 2,418 |
| Nacogdoches, TX | -- | 100 | 1,738 | -- | 100 | 1,738 | 1,838 |
| Cushing, TX | -- | 100 | 1,679 | -- | 100 | 1,679 | 1,779 |
| Mesa, AZ | 2,992 | 420 | 4,258 | 32 | 420 | 4,290 | 4,710 |
| Wells, TX | 2,265 | 100 | 1,649 | 7 | 100 | 1,656 | 1,756 |
| Corrigan, TX | (7) | 100 | 1,649 | 7 | 100 | 1,656 | 1,756 |
| Grosebeck, TX | 1,323 | 100 | 1,649 | 7 | 100 | 1,656 | 1,756 |
| Tampa, FL | -- | 100 | 6,402 | 42 | 100 | 6,444 | 6,544 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| SNFs | 55,432 | 9,144 | 164,687 | 4,931 | 9,144 | 169,618 | 178,762 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

<CAPTION>

| | Accum Deprec. (2) | Construction/ Renovation Date | Acquisition Date |
|-----------------------------|----------------------|-------------------------------------|---------------------|
| | ----- | ---- | ---- |
| Skilled Nursing Facilities: | | | |
| | | | |
| <S> | <C> | <C> | <C> |
| Demopolis, AL | \$ 262 | 1972 | Jun. 1995 |
| Fort Payne, AL | 473 | 1967/73 | Jun. 1995 |
| Jackson, AL | 312 | 1964 | Jun. 1995 |
| Madison, AL | 298 | 1964/74 | Jun. 1995 |
| Phoenix, AL | 280 | 1969 | Jun. 1995 |
| Bradenton, FL | 489 | 1989 | Sep. 1993 |
| Clearwater, FL | 620 | 1965/93 | Sep. 1993 |
| Crestview, FL | 358 | 1988 | Jun. 1994 |
| San Destin, FL | 535 | 1986 | Feb. 1995 |
| Gulf Breeze, FL | 932 | 1984 | Jun. 1994 |
| Lecanto, FL | 763 | 1988 | Sep. 1993 |
| Pensacola, FL | 676 | 1972 | Jun. 1994 |
| Pensacola, FL | 723 | 1991 | Jun. 1994 |
| Starke, FL | 738 | 1989 | Jun. 1994 |
| Chicago Heights, IL | 975 | 1988 | Sep. 1994 |
| Rusk, TX | 476 | 1969 | Mar. 1994 |
| Chesapeake, VA | 379 | 1977 | Oct. 1995 |
| Richmond,h VA | 649 | 1970/75/80 | Oct. 1995 |
| Tappahannock, VA | 323 | 1977/78 | Oct. 1995 |

| | | | |
|-----------------|--------|------------|-----------|
| Toppanish, WA | 342 | 1960/70 | Jun. 1995 |
| Vancouver, WA | 403 | 1952/94 | Jun. 1995 |
| Jefferson, IA | 192 | 1968/72 | Jan. 1996 |
| Houston, TX | 451 | 1961 | Jun. 1996 |
| Houston, TX | 380 | 1964/68 | Jun. 1996 |
| Montgomery, AL | 551 | 1967/74 | Jan. 1996 |
| Carroll, IA | 106 | 1969 | Jan. 1996 |
| Houston, TX | 399 | 1967 | Jun. 1996 |
| Woodbury, TN | 275 | 1972/75/90 | May 1996 |
| Whiteright, TX | 321 | 1962/64/65 | Jan. 1996 |
| Granger, IA | 138 | 1979 | Jan. 1996 |
| Bedford, TX | 343 | 1960 | Jan. 1996 |
| Midland, TX | 248 | 1973 | Feb. 1996 |
| Tiptonville, TN | 252 | 1975 | May 1996 |
| Gardendale, AL | 542 | 1976/84 | May 1996 |
| Polk City, IA | 135 | 1976 | Jan. 1996 |
| Atmore, AL | 296 | 1967/74 | Jan. 1996 |
| Mesa, AZ | 635 | 1975/96 | Jun. 1996 |
| Houston, TX | 658 | 1967 | Jun. 1996 |
| Roberta, GA | 236 | 1964 | May 1996 |
| Norwalk, IA | 107 | 1975 | Jan. 1996 |
| Altoona, IA | 227 | 1973 | Jan. 1996 |
| Los Angeles, CA | 184 | 1963 | Jan. 1997 |
| Sacramento, CA | 213 | 1968 | Feb. 1997 |
| Coffeyville, KS | 185 | 1962 | May 1997 |
| Salina, KS | 492 | 1985 | May 1997 |
| South Haven, KS | 13 | 1969 | May 1997 |
| Portland, OR | 124 | 1956/74 | Jun. 1997 |
| Nacogdoches, TX | 77 | 1973 | Oct. 1997 |
| Cushing, TX | 73 | 1973/84 | Oct. 1997 |
| Mesa, AZ | 145 | 1972 | Oct. 1997 |
| Wells, TX | 58 | 1980 | Jan. 1998 |
| Corrigan, TX | 58 | 1985 | Jan. 1998 |
| Grosebeck, TX | 58 | 1972 | Jan. 1998 |
| Tampa, FL | 122 | | Jun. 1998 |
| SNFs | 19,300 | | |

</TABLE>

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

<TABLE>
<CAPTION>

| | | Initial Cost to Company | | Costs | Gross Amount at which Carried at December 31, 1998 | | |
|--------------------------------|-----------|-------------------------|------------------------------|---|---|------------------------------|-----------|
| | | Land | Building and Improvements | Capitalized Subsequent to Acquisition | Land | Building and Improvements | Total (1) |
| Assisted Living Facilities: | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Dodge City, KS | 1,566 | 88 | 1,663 | -- | 88 | 1,663 | 1,751 |
| Great Bend, KS | 1,318 | 87 | 1,563 | 17 | 87 | 1,580 | 1,667 |
| McPherson, KS | 1,141 | 75 | 1,575 | -- | 75 | 1,575 | 1,650 |
| Salina, KS | 1,314 | 72 | 1,578 | -- | 72 | 1,578 | 1,650 |
| Longview, TX | -- | 38 | 1,568 | -- | 38 | 1,568 | 1,606 |
| Marshall, TX | -- | 38 | 1,568 | 450 | 38 | 2,018 | 2,056 |
| Walla Walla, WA | 8,065 (8) | 100 | 1,940 | -- | 100 | 1,940 | 2,040 |
| Greenville, TX | -- | 42 | 1,565 | -- | 42 | 1,565 | 1,607 |
| Camas, WA | (8) | 100 | 2,175 | -- | 100 | 2,175 | 2,275 |
| Grandview, WA | (8) | 100 | 1,940 | -- | 100 | 1,940 | 2,040 |
| Vancouver, WA | (8) | 100 | 2,785 | -- | 100 | 2,785 | 2,885 |
| Athens, TX | -- | 96 | 1,512 | -- | 96 | 1,512 | 1,608 |
| Lufkin, TX | -- | 100 | 1,950 | -- | 100 | 1,950 | 2,050 |
| Kennewick, WA | (8) | 100 | 1,940 | -- | 100 | 1,940 | 2,040 |
| Gardendale, AL | -- | 16 | 1,234 | -- | 16 | 1,234 | 1,250 |
| Jacksonville, TX | -- | 100 | 1,900 | -- | 100 | 1,900 | 2,000 |
| Kelso, WA | -- | 100 | 2,500 | -- | 100 | 2,500 | 2,600 |
| Battleground, WA | -- | 100 | 2,500 | -- | 100 | 2,500 | 2,600 |
| Hayden, ID | -- | 100 | 2,450 | 243 | 100 | 2,693 | 2,793 |
| Klamath Falls, OR | -- | 100 | 2,300 | -- | 100 | 2,300 | 2,400 |
| Newport, OR | -- | 100 | 2,050 | -- | 100 | 2,050 | 2,150 |
| Tyler, TX | -- | 100 | 1,800 | -- | 100 | 1,800 | 1,900 |
| Wichita Falls, TX | -- | 100 | 1,850 | -- | 100 | 1,850 | 1,950 |
| Ada, OK | -- | 100 | 1,650 | -- | 100 | 1,650 | 1,750 |
| Nampa, ID | -- | 100 | 2,240 | 23 | 100 | 2,263 | 2,363 |

| | | | | | | | |
|-------------------|----|-----|-------|-----|-----|-------|-------|
| Tulsa, OK | -- | 200 | 1,650 | -- | 200 | 1,650 | 1,850 |
| Durant, OK | -- | 100 | 1,769 | -- | 100 | 1,769 | 1,869 |
| San Antonio, TX | -- | 100 | 1,900 | -- | 100 | 1,900 | 2,000 |
| Troy,OH | -- | 100 | 2,435 | 306 | 100 | 2,741 | 2,841 |
| Waco, TX | -- | 100 | 2,235 | -- | 100 | 2,235 | 2,335 |
| Tulsa, OK | -- | 100 | 2,395 | -- | 100 | 2,395 | 2,495 |
| San Antonio, TX | -- | 100 | 2,055 | -- | 100 | 2,055 | 2,155 |
| Norfolk, NE | -- | 100 | 2,123 | -- | 100 | 2,123 | 2,223 |
| Wahoo, NE | -- | 100 | 2,318 | -- | 100 | 2,318 | 2,418 |
| York, NE | -- | 100 | 2,318 | -- | 100 | 2,318 | 2,418 |
| Hoquiam, WA | -- | 100 | 2,500 | -- | 100 | 2,500 | 2,600 |
| Tiffin, OH | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |
| Millville, NJ | -- | 100 | 2,825 | -- | 100 | 2,825 | 2,925 |
| Fremont, OH | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |
| Lake Havasu, AZ | -- | 100 | 2,420 | -- | 100 | 2,420 | 2,520 |
| Greeley, CO | -- | 100 | 2,310 | 270 | 100 | 2,580 | 2,680 |
| Springfield, OH | -- | 100 | 2,035 | 270 | 100 | 2,305 | 2,405 |
| Watauga, TX | -- | 100 | 1,667 | -- | 100 | 1,667 | 1,767 |
| Bullhead Ctiy, AZ | -- | 100 | 2,500 | -- | 100 | 2,500 | 2,600 |
| Arvada, CO | -- | 100 | 2,810 | 276 | 100 | 3,086 | 3,186 |
| Edmond, OK | -- | 100 | 1,365 | 526 | 100 | 1,891 | 1,991 |
| Wetherford, OK | -- | 100 | 1,668 | 592 | 100 | 2,260 | 2,360 |
| Eugene, OR | -- | 100 | 2,600 | -- | 100 | 2,600 | 2,700 |
| Caldwell, ID | -- | 100 | 2,200 | -- | 100 | 2,200 | 2,300 |
| Burley, ID | -- | 100 | 2,200 | -- | 100 | 2,200 | 2,300 |
| Wheelersburg, OH | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |
| Loveland, CO | -- | 100 | 2,865 | 270 | 100 | 3,135 | 3,235 |
| Wichita Falls,TX | -- | 100 | 2,750 | -- | 100 | 2,750 | 2,850 |
| Beatrice, NE | -- | 100 | 2,173 | -- | 100 | 2,173 | 2,273 |
| Madison, IN | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |
| Newark, OH | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |

<CAPTION>

| | Accum Deprec. (2) ----- | Construction/ Renovation Date ---- | Acquisition Date ---- |
|--------------------------------|-------------------------------|---|-----------------------------|
| <S> | <C> | <C> | <C> |
| Assisted Living Facilities: | | | |
| Dodge City, KS | 150 | 1995 | Dec. 1995 |
| Great Bend, KS | 141 | 1995 | Dec. 1995 |
| McPherson, KS | 142 | 1994 | Dec. 1995 |
| Salina, KS | 142 | 1994 | Dec. 1995 |
| Longview, TX | 137 | 1995 | Oct. 1995 |
| Marshall, TX | 158 | 1995 | Oct. 1995 |
| Walla Walla, WA | 147 | 1996 | Apr. 1996 |
| Greenville, TX | 130 | 1995 | Jan. 1996 |
| Camas, WA | 153 | 1996 | May 1996 |
| Grandview, WA | 152 | 1996 | Mar. 1996 |
| Vancouver, WA | 195 | 1996 | Jun. 1996 |
| Athens, TX | 125 | 1995 | Jan. 1996 |
| Lufkin, TX | 147 | 1996 | Apr. 1996 |
| Kennewick, WA | 155 | 1996 | Feb. 1996 |
| Gardendale, AL | 103 | 1988 | May 1996 |
| Jacksonville, TX | 149 | 1996 | Mar. 1996 |
| Kelso, WA | 146 | 1996 | Nov. 1996 |
| Battleground, WA | 140 | 1996 | Nov. 1996 |
| Hayden, ID | 144 | 1996 | Dec. 1996 |
| Klamath Falls, OR | 130 | 1996 | Dec. 1996 |
| Newport, OR | 112 | 1996 | Dec. 1996 |
| Tyler, TX | 100 | 1996 | Dec. 1996 |
| Wichita Falls, TX | 102 | 1996 | Dec. 1996 |
| Ada, OK | 92 | 1996 | Dec. 1996 |
| Nampa, ID | 123 | 1997 | Jan. 1997 |
| Tulsa, OK | 85 | 1997 | Feb. 1997 |
| Durant, OK | 82 | 1997 | Apr. 1997 |
| San Antonio, TX | 87 | 1997 | May 1997 |
| Troy,OH | 112 | 1997 | May 1997 |
| Waco, TX | 96 | 1997 | Jun. 1997 |
| Tulsa, OK | 102 | 1997 | Jun. 1997 |
| San Antonio, TX | 89 | 1997 | Jun. 1997 |
| Norfolk, NE | 87 | 1997 | Jun. 1997 |
| Wahoo, NE | 89 | 1997 | Jul. 1997 |
| York, NE | 89 | 1997 | Aug. 1997 |
| Hoquiam, WA | 95 | 1997 | Aug. 1997 |
| Tiffin, OH | 93 | 1997 | Aug. 1997 |
| Millville, NJ | 107 | 1997 | Aug. 1997 |
| Fremont, OH | 93 | 1997 | Aug. 1997 |

| | | | |
|-------------------|-----|------|-----------|
| Lake Havasu, AZ | 92 | 1997 | Aug. 1997 |
| Greeley, CO | 93 | 1997 | Aug. 1997 |
| Springfield, OH | 79 | 1997 | Aug. 1997 |
| Watauga, TX | 62 | 1996 | Aug. 1997 |
| Bullhead Ctiy, AZ | 90 | 1997 | Aug. 1997 |
| Arvada, CO | 105 | 1997 | Aug. 1997 |
| Edmond, OK | 62 | 1996 | Aug. 1997 |
| Wetherford, OK | 73 | 1996 | Aug. 1997 |
| Eugene, OR | 93 | 1997 | Sep. 1997 |
| Caldwell, ID | 80 | 1997 | Sep. 1997 |
| Burley, ID | 80 | 1997 | Sep. 1997 |
| Wheelerburg, OH | 82 | 1997 | Sep. 1997 |
| Loveland, CO | 100 | 1997 | Sep. 1997 |
| Wichita Falls, TX | 98 | 1997 | Sep. 1997 |
| Beatrice, NE | 69 | 1997 | Oct. 1997 |
| Madison, IN | 77 | 1997 | Oct. 1997 |
| Newark, OH | 77 | 1997 | Oct. 1997 |

</TABLE>

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

<TABLE>
<CAPTION>

| | | Initial Cost to Company | | Costs | Gross Amount at which Carried at December 31, 1998 | | |
|---|----------|-------------------------|------------------------------|---|---|------------------------------|-----------|
| Encumbrances | | Land | Building and Improvements | Capitalized Subsequent to Acquisition | Land | Building and Improvements | Total (1) |
| | | ----- | ----- | ----- | ----- | ----- | ----- |
| Assisted Living Facilities (continued): | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Elkhart, IN | -- | 100 | 2,435 | -- | 100 | 2,435 | 2,535 |
| Newport Richey, FL | -- | 100 | 5,845 | 28 | 100 | 5,873 | 5,973 |
| Freemont, CA | -- | 100 | 3,080 | 212 | 100 | 3,292 | 3,392 |
| Eugene, OR | -- | 100 | 8,100 | 31 | 100 | 8,131 | 8,231 |
| Rio Rancho, NM | -- | 100 | 8,300 | 32 | 100 | 8,332 | 8,432 |
| Fort Meyers, FL | -- | 100 | 2,728 | 9 | 100 | 2,737 | 2,837 |
| Tallahassee, FL | -- | 100 | 3,075 | -- | 100 | 3,075 | 3,175 |
| Niceville, FL | -- | 100 | 2,680 | -- | 100 | 2,680 | 2,780 |
| Longmont, CO | -- | 100 | 2,640 | -- | 100 | 2,640 | 2,740 |
| Shelby, NC | -- | 100 | 2,805 | -- | 100 | 2,805 | 2,905 |
| Spring Hill, FL | -- | 100 | 2,650 | -- | 100 | 2,650 | 2,750 |
| Portland, OR | 4,192 | 100 | 7,622 | -- | 100 | 7,622 | 7,722 |
| Tuscon, AZ | -- | 100 | 8,700 | -- | 100 | 8,700 | 8,800 |
| Denison, IA | -- | 100 | 2,713 | -- | 100 | 2,713 | 2,813 |
| Roseville, CA | -- | 100 | 7,300 | -- | 100 | 7,300 | 7,400 |
| Cheyenne, WY | -- | 100 | 5,290 | -- | 100 | 5,290 | 5,390 |
| Casper, WY | -- | 100 | 3,610 | -- | 100 | 3,610 | 3,710 |
| Laramie, WY | -- | 100 | 3,610 | -- | 100 | 3,610 | 3,710 |
| ALFs | 17,596 | 7,152 | 201,240 | 3,555 | 7,152 | 204,795 | 211,947 |
| Private and Charter Schools: | | | | | | | |
| Phoeniz, AZ | -- | 100 | 1,833 | -- | 100 | 1,833 | 1,933 |
| Paradise Valley, AZ | -- | 100 | 2,728 | -- | 100 | 2,728 | 2,828 |
| Egan, MN | -- | 100 | 3,688 | -- | 100 | 3,688 | 3,788 |
| Phoeniz, AZ | -- | 100 | 5,201 | -- | 100 | 5,201 | 5,301 |
| Trenton, NJ | -- | 100 | 6,000 | -- | 100 | 6,000 | 6,100 |
| Schools | -- | 500 | 19,450 | -- | 500 | 19,450 | 19,950 |
| Total | \$73,028 | \$16,796 | \$385,377 | \$8,486 | \$16,796 | \$393,863 | \$410,659 |

<CAPTION>

| | Accum Deprec. (2) | Construction/ Renovation Date | Acquisition Date |
|--|----------------------|-------------------------------------|---------------------|
| | ----- | ---- | ---- |
| <S> | <C> | <C> | <C> |
| Assisted Living Facilities (continued): | | | |

| | | | |
|--------------------|-----|---------|-----------|
| Elkhart, IN | 66 | 1997 | Dec. 1997 |
| Newport Richey, FL | 172 | 1986/95 | Jan. 1998 |
| Freemont, CA | 62 | 1998 | Jan. 1998 |
| Eugene, OR | 155 | 1998 | Mar. 1998 |
| Rio Rancho, NM | 159 | 1998 | Mar. 1998 |
| Fort Meyers, FL | 54 | 1998 | Mar. 1998 |
| Tallahassee, FL | 55 | 1998 | Mar. 1998 |
| Niceville, FL | 36 | 1998 | Jun. 1998 |
| Longmont, CO | 35 | 1998 | Jun. 1998 |
| Shelby, NC | 38 | 1998 | Jun. 1998 |
| Spring Hill, FL | 36 | 1998 | Jun. 1998 |
| Portland, OR | 98 | 1998 | Jun. 1998 |
| Tuscon, AZ | 111 | 1998 | Jun. 1998 |
| Denison, IA | 36 | 1998 | Jun. 1998 |
| Roseville, CA | 94 | 1998 | Jun. 1998 |
| Cheyenne, WY | 69 | 1998 | Jun. 1998 |
| Casper, WY | 48 | 1998 | Jun. 1998 |
| Laramie, WY | 39 | 1998 | Jul. 1998 |

ALFs 7,496

Private and
Charter Schools:

| | | | |
|---------------------|----|------------|-----------|
| Phoeniz, AZ | 27 | 1980/97/98 | May 1998 |
| Paradise Valley, AZ | 45 | 1988/95 | Jun. 1998 |
| Egan, MN | 61 | 1987/97 | Jun. 1998 |
| Phoeniz, AZ | 43 | 1998 | Sep. 1998 |
| Trenton, NJ | -- | 1930/98 | Dec. 1998 |

Schools 176

Total \$26,972

</TABLE>

- (1) The aggregate basis for federal income tax purposes approximates the carrying values.
- (2) Depreciation for building is calculated rising a 35 year life for skilled nursing facilities, a 30 year life for schools and a 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 two facilities in Texas.
- (8) Single note backed by five facilities in Washington.
- (9) Single note backed by two facilities in Texas.
- (10) Single note backed by two facilities in Texas.

Activity for the years ended December 31, 1996, 1997 and 1998 is as follows:

| | Real Estate & Equipment | Accumulated Depreciation |
|---------------------------------------|----------------------------|-----------------------------|
| 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 assets | (1,400) | -- |
| Cost of real estate sold | (31,245) | (638) |
| Balance at December 31, 1997 | 318,870 | 20,042 |
| Additions | 164,625 | 11,959 |
| Cost of real estate sold | (7,654) | (1,309) |
| Spin-off of real estate to Healthcare | (65,182) | (3,720) |
| Balance at December 31, 1998 | \$410,659 | \$26,972 |

LTC PROPERTIES, INC.
SCHEDULE XII
MORTGAGE LOANS ON REAL ESTATE

(Dollars in thousands)

<TABLE>
<CAPTION>

| Current | | Number of | Interest | Final | | | Carrying Amount | |
|-------------|------------|------------|-------------|-----------|------------|--------------|-------------------|-----------|
| Monthly | Facilities | Units/Beds | Rate (1) | Maturity | Balloon | Face Amount | of Mortgages | Debt |
| State | | | | Date | Amount (2) | of Mortgages | December 31, 1998 | |
| Service | | | | | | | | |
| - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| SC | 5 | 509 | 12.10% | 2003 | \$ 11,119 | \$11,250 | \$ 11,173 | \$ |
| 117 | | | | | | | | |
| AZ | 1 | n/a | 11.00% | 2003 | 6,262 | 6,500 | 6,500 | |
| 64 | | | | | | | | |
| CO | 2 | 230 | 11.38% | 2007 | 5,412 | 6,000 | 5,937 | |
| 61 | | | | | | | | |
| MS | 1 | 180 | 11.32% | 2006 | 5,033 | 5,465 | 5,443 | |
| 55 | | | | | | | | |
| Various (4) | 71 | 7,014 | 8.88-13.40% | 1999-2018 | 84,425 | 153,839 | 151,911 | |
| 1,472 | | | | | | | | |
| | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - |
| ---- | 80 | 7,933 | | | \$112,251 | \$183,054 | \$ 180,964(3) | \$ |
| 1,769 | | | | | | | | |
| | ===== | ===== | | | ===== | ===== | ===== | |

</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. At December 31, 1998, loan with a total principal balance of \$3,266,000 were subject to delinquent principal or interest.
- (4) Includes 69 first-lien mortgage loans:

| No. of Loans | Original loan amounts, |
|-----------------|------------------------|
| - - - - - | - - - - - |
| 34 | \$ 305 - \$2,000 |
| 22 | \$2,001 - \$3,000 |
| 7 | \$3,001 - \$4,000 |
| 3 | \$4,001 - \$5,000 |
| 3 | \$5,001 - \$5,400 |

Activity for the years ended December 31, 1996, 1997 and 1998 is as follows:

| | |
|---|-----------|
| 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 |
| New Mortgage loans | 47,452 |
| Sales of notes to REMIC | (103,523) |
| Conversion of notes to owned properties | (7,301) |
| Collections of principal | (10,758) |
| | - - - - - |
| Balance at December 31, 1998 | \$180,964 |
| | ===== |

INDEX TO EXHIBITS
(Item 14(b))

| Exhibit Number - - - - - | Description - - - - - |
|--------------------------------|---|
| 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) |
| 3.6 | Certificate of Amendment to Amended and Restated Bylaws of LTC Properties, Inc. (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.) |
| 3.7 | Articles Supplementary Classifying 2,000,000 Shares of 8.5% Series C Cumulative Convertible Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 3.2 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.) |
| 4.1 | 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) |
| 4.2 | 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) |
| 4.3 | 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) |
| 4.4 | 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) |
| 4.5 | Fifth Supplemental Indenture dated as of August 23, 1996 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 |
| 4.6 | Sixth Supplemental Indenture dated as of December 30, 1998 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 |
| 4.7 | Seventh Supplemental Indenture dated as of January 14, 1999 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

10.1 Master Repurchase Agreement dated May 14, 1993 between LTC Properties, Inc. and Goldman

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INDEX TO EXHIBITS
(Item 14(b))

| Exhibit Number - - - - - | Description - - - - - |
|--------------------------------|---|
| | 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) |
| 10.3 | 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) |
| 10.4 | 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) |
| 10.5 | 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) |
| 10.6 | 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) |
| 10.7 | 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) |
| 10.8 | 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) |
| 10.9 | 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) |
| 10.10 | 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) |
| 10.11 | 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) |
| 10.12 | 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) |
| 10.13 | 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)

10.14 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)

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INDEX TO EXHIBITS (CONTINUED)
(Item 14(b))

| Exhibit Number - - - - - | Description - - - - - |
|--------------------------------|--|
| 10.15 | 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) |
| 10.16 | 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) |
| 10.17 | 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 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) |
| 10.18 | 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) |
| 10.19 | Transfer and Repurchase Agreement dated as of April 20, 1998, by and between LTC REMIC IV Corporation and LTC Properties, Inc. (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.20 | Purchase Agreement dated as of May 11, 1998, by and between LTC REMIC IV Corporation, LTC Properties, Inc. and Goldman Sachs & Co. (incorporated by reference to Exhibit 10.2 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.21 | Subservicing Agreement dated as of May 14, 1998, by and between GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc. as Subservicer (incorporated by reference to Exhibit 10.3 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.22 | Pooling and Servicing Agreement dated as of April 20, 1998 among LTC REMIC IV Corporation, LaSalle National Bank and LTC Properties, Inc. (incorporated by reference to Exhibit 10.4 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.23 | Distribution Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.5 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.24 | Administrative Services Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.6 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |

- 10.25 Intercompany Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.7 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
- 10.26 Tax Sharing Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.8 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)

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INDEX TO EXHIBITS (CONTINUED)
(Item 14(b))

| Exhibit Number - - - - - | Description - - - - - |
|--------------------------------|--|
| 10.27 | Amended and Restated Promissory Note, dated as of May 19, 1998, between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.9 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998) |
| 10.28 | LTC Properties, Inc. 1998 Equity Participation Plan |
| 10.29 | Term Loan Agreement among LTC Properties, Inc. and Bank of Montreal, as Administrative Agent, and Sanwa Bank California, as Documentation Agent dated March 8, 1999 |
| 10.30 | Second Amended and Restated Employment Agreement between Andre C. Dimitriadis and LTC Properties, Inc. dated March 26, 1999 |
| 10.31 | Amended and Restated Employment Agreement between James J. Pieczynski and LTC Properties, Inc. dated March 26, 1999 |
| 10.32 | Amended and Restated Employment Agreement between Christopher T. Ishikawa and LTC Properties, Inc. dated March 26, 1999 |
| 21.1 | List of subsidiaries |
| 23.1 | Consent of Ernst & Young LLP with respect to the financial information of the Company |
| 27.1 | Financial data schedule for the year ended December 31, 1998 |

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SIGNATURES

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

LTC Properties, Inc.
Registrant

Dated: March 31, 1999

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 31, 1999 |
|---|---|----------------|

| | | |
|---|--|----------------|
| /s/ JAMES J. PIECZYNSKI ----- JAMES J. PIECZYNSKI | President, Chief Financial Officer and Director | March 31, 1999 |
|---|--|----------------|

| | | |
|---|----------|----------------|
| /s/ EDMUND C. KING ----- EDMUND C. KING | Director | March 31, 1999 |
|---|----------|----------------|

| | | |
|---|----------|----------------|
| /s/ WENDY L. SIMPSON ----- WENDY L. SIMPSON | Director | March 31, 1999 |
|---|----------|----------------|

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| /s/ SAM YELLEN | Director | March 31, 1999 |
|----------------|----------|----------------|

LTC PROPERTIES, INC.

EXHIBIT 4.5

FIFTH SUPPLEMENTAL INDENTURE

FIFTH SUPPLEMENTAL INDENTURE, dated as of August 23, 1996 between LTC Properties, Inc., a Maryland corporation (the "Company"), and Harris Trust and Savings Bank, an Illinois state banking association (the "Trustee"), to that certain Indenture, dated as of September 23, 1994, between the Company and the Trustee (the "Indenture").

WHEREAS, the parties hereto have entered into the Indenture which provides for the issuance by the Company of the individual series of securities thereunder, upon the Company and Trustee entering into a supplemental indenture to the Indenture authorizing such series; and

WHEREAS, the Company wishes to issue its fifth series of securities thereunder, designated its 8.25% Convertible Subordinated Debentures due 2001 (the "Debentures"); and

WHEREAS, all acts necessary to constitute this Fifth Supplemental Indenture as a valid, binding and legal obligation of the Company have been done and performed.

NOW, THEREFORE, witnesseth that, in consideration of the premises and of the covenants contained herein, it is hereby agreed as follows:

ARTICLE ONE

The Terms of the Debentures

In accordance with Sections 2.01 and 2.02 of the Indenture, the Company will issue its series of Debentures in the aggregate principal amount of \$30,000,000. Each Debenture shall be substantially in the following form:

LTC PROPERTIES, INC.

8.25% Convertible Subordinated Debenture Due 2001

LTC PROPERTIES, INC., a Maryland corporation, promises to pay to

S P E C I M E N

or registered assigns, the principal sum of _____ Million Dollars, on _____, 2001

Cusip 502175AF9

Interest Payment Dates: January 1 and July 1
Record Dates: December 15 and June 15

Additional provisions of this Security are set forth on the other side of this Security.

Dated: August 23, 1996

CERTIFICATE OF AUTHENTICATION

HARRIS TRUST AND
SAVINGS BANK, as
Trustee, certifies that
this is one of the
Securities referred to
in the within mentioned
Indenture.

By: _____
Authorized Signatory

SEAL

Dated: August 23, 1996

LTC PROPERTIES, INC.

By:

Chairman of the Board

By: _____

President

The rest of this page intentionally left blank.

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LTC PROPERTIES, INC.
8.25% Convertible Debenture Due 2001

1. Interest. LTC Properties, Inc., a Maryland corporation (the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on January 1 and July 1 of each year beginning January 1, 1997. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 23, 1996; provided that, if there is no existing Default in the payment of interest, and if this Security is authenticated between a record date referred to on the face hereof and the next succeeding interest payment date, interest shall accrue from such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. Method of Payment. The Company will pay interest on the Securities (except defaulted interest) to the Persons who are the registered Holders of the Securities at the close of business on the December 15 or June 15 next preceding the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Company, however, may pay principal and interest by its check payable in such money. It may mail an interest check to a Holder's registered address.

The final installment of principal of and premium, if any, on this Security shall be payable only upon surrender of this Security at the office or agency of the Trustee in the Borough of Manhattan, City and State of New York or the City of Chicago, State of Illinois. Payments of principal of and premium, if any, and interest on this Security shall be made at the office or agency of the Trustee maintained in the Borough of Manhattan, City and State of New York or the City of Chicago, State of Illinois, or, in the case of any such payments other than the final payment of principal and premium, if any, at the Company's option, by check mailed to the Person entitled thereto at such Person's address last appearing on the Company's register.

3. Registrar and Agents. Initially, Harris Trust and Savings Bank will act as Registrar, Paying Agent, Conversion Agent and agent for service of notices and demands. The Company may change any Registrar, co-registrar, Paying Agent, Conversion Agent and agent for service of notices and demands without notice. The Company or any of its Subsidiaries may act as Paying Agent or Conversion Agent. The address of Harris Trust and Savings Bank is 311 West Monroe Street, 12th Floor, Chicago, Illinois 60606.

4. Indenture; Limitations. The Company issued the Securities under an Indenture dated as of September 23, 1994 (the "Basic Indenture") between the Company and Harris Trust and Savings Bank (the "Trustee"), as supplemented by a First Supplemental Indenture dated as of September 23, 1994, by a Second Supplemental Indenture dated as of September 21, 1995, by a Third Supplemental Indenture dated as of September 26, 1995, and by a Fourth Supplemental Indenture dated as of February 5, 1996, each between the Company and the Trustee (as used herein, the term "Indenture" means the Basic Indenture together with the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture). Capitalized terms herein are used as defined in the Indenture unless otherwise defined herein. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 77aaa-77bbb) as in effect on the date of the Indenture. The Securities are subject to all such terms, and the Holders of the Securities are referred to the Indenture and said Act for a statement of them.

Reverse of Note
Page 1 of 7

The Securities are general unsecured obligations of the Company limited to \$30,000,000 aggregate principal amount. The Indenture imposes certain limitations on the ability of the Company to, among other things, make payments in respect of its Capital Stock, merge or consolidate with any other Person and sell, lease, transfer or otherwise dispose of its properties or assets.

5. Redemption by the Company. The Company may redeem the Securities, in whole or from time to time in part, only as necessary for the Company to

continue to qualify for Federal tax treatment as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code. These Securities will be immediately redeemable by the Company to the extent, but only to the extent, deemed sufficient by the Board of Directors to prevent the Holder of such Securities or any other person having an interest therein (if the Securities were thereupon converted) from being deemed to own shares of Capital Stock in excess of the limits prescribed in Article Ninth of the Company's Amended and Restated Articles of Incorporation. The Redemption Price shall be equal to the lesser of (1) the price paid by the Holder in the transaction that caused such Securities to exceed the amount necessary for the Company to continue as a REIT (or, in the case of a devise or gift, the Market Price (as such term is defined in Section 3.01(a) of the Indenture) at the time of such devise or gift); (2) the Market Price on the date the Company mails the notice of redemption required under Paragraph 6 below; and (3) 100% of the principal amount thereof, in each case together with accrued interest.

6. Notice of Redemption. Notice of redemption will be mailed at least 30 days, but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than \$1,000 principal amount may be redeemed in part, but only in whole multiples thereof. On and after the Redemption Date interest ceases to accrue on Securities or portions of them called for redemption.

7. Conversion. A Holder of a Security may convert such Security into shares of common stock of the Company at any time prior to maturity. The initial conversion price is \$17.25 per share, subject to adjustment in certain events. To determine the number of shares issuable upon conversion of a Security, divide the principal amount to be converted by the conversion price in effect on the conversion date. The Company will deliver a check for any fractional share.

To convert a Security, a Holder must (1) complete and sign the conversion notice on the back of the Security, (2) surrender the Security to the Conversion Agent, (3) furnish appropriate endorsements and transfer documents if required by the Registrar or Conversion Agent and (4) pay any transfer or similar tax if required. No payment or adjustment is to be made on conversion for interest accrued hereon or for dividends on shares of common stock issued on conversion; provided, however, that if a Security is surrendered for conversion after the record date for a payment of interest and on or before the interest payment date, then, notwithstanding such conversion, the interest falling due to such interest payment date will be paid to the Person in whose name the Security is registered at the close of business on such record date and any Security surrendered for conversion during the period from the close of business on any regular record payment date to the opening of business on the corresponding interest payment date must be accompanied by payment of an amount equal to the interest payable on such interest payment date. A Holder may convert a portion of a Security if the portion is \$1,000 principal amount or an integral multiple thereof.

If the Company is a party to a consolidation or merger or a transfer or lease of all or substantially all of its assets, the right to convert a Security into shares of common stock may be changed into a right to convert it into securities, cash or other assets of the Company or another Person.

Reverse of Note
Page 2 of 7

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, A HOLDER SHALL NOT BE ENTITLED TO EFFECT THE CONVERSION OF, AND NEITHER THE COMPANY, THE CONVERSION AGENT NOR THE REGISTRAR SHALL BE REQUIRED TO TAKE ANY STEPS TO EFFECT THE CONVERSION OF, ANY SECURITY OR SECURITIES OF ANY SERIES IF SUCH CONVERSION, IN THE GOOD FAITH OPINION OF THE BOARD OF DIRECTORS OR AN OFFICER, (A) MIGHT CAUSE THE COMPANY TO FAIL TO COMPLY WITH ANY REQUIREMENT NECESSARY FOR THE CONTINUED QUALIFICATION OF THE COMPANY AS A REIT UNDER THE CODE OR (B) WOULD RESULT IN A SINGLE PERSON BEING AN OWNER (OR UPON CONVERSION OF ANY SECURITIES OR CONVERSION OR EXCHANGE OF ANY OTHER SECURITIES OF THE COMPANY THEREUPON BEING AN OWNER) OF MORE THAN 9.8% OF THE COMPANY'S OUTSTANDING COMMON STOCK (INCLUDING THE COMPANY'S COMMON STOCK RESERVED FOR ISSUANCE UPON CONVERSION OF SECURITIES HELD BY SUCH PERSON OR CONVERSION OR EXCHANGE OF OTHER SECURITIES OF THE COMPANY HELD BY SUCH PERSON). ANY ATTEMPTED CONVERSION OF A SECURITY OR SECURITIES BY A HOLDER IN VIOLATION OF THE LIMITS SET FORTH ABOVE SHALL BE NULL AND VOID AB INITIO.

8. Subordination. This Security is subordinated to all Senior Indebtedness of the Company. To the extent and in the manner provided in the Indenture, Senior Indebtedness must be paid before any payment may be made to any Holders of Securities. Any Securityholder by accepting this Security agrees to the subordination and authorizes the Trustee to give it effect.

In addition to all other rights of Senior Indebtedness described in the Indenture, the Senior Indebtedness shall continue to be Senior Indebtedness and entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of any instrument relating to the Senior Indebtedness or extension or renewal of the Senior Indebtedness.

9. Denominations, Transfer, Exchange. This Security is one of a duly authorized issue of Securities of the Company designated as its 8.25% Convertible Subordinated Debentures due 2001 limited in aggregate principal amount to \$30,000,000. The Securities are in registered form without coupons in denominations of \$1,000 principal amount and integral multiples thereof. A Holder may register the transfer of or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption or register the transfer of or exchange any Securities for a period of 15 days before a selection of Securities to be redeemed.

Neither the Company nor the Registrar shall be required to register the transfer of any Securities if such transfer, in the good faith opinion of the Board of Directors or an Officer, (a) might cause the Company to fail to comply with any requirement necessary for the continued qualification of the Company as a REIT under the Code or (b) would result in a single person being an Owner (or upon conversion of any Securities or conversion or exchange of any other securities of the Company thereupon being an Owner) of more than 9.8% of the Company's outstanding common stock (including the Company's common stock reserved for issuance upon conversion of Securities held by such person or conversion or exchange of other securities of the Company held by such person). The Company shall advise the Registrar in writing promptly of any such determination by the Board of Directors or an Officer with respect to any Security, identifying such Security by Holder and other appropriate method, and shall instruct the Registrar not to register the transfer of such Security. The Registrar shall not be liable to the Company, Holders of Securities or any other persons for transfers of such Securities effected

Reverse of Note
Page 3 of 7

prior to its receipt of such written instructions from the Company and the Company shall indemnify the Registrar for all claims, costs and expenses incurred by it in connection with refusing to transfer Securities as instructed by the Company.

10. Persons Deemed Owners. The registered Holder of a Security may be treated as its owner for all purposes.

11. Unclaimed Money. If money for the payment of principal or interest on any Securities remains unclaimed for three years, the Trustee and the Paying Agent will pay the money back to the Company at its request. After that, Holders may look only to the Company for payment.

12. Discharge Prior to Redemption or Maturity. The Indenture will be discharged and canceled except for certain sections thereof upon payment of all the Securities, or upon the irrevocable deposit with the Trustee of funds or U.S. Government Obligations maturing on or before such payment date or Redemption Date, sufficient to pay principal, premium, if any, and interest on such payment or redemption.

13. Amendment and Waiver. Subject to certain exceptions, without notice to the Holders of the Securities, the Indenture or the Securities may be amended with the consent of the Holders of at least a majority in principal amount of the Securities then outstanding and any existing default or compliance with any provision may be waived with the consent of the Holders of a majority in principal amount of the Securities then outstanding. Without the consent of or notice to any Securityholder, the Company may amend the Indenture or the Securities to, among other things, provide for uncertificated Securities, to establish another series of securities as permitted by the Indenture, to cure any ambiguity, defect or inconsistency or make any other change that does not adversely affect the rights of any Securityholder.

14. Successors. When a successor assumes all the obligations of its predecessor under the Securities and the Indenture, the predecessor will be released from those obligations.

15. Defaults and Remedies. If an Event of Default, as defined in the Indenture, occurs and is continuing, the Trustee or the Holders of a majority in principal amount of Securities may declare all the Securities to be due and payable immediately in the manner and with the effect provided in the Indenture. Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it, subject to the provisions of the TIA, before it enforces the Indenture or the Securities. Subject to certain limitations, Holders of a majority in principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power with respect to the Securities. The Company is required to file periodic reports with the Trustee as to the absence of any Default or Event of Default.

16. Trustee Dealings with the Company. Harris Trust and Savings

Bank, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee.

17. No Recourse Against Others. No stockholder, director, officer or incorporator, as such, past, present or future, of the Company or any successor corporation or trust shall have any liability for any obligation of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder of a Security by

accepting a Security waives and releases all such liability. This waiver and release are part of the consideration for the issuance of the Securities.

18. Authentication. This Security shall not be valid until the Trustee or an authenticating agent appointed by the Trustee signs the certificate of authentication on the other side of this Security.

19. Abbreviations. Customary abbreviations may be used in the name of a Securityholder or an assignee, such as: TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=Custodian), and U/G/M/A (=Uniform Gifts to Minors Act).

The Company will furnish to any Securityholder upon written request and without charge a copy of the Indenture. It also will furnish the text of this Security in larger type. Requests may be made to: LTC Properties, Inc., 300 Esplanade Drive, Suite 1860, Oxnard, California 93030, Attention: President.

ASSIGNMENT FORM

If you the Holder want to assign this Security, fill in the form below and have your signature guaranteed:

For value received, I or we assign and transfer this Security to

(INSERT ASSIGNEE'S SOCIAL SECURITY OR
TAX IDENTIFICATION NUMBER)

=====

=====

.....

.....

.....

.....

(Print or type assignee's name, address and zip code)

and irrevocably appointagent

to transfer this Security on the books of the Company. The agent may substitute another to act for him.

=====

Date:.....

Your signature:.....

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee:.....

To convert this Security into shares of common stock of the Company, check the box:

=====
=====

To convert only part of this Security, state the principal amount to be converted (which must be a minimum of \$1,000 or any multiple thereof):

=====
\$
=====

If you want the Security certificate, if any, made out in another person's name, fill in the form below:

(INSERT OTHER PERSON'S SOCIAL SECURITY OR
TAX IDENTIFICATION NUMBER)

=====
=====

.....
.....
.....
.....
(Print or type other person's name, address and zip code)

=====
Date:.....
Your Signature:.....
(Sign exactly as your name appears on the other side of this Security)
Signature Guaranteed By:.....

IN WITNESS WHEREOF, the Parties hereto have caused this Fifth Supplemental Indenture to be duly executed, all as of the date first written above,

LTC PROPERTIES, INC.
By: /s/ William McBride III

Name: William McBride III
Title: President and Chief Operating Officer

HARRIS TRUST AND SAVINGS BANK, as Trustee

By: /s/ J. Bartolini

Authorized Signatory

LTC PROPERTIES, INC.

EXHIBIT 4.6

SIXTH SUPPLEMENTAL INDENTURE

This SIXTH SUPPLEMENTAL INDENTURE, dated as of December 30, 1998, is by and between LTC Properties, Inc., a Maryland corporation (the "Company"), and Harris Trust and Savings Bank, an Illinois banking corporation (the "Trustee"), to that certain Indenture, dated as of September 23, 1994, between the Company and the Trustee (as amended to date, the "Indenture"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

WHEREAS, the parties hereto have entered into the Indenture which provides for the issuance by the Company of individual series of securities thereunder, upon the Company and the Trustee entering into a supplemental indenture to the Indenture authorizing such series;

WHEREAS, the Third Supplemental Indenture to the Indenture authorized the issuance of the Company's 8.25% Convertible Subordinated Debentures due January 1, 1999 (the "8.25% Debentures");

WHEREAS, the Company wishes to extend the maturity of the 8.25% Debentures from January 1, 1999 to January 15, 1999;

WHEREAS, the Company wishes to extend the date on or before which Holders may convert the 8.25% Debentures into common stock of the Company from the close of business on January 1, 1999 to the close of business on January 15, 1999;

WHEREAS, the Company has received consent from Holders of \$10,000,000 principal amount of the 8.25% Debentures (representing 100% of the outstanding principal amount of the 8.25% Debentures) to enter into this Sixth Supplemental Indenture to (i) provide for the extension of the maturity of the 8.25% Debentures from January 1, 1999 to January 15, 1999 and (ii) extend the date on or before which Holders may convert the 8.25% Debentures into common stock of the Company from the close of business on January 1, 1999 to the close of business on January 15, 1999;

WHEREAS, all acts necessary to constitute this Sixth Supplemental Indenture as a valid, binding and legal obligation of the Company have been done and performed.

NOW, THEREFORE, in consideration of the premises and of the covenants contained herein, it is hereby agreed as follows:

1. The following terms of the 8.25% Debentures shall be amended as set forth below:

1.1 Extension of Maturity Date. The maturity date of the 8.25% Debentures shall be extended from January 1, 1999 to January 15, 1999.

1.2. Extension of Final Conversion Date. The date on or before which Holders may convert the 8.25% Debentures into common stock of the Company shall be extended from the close of business on January 1, 1999 to the close of business on January 15, 1999.

2. Except as expressly modified and superseded by this Sixth Supplemental Indenture, the terms and provisions of the Indenture and the 8.25% Debentures issued thereunder are ratified and confirmed and shall continue in full force and effect.

3. The laws of the State of New York shall govern this Sixth Supplemental Indenture without regard to the principles of conflicts of law.

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IN WITNESS WHEREOF, the parties hereto have caused this Sixth Supplemental Indenture to be duly executed, all as of the date first above written.

LTC PROPERTIES, INC.

By /s/ ANDRE C. DIMITRIADIS

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

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By /s/ D.G. DONOVAN

Name: D.G. Donovan

Title: Assitant Vice President

LTC PROPERTIES, INC.

EXHIBIT 4.7

SEVENTH SUPPLEMENTAL INDENTURE

This SEVENTH SUPPLEMENTAL INDENTURE, dated as of January 14, 1999, is by and between LTC Properties, Inc., a Maryland corporation (the "Company"), and Harris Trust and Savings Bank, an Illinois banking corporation (the "Trustee"), to that certain Indenture, dated as of September 23, 1994, between the Company and the Trustee (as amended to date, the "Indenture"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

WHEREAS, the parties hereto have entered into the Indenture which provides for the issuance by the Company of individual series of securities thereunder, upon the Company and the Trustee entering into a supplemental indenture to the Indenture authorizing such series;

WHEREAS, the Third Supplemental Indenture to the Indenture authorized the issuance of the Company's 8.25% Convertible Subordinated Debentures due January 1, 1999 (the "8.25% Debentures");

WHEREAS, the Sixth Supplemental Indenture to the Indenture extended the maturity date and the final conversion date of the 8.25% Debentures to January 15, 1999;

WHEREAS, the Company and the Holders wish to extend the maturity of the 8.25% Debentures from January 15, 1999 to September 30, 1999;

WHEREAS, the Company and the Holders wish to extend the date on or before which Holders may convert the 8.25% Debentures into common stock of the Company from the close of business on January 15, 1999 to the close of business on September 30, 1999;

WHEREAS, the Company has received consent from Holders of \$10,000,000 principal amount of the 8.25% Debentures (representing 100% of the outstanding principal amount of the 8.25% Debentures) to enter into this Seventh Supplemental Indenture to (i) provide for the extension of the maturity of the 8.25% Debentures from January 15, 1999 to September 30, 1999 and (ii) extend the date on or before which Holders may convert the 8.25% Debentures into common stock of the Company from the close of business on January 15, 1999 to the close of business on September 30, 1999;

WHEREAS, all acts necessary to constitute this Seventh Supplemental Indenture as a valid, binding and legal obligation of the Company have been done and performed.

NOW, THEREFORE, in consideration of the premises and of the covenants contained herein, it is hereby agreed as follows:

1. The following terms of the 8.25% Debentures shall be amended as set forth below:

1.1 Extension of Maturity Date. The maturity date of the 8.25% Debentures shall be extended from January 15, 1999 to September 30, 1999.

1.2. Extension of Final Conversion Date. The date on or before which Holders may convert the 8.25% Debentures into common stock of the Company shall be extended from the close of business on January 15, 1999 to the close of business on September 30, 1999.

2. Except as expressly modified and superseded by this Seventh Supplemental Indenture, the terms and provisions of the Indenture and the 8.25% Debentures issued thereunder are ratified and confirmed and shall continue in full force and effect.

3. The laws of the State of New York shall govern this Seventh Supplemental Indenture without regard to the principles of conflicts of law.

IN WITNESS WHEREOF, the parties hereto have caused this Seventh Supplemental Indenture to be duly executed, all as of the date first above written.

LTC PROPERTIES, INC.

By /s/ ANDRE C. DIMITRIADIS

Andre C. Dimitriadis
Chairman and Chief Executive Officer

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By /s/ D.G. DONOVAN

D. G. Donovan
Assistant Vice President

LTC PROPERTIES, INC.

EXHIBIT 10.28

THE 1998 EQUITY PARTICIPATION PLAN

OF

LTC PROPERTIES, INC.

LTC Properties, Inc., a Maryland corporation, has adopted The 1998 Equity Participation Plan of LTC Properties, Inc. (the "Plan"), effective May 19, 1998, for the benefit of its eligible employees, consultants and directors.

The purposes of the Plan are as follows:

(1) To provide an additional incentive for directors, key Employees (as such term is defined below) and consultants to further the growth, development and financial success of the Company by personally benefiting through the ownership of Company stock and/or rights which recognize such growth, development and financial success.

(2) To enable the Company to obtain and retain the services of directors, key Employees and consultants considered essential to the long range success of the Company by offering them an opportunity to own stock in the Company and/or rights which will reflect the growth, development and financial success of the Company.

ARTICLE I.

DEFINITIONS

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise.

"Administrator" shall mean the entity that conducts the general administration of the Plan as provided in Article X. With reference to the administration of the Plan with respect to Options granted to Independent Directors, the term "Administrator" shall refer to the Board. With reference to the administration of the Plan with respect to any other Award, the term "Administrator" shall refer to the Committee unless the Board has assumed the authority for administration of the Plan generally as provided in Section 10.2.

"Award" shall mean an Option, a Restricted Stock award, a Performance Award, a Dividend Equivalents award, a Deferred Stock award, a Stock Payment award or a Stock Appreciation Right which may be awarded or granted under the Plan (collectively, "Awards").

"Award Agreement" shall mean a written agreement executed by an authorized officer of the Company and the Holder which shall contain such terms and conditions with respect to an Award as the Administrator shall determine, consistent with the Plan.

"Award Limit" shall mean one hundred thousand (100,000) shares of Common Stock, as adjusted pursuant to Section 11.3 of the Plan.

A-1

"Board" shall mean the Board of Directors of the Company.

"Change in Control" shall mean a change in ownership or control of the Company effected through any of the following transactions:

(a) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing forty percent (40%) or more of the total combined voting power of the Company's then outstanding securities; or

(b) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66-2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or

consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 40% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control; or

(c) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition of the Company of all or substantially all of the Company's assets, or

(d) a majority of the members of the Board cease to be, as of any date of determination, members of the Board who were members of the Board as of the date the Plan was approved by the stockholders of the Company or was nominated for election or elected to the Board with the approval of a majority of the members of the Board at the time of such nomination or election.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of the Board, or another committee or subcommittee of the Board, appointed as provided in Section 11.1.

"Common Stock" shall mean the common stock of the Company, par value \$.01 per share, and any equity security of the Company issued or authorized to be issued in the future, but excluding any preferred stock and any warrants, options or other rights to purchase Common Stock. Debt securities of the Company convertible into Common Stock shall be deemed equity securities of the Company.

"Company" shall mean LTC Properties, Inc., a Maryland corporation.

"Corporate Transaction" shall mean any of the following stockholder-approved transactions to which the Company is a party:

(a) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Company is incorporated, form a holding company or effect a similar reorganization as to form whereupon the Plan and all Options are assumed by the successor entity;

(b) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to clause (a), above; or

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(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than forty percent (40%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

"CSAR" shall mean a Coupled Stock Appreciation Right.

"Deferred Stock" shall mean Common Stock awarded under Article VIII of the Plan.

"Director" shall mean a member of the Board.

"Dividend Equivalent" shall mean a right to receive the equivalent value (in cash or Common Stock) of dividends paid on Common Stock, awarded under Article VIII of the Plan.

"Employee" shall mean any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company, or of any corporation which is a Subsidiary.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" of a share of Common Stock as of a given date shall be (i) the closing price of a share of Common Stock on the principal exchange on which shares of Common Stock are then trading, if any (or as reported on any composite index which includes such principal exchange), on the trading day previous to such date, or if shares were not traded on the trading day previous to such date, then on the next preceding date on which a trade occurred, or (ii) if Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, the mean between the closing representative bid and asked prices for the Common Stock on the trading day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the Fair Market Value of a share of Common Stock as established by the Administrator acting in good faith.

"Grantee" shall mean an Employee, Independent Director or consultant

granted a Performance Award, Dividend Equivalent, Stock Payment or Stock Appreciation Right, or an award of Deferred Stock, under the Plan.

"Holder" shall mean a person who has been granted or awarded an Award.

"Incentive Stock Option" shall mean an option which conforms to the applicable provisions of Section 422 of the Code and which is designated as an Incentive Stock Option by the Committee.

"Independent Director" shall mean a member of the Board who is not an Employee of the Company.

"Non-Qualified Stock Option" shall mean an Option which is not designated as an Incentive Stock Option by the Committee.

"Option" shall mean a stock option granted under Article IV of the Plan. An Option granted under the Plan shall, as determined by the Committee, be either a Non-Qualified Stock Option or an Incentive Stock Option; provided, however, that Options granted to Independent Directors and consultants shall be Non-Qualified Stock Options.

"Optionee" shall mean an Employee, consultant or Independent Director granted an Option under the Plan.

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"Performance Award" shall mean a cash bonus, stock bonus or other performance or incentive award that is paid in cash, Common Stock or a combination of both, awarded under Article VIII of the Plan.

"Performance Criteria" shall mean the following business criteria with respect to the Company or any Subsidiary: (i) net income, (ii) investments, (iii) cash flow, (iv) earnings per share, (v) return on equity, (vi) return on invested capital or assets, (vii) cost reductions or savings, (viii) funds from operations, (ix) appreciation in the fair market value of Common Stock and (x) earnings before any one or more of the following items: interest, depreciation or amortization.

"Plan" shall mean The 1998 Equity Participation Plan of LTC Properties, Inc.

"QDRO" shall mean a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

"Restricted Stock" shall mean Common Stock awarded under Article VII of the Plan.

"Restricted Stockholder" shall mean an Employee, Independent Director or consultant granted an award of Restricted Stock under Article VII of the Plan.

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

"Section 162(m) Participant" shall mean any key Employee designated by the Committee as a key Employee whose compensation for the fiscal year in which the key Employee is so designated or a future fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Stock Appreciation Right" shall mean a stock appreciation right granted under Article IX of the Plan.

"Stock Payment" shall mean (i) a payment in the form of shares of Common Stock, or (ii) an option or other right to purchase shares of Common Stock, as part of a deferred compensation arrangement, made in lieu of all or any portion of the compensation, including without limitation, salary, bonuses and commissions, that would otherwise become payable to a key Employee or consultant in cash or director fees that would otherwise be paid to an Independent Director in cash, awarded under Article VIII of the Plan.

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Termination of Consultancy" shall mean the time when the engagement of a Holder as a consultant to the Company or a Subsidiary is terminated for any reason, with or without cause and with or without notice, including, but not by way of limitation, by resignation, discharge, death or retirement; but excluding terminations where there is a simultaneous commencement of employment with the Company or any Subsidiary. The Committee, in its absolute discretion, shall

determine the effect of all matters and questions relating to Termination of Consultancy, including, but not by way of limitation, the question of whether a Termination of Consultancy resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Consultancy. Notwithstanding any other provision of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate a consultant's service at any time for any reason whatsoever, with or without cause and with or without notice, except to the extent expressly provided otherwise in writing.

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"Termination of Directorship" shall mean the time when a Holder who is an Independent Director ceases to be a Director for any reason, including, but not by way of limitation, a termination by resignation, failure to be elected, death or retirement. The Board, in its sole and absolute discretion, shall determine the effect of all matters and questions relating to Termination of Directorship with respect to Independent Directors.

"Termination of Employment" shall mean the time when the employee-employer relationship between a Holder and the Company or any Subsidiary is terminated for any reason, with or without cause and with or without notice, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding (i) terminations where there is a simultaneous reemployment or continuing employment of a Holder by the Company or any Subsidiary, (ii) at the discretion of the Committee, terminations which result in a temporary severance of the employee-employer relationship, and (iii) at the discretion of the Committee, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment; provided, however, that, with respect to Incentive Stock Options, unless otherwise determined by the Committee in its discretion, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Employment if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. Notwithstanding any other provision of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate an Employee's employment at any time for any reason whatsoever, with or without cause and with or without notice, except to the extent expressly provided otherwise in writing.

ARTICLE II.

SHARES SUBJECT TO PLAN

2.1. Shares Subject to Plan.

(a) The shares of stock subject to Awards shall be Common Stock, initially shares of the Company's Common Stock, par value \$.01 per share. The aggregate number of such shares which may be issued upon exercise of such Options or rights or upon any such awards under the Plan shall not exceed Five Hundred Thousand (500,000). The shares of Common Stock issuable upon exercise of such Options or rights or upon any such awards may be either previously authorized but unissued shares or treasury shares.

(b) The maximum number of shares which may be subject to Awards, granted under the Plan to any individual in any calendar year shall not exceed the Award Limit. To the extent required by Section 162(m) of the Code, shares subject to Options which are canceled continue to be counted against the Award Limit and if, after grant of an Option, the price of shares subject to such Option is reduced, the transaction is treated as a cancellation of the Option and a grant of a new Option and both the Option deemed to be canceled and the Option deemed to be granted are counted against the Award Limit. Furthermore, to the extent required by Section 162(m) of the Code, if, after grant of a Stock Appreciation Right, the base amount on which stock appreciation is calculated is reduced to reflect a reduction in the Fair Market Value of the Common Stock, the transaction is treated as a cancellation of the Stock Appreciation Right and a grant of a new Stock Appreciation Right and both the Stock Appreciation Right deemed to be canceled and the Stock Appreciation Right deemed to be granted are counted against the Award Limit.

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2.2. Add-back of Options and Other Rights. If any Option, or other right to acquire shares of Common Stock under any other Award under the Plan, expires or is canceled without having been fully exercised, or is exercised in whole or in part for cash as permitted by the Plan, the number of shares subject to such

Option or other right but as to which such Option or other right was not exercised prior to its expiration, cancellation or exercise may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. Furthermore, any shares subject to Awards which are adjusted pursuant to Section 11.3 and become exercisable with respect to shares of stock of another corporation shall be considered cancelled and may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. Shares of Common Stock which are delivered by the Holder or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. If any share of Restricted Stock is forfeited by the Holder or repurchased by the Company pursuant to Section 7.5 hereof, such share may again be optioned, granted or awarded hereunder, subject to the limitations of Section 2.1. Notwithstanding the provisions of this Section 2.2, no shares of Common Stock may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

ARTICLE III.

GRANTING OF AWARDS

3.1 Award Agreement. Each Award shall be evidenced by an Award Agreement. Award Agreements evidencing Awards intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

3.2 Provisions Applicable to Section 162(m) Participants.

(a) The Committee, in its discretion, may determine whether an Award is to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code.

(b) Notwithstanding anything in the Plan to the contrary, the Committee may grant any Award to a Section 162(m) Participant, including Restricted Stock the restrictions with respect to which lapse upon the attainment of performance goals which are related to one or more of the Performance Criteria and any performance or incentive award described in Article VIII that vests or becomes exercisable or payable upon the attainment of performance goals which are related to one or more of the Performance Criteria.

(c) To the extent necessary to comply with the performance-based compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles VII and VIII which may be granted to one or more Section 162(m) Participants, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (i) designate one or more Section 162(m) Participants, (ii) select the Performance Criteria applicable to the fiscal year or other designated fiscal period or period of service, (iii) establish the various performance targets, in terms of an objective formula or standard, and amounts of Restricted Stock or bonus amounts, as applicable, which may be earned for such fiscal year or other designated fiscal period or period of service and (iv) specify the relationship between Performance Criteria and the performance targets and the amounts of Restricted Stock or bonus amounts, as applicable, to be earned by each Section 162(m) Participant for such fiscal year or other designated fiscal period or period of service. Following the completion of each fiscal year or other

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designated fiscal period or period of service, the Committee shall certify in writing whether the applicable performance targets have been achieved for such fiscal year or other designated fiscal period or period of service. In determining the amount earned by a Section 162(m) Participant, the Committee shall have the right to reduce (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the fiscal year or other designated fiscal period or period of service.

3.3 Consideration. In consideration of the granting of an Award under the Plan, the Holder shall agree, in the Award Agreement, to remain in the employ of (or to consult for or to serve as an Independent Director of, as applicable) the Company or any Subsidiary for a period of at least one year (or such shorter period as may be fixed in the Award Agreement or by action of the Administrator following grant of the Award) after the Award is granted (or, in the case of an Independent Director, until the next annual meeting of stockholders of the Company).

3.4 At-Will Employment. Nothing in the Plan or in any Award Agreement hereunder shall confer upon any Holder any right to continue in the employ of, or as a consultant for, the Company or any Subsidiary, or as a director of the Company, or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without cause and with or without notice, except to the extent expressly provided otherwise in a written employment agreement between the Holder and the Company and any Subsidiary.

ARTICLE IV.

GRANTING OF OPTIONS TO EMPLOYEES, CONSULTANTS AND INDEPENDENT DIRECTORS

4.1. Eligibility. Any Employee or consultant selected by the Committee pursuant to Section 4.4(a)(i) shall be eligible to be granted an Option. Each Independent Director of the Company shall be eligible to be granted Options at the times and in the manner set forth in Sections 4.5 and 4.6.

4.2. Disqualification for Stock Ownership. No person may be granted an Incentive Stock Option under the Plan if such person, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any then existing Subsidiary or parent corporation (within the meaning of Section 422 of the Code) unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code.

4.3. Qualification of Incentive Stock Options. No Incentive Stock Option shall be granted to any person who is not an Employee.

4.4. Granting of Options to Employees and Consultants.

(a) The Committee shall from time to time, in its absolute discretion, and subject to applicable limitations of the Plan:

(i) Determine which Employees are key Employees and select from among the key Employees or consultants (including Employees or consultants who have previously received Awards under the Plan) such of them as in its opinion should be granted Options;

(ii) Subject to the Award Limit, determine the number of shares to be subject to such Options granted to the selected key Employees or consultants;

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(iii) Subject to Section 4.3, determine whether such Options are to be Incentive Stock Options or Non-Qualified Stock Options and whether such Options are to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code; and

(iv) Determine the terms and conditions of such Options, consistent with the Plan; provided, however, that the terms and conditions of Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall include, but not be limited to, such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code.

(b) Upon the selection of a key Employee or consultant to be granted an Option, the Committee shall instruct the Secretary of the Company to issue the Option and may impose such conditions on the grant of the Option as it deems appropriate. Without limiting the generality of the preceding sentence, the Committee may, in its discretion and on such terms as it deems appropriate, require as a condition on the grant of an Option to an Employee or consultant that the Employee or consultant surrender for cancellation some or all of the unexercised Options, any other Award or other rights which have been previously granted to him/her under the Plan or otherwise. An Option, the grant of which is conditioned upon such surrender, may have an Option price lower (or higher) than the exercise price of such surrendered Option or other award, may cover the same (or a lesser or greater) number of shares as such surrendered Option or other award, may contain such other terms as the Committee deems appropriate, and shall be exercisable in accordance with its terms, without regard to the number of shares, price, exercise period or any other term or condition of such surrendered Option or other award.

(c) Any Incentive Stock Option granted under the Plan may be modified by the Committee, with the consent of the Optionee, to disqualify such Option from treatment as an "incentive stock option" under Section 422 of the Code.

4.5 Granting of Options to Independent Directors

(a) During the term of the Plan, a person who is initially elected to the Board and who is an Independent Director at the time of such initial election automatically shall be granted an Option to purchase Fifteen Thousand (15,000) shares of Common Stock (subject to adjustment as provided in Section 11.3) on the date of such initial election. Members of the Board who are employees of the Company who subsequently retire from the Company and remain on the Board will not receive an initial Option grant pursuant to the preceding sentence.

(b) The Board shall from time to time, in its absolute discretion, and subject to applicable limitations of the Plan determine (i) which Independent Directors, if any, should, in its opinion, be granted Non-Qualified Stock Options, (ii) subject to the Award Limit, determine the number of number of shares to be subject to such Options, and (iii) the terms and conditions of such Options, consistent with the Plan.

4.6. Options in Lieu of Cash Compensation. Options may be granted under the Plan to Employees and consultants in lieu of cash bonuses which would otherwise be payable to such Employees and consultants and to Independent Directors in lieu of directors' fees which would otherwise be payable to such Independent Directors, pursuant to such policies which may be adopted by the Administrator from time to time.

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ARTICLE V.

TERMS OF OPTIONS

5.1 Option Price. The price per share of the shares subject to each Option granted to Employees and consultants shall be set by the Committee; provided, however, that such price shall be no less than the par value of a share of Common Stock, unless otherwise permitted by applicable state law, and (i) in the case of Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code, such price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted; (ii) in the case of Incentive Stock Options such price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code); and (iii) in the case of Incentive Stock Options granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code), such price shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

5.2 Option Term. The term of an Option granted to an Employee or consultant shall be set by the Committee in its discretion; provided, however, that, in the case of Incentive Stock Options, the term shall not be more than ten (10) years from the date the Incentive Stock Option is granted, or five (5) years from such date if the Incentive Stock Option is granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code). Except as limited by requirements of Section 422 of the Code and regulations and rulings thereunder applicable to Incentive Stock Options, the Committee may extend the term of any outstanding Option in connection with any Termination of Employment or Termination of Consultancy of the Optionee, or amend any other term or condition of such Option relating to such a termination.

5.3 Option Vesting

(a) The period during which the right to exercise, in whole or in part, an Option granted to an Employee or a consultant vests in the Optionee shall be set by the Committee in its sole and absolute discretion and the Committee may determine that an Option may not be exercised in whole or in part for a specified period after it is granted; provided, however, that, unless the Committee otherwise provides in the terms of the Award Agreement or otherwise, no Option shall be exercisable by any Optionee who is then subject to Section 16 of the Exchange Act within the period ending six months and one day after the date the Option is granted. At any time after grant of an Option, the Committee may, in its sole and absolute discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Option granted to an Employee or consultant vests.

(b) No portion of an Option granted to an Employee or consultant which is unexercisable at Termination of Employment or Termination of Consultancy, as applicable, shall thereafter become exercisable, except as may be otherwise provided by the Committee either in the Award Agreement

or by action of the Committee following the grant of the Option.

(c) To the extent that the aggregate Fair Market Value of stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by an Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation (within the meaning of Section 422 of the Code) of the Company) exceeds \$100,000, such Options shall be treated as Non-Qualified Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into

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account in the order in which they were granted. For purposes of this Section 5.3(c), the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

5.4 Terms of Options Granted to Independent Directors. The price per share of the shares subject to each Option granted to an Independent Director shall equal 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted. Subject to Section 6.6, each Option granted to an Independent Director pursuant to Section 4.5 shall become exercisable in cumulative annual installments of 33-1/3% on each of the first, second and third anniversaries of the date of grant and shall expire on the earlier of the seventh anniversary of the date of vesting or one year following an Independent Director's Termination of Directorship for any reason; provided that no Option shall vest more than one year following an Independent Director's Termination of Directorship.

ARTICLE VI.

EXERCISE OF OPTIONS

6.1. Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Administrator may require that, by the terms of the Option, a partial exercise be with respect to a minimum number of shares.

6.2. Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company or his/her office:

(a) A written notice complying with the applicable rules established by the Administrator stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Optionee or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Administrator, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Administrator may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised pursuant to Section 11.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option; and

(d) Full cash payment to the Secretary of the Company for the shares with respect to which the Option, or portion thereof, is exercised. However, the Administrator, may in its discretion (i) allow a delay in payment up to thirty (30) days from the date the Option, or portion thereof, is exercised; (ii) allow payment, in whole or in part, through the delivery of shares of Common Stock owned by the Optionee, duly endorsed for transfer to the Company with a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; (iii) allow payment, in whole or in part, through the surrender of shares of Common Stock then issuable upon exercise of the Option having a Fair Market Value on the date of Option exercise equal to the aggregate exercise price of the Option or exercised portion thereof; (iv) allow payment, in whole or in part, through the delivery of property of any kind which constitutes good and valuable consideration; (v) allow payment, in whole or in part, through the delivery of a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code) and payable upon such terms as may be prescribed by the Committee or the Board; (vi) allow payment, in whole or in part, through the delivery of a notice that the Optionee has placed a market sell order with a broker with respect to shares of Common Stock then issuable upon

exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; or (vii) allow payment through any combination of the consideration provided in the foregoing subparagraphs (ii), (iii), (iv), (v) and (vi). In the case of a promissory note, the Administrator may also prescribe the form of such note and the security to be given for such note. The Option may not be exercised, however, by delivery of a promissory note or by a loan from the Company when or where such loan or other extension of credit is prohibited by law.

6.3. Conditions to Issuance of Stock Certificates. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the exercise of the Option as the Committee (or Board, in the case of Options granted to Independent Directors) may establish from time to time for reasons of administrative convenience; and

(e) The receipt by the Company of full payment for such shares, including payment of any applicable withholding tax, which in the discretion of the Committee or the Board may be in the form of consideration used by the Optionee to pay for such shares under Section 6.2(d).

6.4. Rights as Stockholders/ Dividend Equivalents. Optionees shall not be, nor have any of the rights or privileges of, stockholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such Optionees. Notwithstanding the foregoing, any Optionee may be granted Dividend Equivalents based on the dividends declared on Common Stock, to be credited as of dividend payment dates, during the period between the date an Option is granted, and the date such Option is exercised, vests or expires, as determined by the Committee (or the Board, with respect to Independent Directors). Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Committee (or the Board, with respect to Independent Directors). With respect to Dividend Equivalents granted with respect to Options intended to be qualified performance-based compensation for purposes of Section 162(m) of the Code, such Dividend Equivalents shall be payable as of dividend payment dates regardless of whether such Option is exercised.

6.5. Ownership and Transfer Restrictions. The Administrator, in its absolute discretion, may impose such restrictions on the ownership and transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such restriction shall be set forth in the respective Award Agreement and may be referred to on the certificates evidencing such shares. The Committee may require the Employee to give the Company prompt notice of any disposition of shares of Common Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Employee or (ii) one year after the transfer of such shares to such Employee. The Committee may direct that the certificates

evidencing shares acquired by exercise of any such Option refer to such requirement to give prompt notice of disposition.

6.6. Additional Limitations on Exercise of Options. Optionees may be required to comply with any timing or other restrictions with respect to the settlement or exercise of an Option, including a window-period limitation, as may be imposed in the discretion of the Administrator.

AWARD OF RESTRICTED STOCK

7.1. Eligibility. Subject to the Award Limit, Restricted Stock may be awarded to any Employee who the Committee determines is a key Employee, any consultant who the Committee determines should receive such an Award or any Independent Director who the Board determines should receive such an Award.

7.2. Award of Restricted Stock.

(a) The Committee (or the Board, with respect to Independent Directors) may from time to time, in its absolute discretion:

(i) Determine which Employees are key Employees and select from among the key Employees, Independent Directors or consultants (including Employees, Independent Directors or consultants who have previously received other awards under the Plan) such of them as in its opinion should be awarded Restricted Stock; and

(ii) Determine the purchase price, if any, and other terms and conditions applicable to such Restricted Stock, consistent with the Plan.

(b) The Committee (or the Board, with respect to Independent Directors) shall establish the purchase price, if any, and form of payment for Restricted Stock.

(c) Upon the selection of a key Employee, Independent Director or consultant to be awarded Restricted Stock, the Committee (or the Board, with respect to Independent Directors) shall instruct the Secretary of the Company to issue such Restricted Stock and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

7.3. Rights as Stockholders. Subject to Section 7.4, upon delivery of the shares of Restricted Stock to the escrow holder pursuant to Section 7.6, the Restricted Stockholder shall have, unless otherwise provided by the Committee (or the Board, with respect to Independent Directors), all the rights of a stockholder with respect to said shares, subject to the restrictions in his/her Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that in the discretion of the Committee (or the Board, with respect to Independent Directors), any extraordinary distributions with respect to the Common Stock shall be subject to the restrictions set forth in Section 7.4.

7.4. Restriction. All shares of Restricted Stock issued under the Plan (including any shares received by holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Award Agreement, be subject to such restrictions as the Committee (or the Board, with respect to Independent Directors) shall provide, which restrictions may include, without limitation, restrictions concerning voting rights and transferability and restrictions based on duration of employment with the Company, Company performance and individual performance; provided, however, that, except with respect to shares of Restricted Stock granted to Section

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162(m) Participants, by action taken after the Restricted Stock is issued, the Committee may, on such terms and conditions as it may determine to be appropriate, remove any or all of the restrictions imposed by the terms of the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. If no consideration was paid by the Restricted Stockholder upon issuance, a Restricted Stockholder's rights in unvested Restricted Stock shall lapse upon Termination of Employment or, if applicable, upon Termination of Consultancy or Termination of Directorship with the Company; provided, however, that the Committee in its sole and absolute discretion may provide that such rights shall not lapse in the event of a Termination of Employment following a "change of ownership control" (within the meaning of Treasury Regulation Section 1.62-27(e)(2)(v) or any successor regulation thereto) of the Company or because of the Restricted Stockholder's death or disability; provided, further, except with respect to shares of Restricted Stock granted to Section 162(m) Participants, the Committee in its sole and absolute discretion may provide that no such right of repurchase shall exist in the event of a Termination of Employment, or a Termination of Consultancy, without cause or following any Change in Control of the Company or because of the Restricted Stockholder's retirement, or otherwise.

7.5. Repurchase of Restricted Stock. The Committee (or the Board, with respect to Independent Directors) shall provide in the terms of each individual Award Agreement that the Company shall have the right to repurchase from the Restricted Stockholder the Restricted Stock then subject to restrictions under the Award Agreement immediately upon a Termination of Employment or, if applicable, upon a Termination of Consultancy between the Restricted Stockholder and the Company, at a cash price per share equal to the price paid by the Restricted Stockholder for such Restricted Stock; provided, however, that the

Committee in its sole and absolute discretion may provide that no such right of repurchase shall exist in the event of a Termination of Employment following a "change of ownership or control" (within the meaning of Treasury Regulation Section 1.162-27(e)(2)(v) or any successor regulation thereto) of the Company or because of the Restricted Stockholder's death or disability; provided, further, that, except with respect to shares of Restricted Stock granted to Section 162(m) Participants, the Committee in its sole and absolute discretion may provide that no such right of repurchase shall exist in the event of a Termination of Employment or a Termination of Consultancy without cause or following any Change in Control of the Company or because of the Restricted Stockholder's retirement, or otherwise.

7.6. Escrow. The Secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under the Award Agreement with respect to the shares evidenced by such certificate expire or shall have been removed.

7.7. Legend. In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Committee (or the Board, with respect to Independent Directors) shall cause a legend or legends to be placed on certificates representing all shares of Restricted Stock that are still subject to restrictions under Award Agreements, which legend or legends shall make appropriate reference to the conditions imposed thereby.

7.8. Section 83(b) Election. If a Restricted Stockholder makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Restricted Stockholder would otherwise be taxable under Section 83(a) of the Code, the Restricted Stockholder shall deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service.

7.9. Restricted Stock in Lieu of Cash Compensation. Restricted Stock may be awarded under the Plan to Employees and consultants in lieu of cash bonuses which would otherwise be payable to such Employees and consultants and to Independent Directors in lieu of directors' fees which would otherwise be payable to such Independent Directors, pursuant to such policies which may be adopted by the Administrator from time to time.

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ARTICLE VIII.

PERFORMANCE AWARDS, DIVIDEND EQUIVALENTS, DEFERRED STOCK, STOCK PAYMENTS

8.1. Eligibility. Subject to the Award Limit, one or more Performance Awards, Dividend Equivalents, awards of Deferred Stock, and/or Stock Payments may be granted to any Employee who the Committee determines is a key Employee, any consultant who the Committee determines should receive such an Award or any Independent Director who the Board determines should receive such an Award.

8.2. Performance Awards. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted one or more Performance Awards. The value of such Performance Awards may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee (or the Board, with respect to Independent Directors), in each case on a specified date or dates or over any period or periods determined by the Committee (or the Board, with respect to Independent Directors). In making such determinations, the Committee (or the Board, with respect to Independent Directors) shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular key Employee, Independent Director or consultant.

8.3. Dividend Equivalents. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted Dividend Equivalents based on the dividends declared on Common Stock, to be credited as of dividend payment dates, during the period between the date a Stock Appreciation Right, Deferred Stock or Performance Award is granted, and the date such Stock Appreciation Right, Deferred Stock or Performance Award is exercised, vests or expires, as determined by the Committee (or the Board, with respect to Independent Directors). Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Committee (or the Board, with respect to Independent Directors).

8.4. Stock Payments. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may receive Stock Payments in the manner determined from time to time by the Committee (or the Board, with respect to Independent Directors). The number of shares shall be determined by the Committee (or the Board, with respect to Independent Directors) and may be based upon the Performance Criteria or other specific

performance criteria determined appropriate by the Committee (or the Board, with respect to Independent Directors), determined on the date such Stock Payment is made or on any date thereafter.

8.5. **Deferred Stock.** Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted an award of Deferred Stock in the manner determined from time to time by the Committee (or the Board, with respect to Independent Directors). The number of shares of Deferred Stock shall be determined by the Committee (or the Board, with respect to Independent Directors) and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee (or the Board, with respect to Independent Directors), in each case on a specified date or dates or over any period or periods determined by the Committee (or the Board, with respect to Independent Directors). Common Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee (or the Board, with respect to Independent Directors). Unless otherwise provided by the Committee (or the Board, with respect to Independent Directors), a Holder of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Award has vested and the Common Stock underlying the Award has been issued.

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8.6. **Term.** The term of a Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment shall be set by the Committee (or the Board, with respect to Independent Directors) in its discretion.

8.7. **Exercise or Purchase Price.** The Committee (or the Board, with respect to Independent Directors) may establish the exercise or purchase price of a Performance Award, shares of Deferred Stock, or shares received as a Stock Payment.

8.8. **Exercise Upon Termination of Employment, Termination of Directorship or Termination of Consultancy.** A Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment is exercisable or payable only while the Holder is an Employee, Independent Director or consultant; provided, however, that the Committee in its sole and absolute discretion may provide that the Performance Award, Dividend Equivalent, award of Deferred Stock and/or Stock Payment may be exercised or paid subsequent to a Termination of Employment following a "change of control or ownership" (within the meaning of Section 1.162-27(e)(2)(v) or any successor regulation thereto) of the Company; provided, further, that except with respect to Performance Awards granted to Section 162(m) Participants, the Committee in its sole and absolute discretion may provide that the Performance Awards may be exercised or paid following a Termination of Employment or a Termination of Consultancy without cause, or following a Change in Control of the Company, or because of the Grantee's retirement, death or disability, or otherwise.

8.9. **Payment on Exercise.** Payment of the amount determined under Section 8.1 or 8.2 above shall be in cash, in Common Stock or a combination of both, as determined by the Committee (or the Board, with respect to Independent Directors). To the extent any payment under this Article VIII is effected in Common Stock, it shall be made subject to satisfaction of all provisions of Section 6.3.

8.10. **Performance Award, Dividend Equivalent, Deferred Stock and/or Stock Payment in Lieu of Cash Compensation.** Performance Awards, Dividend Equivalents, Deferred Stock and/or Stock Payments may be awarded under the Plan to Employees and consultants in lieu of cash bonuses which would otherwise be payable to such Employees and consultants and to Independent Directors in lieu of directors' fees which would otherwise be payable to such Independent Directors, pursuant to such policies which may be adopted by the Administrator from time to time.

ARTICLE IX.

STOCK APPRECIATION RIGHTS

9.1. **Grant of Stock Appreciation Rights.** A Stock Appreciation Right may be granted to any key Employee or consultant selected by the Committee or any Independent Director selected by the Board. A Stock Appreciation Right may be granted (i) in connection and simultaneously with the grant of an Option, (ii) with respect to a previously granted Option, or (iii) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee (or the Board, with respect to Independent Directors) shall impose and shall be evidenced by an Award Agreement. Without limiting the generality of the foregoing, the Committee (or the Board, with respect to Independent Directors) may, in its discretion and on such terms as it deems appropriate, require as a condition of the grant of a Stock Appreciation Right to an Employee, Independent Director or consultant that the Employee, Independent Director or consultant surrender for cancellation some or all of the unexercised Options, awards of Restricted Stock or Deferred Stock, Performance Awards, Stock Appreciation Rights, Dividend Equivalents or Stock Payments, or other rights which have been previously granted to him/her under

the Plan or otherwise. A Stock Appreciation Right, the grant of which is conditioned upon such surrender, may have an exercise price lower (or higher) than the exercise price of the surrendered Option or other award, may cover the same (or a lesser or greater) number of shares as such surrendered Option or other award, may contain such other terms as the Committee (or the Board, with respect to Independent Directors) deems appropriate, and shall be exercisable

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in accordance with its terms, without regard to the number of shares, price, exercise period or any other term or condition of such surrendered Option or other award.

9.2. Coupled Stock Appreciation Rights.

(a) A CSAR shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable.

(b) A CSAR may be granted to the Grantee for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Grantee (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company unexercised a portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company in exchange therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Common Stock on the date of exercise of the CSAR by the number of shares of Common Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee (or the Board, with respect to Independent Directors) may impose.

9.3. Independent Stock Appreciation Rights.

(a) An Independent Stock Appreciation Right ("ISAR") shall be unrelated to any Option and shall have a term set by the Committee (or the Board, with respect to Independent Directors). An ISAR shall be exercisable in such installments as the Committee (or the Board, with respect to Independent Directors) may determine. An ISAR shall cover such number of shares of Common Stock as the Committee (or the Board, with respect to Independent Directors) may determine. The exercise price per share of Common Stock subject to each ISAR shall be set by the Committee (or the Board, with respect to Independent Directors). An ISAR is exercisable only while the Grantee is an Employee, Independent Director or consultant; provided that the Committee (or the Board, with respect to Independent Directors) may determine that the ISAR may be exercised subsequent to Termination of Employment, Termination of Directorship or Termination of Consultancy without cause, or following a Change in Control of the Company, or because of the Grantee's retirement, death or disability, or otherwise.

(b) An ISAR shall entitle the Grantee (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Common Stock on the date of exercise of the ISAR by the number of shares of Common Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee (or the Board, with respect to Independent Directors) may impose.

9.4. Payment and Limitations on Exercise.

(a) Payment of the amount determined under Section 9.2(c) and 9.3(b) above shall be in cash, in Common Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee (or the Board, with respect to Independent Directors). To the extent such payment is effected in Common Stock it shall be made subject to satisfaction of all provisions of Section 6.3 above pertaining to Options.

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(b) Grantees of Stock Appreciation Rights may be required to comply with any timing or other restrictions with respect to the settlement or exercise of a Stock Appreciation Right, including a window-period limitation, as may be imposed in the discretion of the Committee (or the Board, with respect to Independent Directors).

ARTICLE X.

ADMINISTRATION

10.1. Compensation Committee. The Compensation Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under the Plan) shall consist solely of two or more Independent Directors appointed by and holding office at the pleasure of the Board, each of whom is both a "non-employee director" as defined by Rule 16b-3 and an "outside director" for purposes of Section 162(m) of the Code. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may be filled by the Board.

10.2. Duties and Powers of Committee. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the agreements pursuant to which Awards are granted or awarded, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. Notwithstanding the foregoing, the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Options granted to Independent Directors. Any such grant or award under the Plan need not be the same with respect to each Holder. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

10.3. Majority Rule; Unanimous Written Consent. The Committee shall act by a majority of its members in attendance at a meeting at which a quorum is present or by a memorandum or other written instrument signed by all members of the Committee.

10.4. Compensation; Professional Assistance; Good Faith Actions. Members of the Committee shall receive such compensation for their services as may be determined by the Board. All expenses and liabilities which members of the Committee incur in connection with the administration of the Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers, or other persons. The Committee, the Company and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon all Holders, the Company and all other interested persons. No members of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or Awards, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

ARTICLE XI.

MISCELLANEOUS PROVISIONS

11.1. Not Transferable. No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a QDRO, unless and until such Award has been exercised, or the shares underlying

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such Award have been issued, and all restrictions applicable to such shares have lapsed. No Option, Restricted Stock award, Deferred Stock award, Performance Award, Stock Appreciation Right, Dividend Equivalent or Stock Payment or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or his/her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

During the lifetime of the Holder, only he may exercise an Option or other Award (or any portion thereof) granted to him/her under the Plan, unless it has been disposed of pursuant to a QDRO. After the death of the Holder, any exercisable portion of an Option or other Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Award Agreement, be exercised by his/her personal representative or by any person empowered to do so under the deceased Holder's will or under the then applicable laws of descent and distribution.

11.2. Amendment, Suspension or Termination of the Plan. Except as

otherwise provided in this Section 11.2, the Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board or the Committee. However, without approval of the Company's stockholders given within twelve months before or after the action by the Board or the Committee, no action of the Board or the Committee may, except as provided in Section 11.3, increase the limits imposed in Section 2.1 on the maximum number of shares which may be issued under the Plan. No amendment, suspension or termination of the Plan shall, without the consent of the Holder alter or impair any rights or obligations under any Award theretofore granted or awarded, unless the Award itself otherwise expressly so provides. No Awards may be granted or awarded during any period of suspension or after termination of the Plan, and in no event may any Incentive Stock Option be granted under the Plan after the first to occur of the following events:

(a) The expiration of ten years from the date the Plan is adopted by the Board; or

(b) The expiration of ten years from the date the Plan is approved by the Company's stockholders under Section 11.4.

In addition, if the Board determines that Awards other than Options or Stock Appreciation Rights which may be granted to Section 162(m) Participants should continue to be eligible to qualify as performance-based compensation under Section 162(m)(4)(C) of the Code, the Performance Criteria must be disclosed to and approved by the Company's stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which the Company's stockholders previously approved the Performance Criteria.

11.3. Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company, Change in Control and Other Corporate Events.

(a) Subject to Section 11.3(d), in the event that the Administrator determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Administrator's opinion, affects the Common Stock such that an adjustment is determined by the Administrator to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available

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under the Plan or with respect to an Award, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of:

(i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Awards may be granted or awarded (including, but not limited to, adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued and adjustments of the Award Limit),

(ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Options, Performance Awards, Stock Appreciation Rights, Dividend Equivalents, or Stock Payments, and in the number and kind of shares of outstanding Restricted Stock or Deferred Stock, and

(iii) the grant or exercise price with respect to any Award.

(b) Subject to Sections 11.3(b)(vii) and 11.3(d), in the event of any Corporate Transaction or other transaction or event described in Section 11.3(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Administrator, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either the purchase of any such Award for

an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Holder's rights had such Award been currently exercisable or payable or fully vested or the replacement of such Award with other rights or property selected by the Administrator in its sole discretion;

(ii) To provide that the Award cannot vest, be exercised or become payable after such event;

(iii) To provide that such Award shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in (i) Section 5.3 or 5.4 or (ii) the provisions of such Award;

(iv) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(v) To make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria

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included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future.;

(vi) To provide that, for a specified period of time prior to such event, the restrictions imposed under an Award Agreement upon some or all shares of Restricted Stock or Deferred Stock may be terminated, and, in the case of Restricted Stock, some or all shares of such Restricted Stock may cease to be subject to repurchase under Section 7.5 or forfeiture under Section 7.4 after such event; and

(vii) None of the foregoing discretionary actions taken under this Section 11.3(b) shall be permitted with respect to Options granted under Section 4.5 to Independent Directors to the extent that such discretion would be inconsistent with the applicable exemptive conditions of Rule 16b-3. In the event of a Change in Control or a Corporate Transaction, to the extent that the Board does not have the ability under Rule 16b-3 to take or to refrain from taking the discretionary actions set forth in Section 11.3(b)(iii) above, each Option granted to an Independent Director shall be exercisable as to all shares covered thereby upon such Change in Control or during the five days immediately preceding the consummation of such Corporate Transaction and subject to such consummation, notwithstanding anything to the contrary in Section 5.4 or the vesting schedule of such Options. In the event of a Corporate Transaction, to the extent that the Board does not have the ability under Rule 16b-3 to take or to refrain from taking the discretionary actions set forth in Section 11.3(b)(ii) above, no Option granted to an Independent Director may be exercised following such Corporate Transaction unless such Option is, in connection with such Corporate Transaction, either assumed by the successor or survivor corporation (or parent or subsidiary thereof) or replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent or subsidiary thereof).

(c) Subject to Section 11.3(d) and 11.8, the Administrator may, in its discretion, include such further provisions and limitations in any Award, agreement or certificate, as it may deem equitable and in the best interests of the Company.

(d) With respect to Awards described in Article VII or VIII which are granted to Section 162(m) Participants and are intended to qualify as performance-based compensation under Section 162(m)(4)(C), no adjustment or action described in this Section 11.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause such Award to fail to so qualify under Section 162(m)(4)(C), or any successor provisions thereto. No adjustment or action described in this Section 11.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines that the Award is not to comply with such exemptive conditions. The number of shares of Common Stock subject to any Award shall always be

rounded to the next whole number.

11.4. Approval of Plan by Stockholders. The Plan will be submitted for the approval of the Company's stockholders within twelve months after the date of the Board's initial adoption of the Plan. Awards may be granted or awarded prior to such stockholder approval; provided that such Awards shall not be exercisable nor shall such Awards vest prior to the time when the Plan is approved by the stockholders; and provided further, that if such approval has not been obtained at the end of said twelve-month period, all Awards previously granted or awarded under the Plan shall thereupon be canceled and become null and void.

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11.5. Tax Withholding. The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Holder of any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting, exercise or payment of any Award. The Administrator may in its discretion and in satisfaction of the foregoing requirement allow such Holder to elect to have the Company withhold shares of Common Stock otherwise issuable under such Award (or allow the return of shares of Common Stock) having a Fair Market Value equal to the sums required to be withheld.

11.6. Loans. The Committee may, in its discretion, extend one or more loans to key Employees, Independent Directors or Consultants in connection with the exercise or receipt of an Award granted or awarded under the Plan, or the issuance of Restricted Stock or Deferred Stock awarded under the Plan. The terms and conditions of any such loan shall be set by the Committee.

11.7. Forfeiture Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Administrator shall have the right (to the extent consistent with the applicable exemptive conditions of Rule 16b-3) to provide, in the terms of Awards made under the Plan, or to require a Holder to agree by separate written instrument, that (i) any proceeds, gains or other economic benefit actually or constructively received by the Holder upon any receipt or exercise of the Award, or upon the receipt or resale of any Common Stock underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (a) a Termination of Employment, Termination of Consultancy or Termination of Directorship occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, or (b) the Holder at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Committee (or the Board, as applicable) or the Holder incurs a Termination of Employment, Termination of Consultancy or Termination of Directorship for cause.

11.8. Limitations Applicable to Section 16 Persons and Performance-Based Compensation. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule. Furthermore, notwithstanding any other provision of the Plan or any Award described in Article VII or VIII which is granted to a Section 162(m) Participant and is intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

11.9. Effect of Plan Upon Options and Compensation Plans. The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in the Plan shall be construed to limit the right of the Company (i) to establish any other forms of incentives or compensation for Employees, Independent Directors or consultants of the Company or any Subsidiary or (ii) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

11.10. Compliance with Laws. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of shares of Common Stock and the payment of money under the Plan or under Awards

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granted or awarded hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

11.11. Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

11.12. Governing Law. The Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Maryland without regard to conflicts of laws thereof.

LTC PROPERTIES, INC.

EXHIBIT 10.29

TERM LOAN AGREEMENT

among

LTC PROPERTIES, INC.

and

THE LENDERS REFERRED TO HEREIN

and

BANK OF MONTREAL,
as Administrative Agent

and

SANWA BANK CALIFORNIA,
as Documentation Agent

March 8, 1999

TERM LOAN AGREEMENT

This Agreement, dated as of March 8, 1999, is among LTC PROPERTIES, INC., a Maryland corporation (the "Borrower"), the financial institutions party hereto (together with their respective successors and permitted assigns, the "Lenders"), BANK OF MONTREAL ("Bank of Montreal"), as Administrative Agent (the "Agent"), and SANWA BANK CALIFORNIA ("Sanwa"), as Documentation Agent.

Recitals

WHEREAS, the Borrower wishes to obtain commitments from the Lenders for pro rata credit extensions under a term credit facility in the aggregate amount of \$25,000,000.

WHEREAS, the Lenders have agreed, on the terms and conditions herein set forth, to extend credit to the Borrower (1) for the purpose of funding investments in healthcare and education facilities and related mortgage loans and (2) for general corporate purposes.

WHEREAS, it is the intention of the Borrower and the Lenders that the indebtedness of the Borrower to the Lenders under this Agreement be pari passu with the indebtedness of the Borrower to the lenders under the Revolving Credit Agreement (as hereinafter defined).

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Definitions. As used in this Agreement:

"Acquisition" means each transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any ongoing business or all or substantially all of the assets of any Person or division thereof, whether through the purchase of assets, by merger or otherwise, or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage of voting power) of the outstanding equity interests of a partnership or other Person.

"Advance" means a borrowing hereunder consisting of the aggregate amount of the several Loans made by the Lenders to the Borrower of the same Type and, in the case of a LIBOR Loan, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly

controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the

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management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise; provided that control shall be conclusively presumed when any Person or affiliated group directly or indirectly owns 20% or more of the securities having ordinary voting power for the election of directors of a corporation. Notwithstanding the foregoing, a partnership shall not be deemed an Affiliate of the Borrower if a general partner (which is an Affiliate of the Borrower) controls such partnership.

"Agent" means Bank of Montreal in its capacity as administrative agent for the Lenders pursuant to Article 12, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Article 12.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders.

"Agreement" means this Term Loan Agreement, as it may be amended or modified and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in Section 5.5 (except for changes concurred in by the Borrower's independent public accountants).

"Applicable Lending Office" means for any Lender, its office for LIBOR Loans and Reference Rate Loans, specified in Schedule 1 or in the Assignment Agreement pursuant to which it became a party hereto, as the case may be, any of which offices may, upon 10 days' prior written notice to the Agent and the Borrower, be changed by such Lender.

"Applicable Value" means (i) with respect to any Owned Property, the Book Value of such Owned Property determined in accordance with Agreement Accounting Principles net of depreciation applied on a pro rata basis and (ii) with respect to any Mortgaged Property, the unpaid principal balance of the related Mortgage Note.

"Appraisal" means a Master Appraisal Institute appraisal (or an appraisal prepared by Valuation Counselor's Group or other appraisal satisfactory to the Agent and the Required Lenders).

"Article" means an article of this Agreement unless another document is specifically referenced.

"Assignment Agreement" means an Assignment Agreement in the form of Exhibit C hereto.

"Authorized Officer" means any of the Chairman, Chief Executive Officer, President, Chief Financial Officer or Treasurer (specifically authorized by the Borrower) of the Borrower, acting singly.

"Bank of Montreal" is defined in the first paragraph hereof.

"Book Value" means, with regard to any Owned Property, the sum of (i) the lesser of (a) the purchase price or (b) the final construction cost (provided that such construction was completed within the last 90 days), plus (ii) capitalized improvements and all other related closing costs (calculated on a cost basis,) as determined in accordance with Agreement Accounting Principles.

"Borrower" is defined in the first paragraph hereof.

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"Borrowing Base" means, as at any date, the sum of (i) 75% of the aggregate Applicable Value of the Eligible Mortgage Loans and (ii) 60% of the aggregate Applicable Value of the Eligible Owned Properties (other than Eligible Owned Properties of "Guarantors" under the Revolving Credit Agreement), minus (a) the aggregate principal amount of all "Loans," and the aggregate "Letter of Credit Amount" of all "Letters of Credit" (as such terms are defined in the Revolving Credit Agreement), outstanding under the Revolving Credit Agreement and (b) the aggregate principal amount of any outstanding Senior Debt (other than amounts outstanding hereunder or under the Revolving Credit Agreement, Capitalized Leases, and the Oregon Bonds and Washington Bonds referenced on Schedule 3).

"Borrowing Base Certificate" means a certificate of an Authorized Officer of the Borrower, in substantially the form of Exhibit E and appropriately completed.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Business Day" means any day (i) other than a Saturday, Sunday or other day on which commercial banks are authorized or required by law to close in Los Angeles, California, New York, New York or Chicago, Illinois and (ii) if the applicable Business Day relates to a LIBOR Loan, on which dealings in Dollar deposits are carried on in the London Interbank Market.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Flow" means, for any period, for the Borrower and its Subsidiaries (determined on a Consolidated Basis in a presentation of Consolidated Statements of Cash Flow without duplication in accordance with Agreement Accounting Principles), Net Income plus minority interest expenses plus depreciation, amortization and other non-cash charges minus non-cash income plus Interest Expense for such period.

"Cash Flow Coverage Ratio" means for the Borrower and its Subsidiaries on a Consolidated Basis, determined as of the end of each fiscal quarter for the period of four fiscal quarters then ended, the ratio of (i) Cash Flow to (ii) the sum of principal payments (excluding principal payments on existing convertible Subordinated Indebtedness and under this Agreement), Distributions and Interest Expense.

"Change of Control" means (i) the acquisition by any Person (including any syndicate or group deemed to be a "Person" under Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision to either of the foregoing) of beneficial ownership, directly or indirectly, of shares of capital stock of the Borrower entitling such Person to exercise more than 50% of the total voting power of all voting shares of the Borrower; or (ii) any consolidation of the Borrower with, or merger of the Borrower into, any other Person, any merger of another Person into the Borrower or any sale or transfer of all or substantially all of the assets of the Borrower to another Person other than (a) where the surviving corporation is the Borrower, (b) the Borrower continues to be a REIT and (c) the Borrower shall be in pro forma compliance with all provisions of this Agreement subsequent to such Change of Control.

"Closing Date" means the date on which all the conditions precedent set forth in Section 4.1 shall have been satisfied or waived.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, including the regulations proposed or promulgated thereunder.

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"Commitment" means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite such Lender's name on Schedule 1 hereto or as set forth in any Assignment Agreement relating to any assignment that has become effective pursuant to Section 14.3, as such amount may be modified from time to time pursuant to the terms hereof.

"Commitment Percentage" means, as to any Lender at any time, the percentage of the Aggregate Commitment then constituted by such Lender's Commitment.

"Compliance Certificate" has the meaning set forth in Section 7.1(iii).

"Consolidated," "Consolidating" and "on a Consolidated Basis," when describing financial statements, refer to those of the Borrower and its Subsidiaries.

"Control" means the power to direct or cause the direction of the management or policies of a Person, whether through rights of ownership under voting securities, under contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is the notice referred to in Section 2.10.

"Debt" of any Person means (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (ii) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (iii) all indebtedness created or arising under any conditional-sale or other title-retention agreement with respect to property

acquired by such Person, (iv) all obligations of such Person as lessee under leases that have been or should be, in accordance with Agreement Accounting Principles, recorded as Capitalized Leases, (v) all obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to secure a credit against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i), (ii), (iii) or (iv) above (including letters of credit or similar instruments for such purpose) and (vi) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA.

"Debt Service Coverage Ratio" means for the Borrower and its Subsidiaries on a Consolidated Basis, determined as of the end of each fiscal quarter for the period of four fiscal quarters then ended, the ratio of (i) Cash Flow to (ii) the sum of principal payments on Debt (excluding principal payments on existing convertible Subordinated Indebtedness and under this Agreement) and Interest Expense.

"Default" means any Event of Default and any default, event or condition that would, with the giving of any requisite notice and the passage of any requisite period of time, constitute an Event of Default.

"Distributions" means the declaration of any dividend or the declaration of a distribution on or in respect to any shares of any class of capital stock, any partnership interest or any membership interest of any Person, other than dividends or other distributions payable solely in shares of common stock, partnership interests or membership units of such Person, as the case may be; the purchase, redemption or other retirement of any shares of any class of capital stocks, partnership interests or membership units of such Person, directly or indirectly, through a Subsidiary or otherwise; the return of equity capital by

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any Person to its shareholders, partners or members as such; or any other distribution on or in respect of any shares of any class of capital stock, partnership interests or membership unit of such Person.

"Documentation Agent" means Sanwa in its capacity as documentation agent for the Lenders, and not in its individual capacity as a Lender, and any successor Documentation Agent appointed by the Lenders.

"Dollars" or "\$" shall mean lawful money of the United States of America.

"Eligible Assignee" means (i) a commercial bank organized under the laws of the United States, or any State thereof or the District of Columbia, and having total assets in excess of \$500,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having total assets in excess of \$500,000,000, provided that such bank is acting through a branch or agency located in the United States; (iii) an insurance company or other financial institution or an investment fund that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of \$500,000,000; (iv) any Affiliate of an existing Lender; and (v) any other Person approved by the Agent and, in the absence of any Event of Default, the Borrower; provided, however, that (a) an Affiliate of the Borrower shall not qualify as an Eligible Assignee, (b) no direct competitor of the Borrower shall qualify as an Eligible Assignee and (c) no financial institution shall qualify as an Eligible Assignee if its participation hereunder would result in increased liability of the Borrower under Section 3.3.

"Eligible Mortgage Loans" means, as of any date, any Mortgage Loan, other than the following:

(i) Any Mortgage Loan to an Affiliate or any Mortgage Loan which is not owned by the Borrower as sole owner and holder of such Mortgage Loan;

(ii) Any Mortgage Loan not originated by the Borrower;

(iii) Any Mortgage Loan pursuant to which the Mortgage relates to a ground lease;

(iv) Any Mortgage Loan which is more than 30 days past due for any payment thereunder;

(v) Any Mortgage Loan for which the Borrower does not have the full right and authority to sell, assign and transfer such Mortgage Loan, the related Mortgage, the related Mortgage Note and other related documents;

(vi) Any Mortgage Loan for which there does not exist a Phase I environmental report, any Mortgage Loan with respect to which any material environmental claim has been made or any Mortgage Loan for which there exists an environmental report which details the reasonable likelihood of material environmental claims;

(vii) Any Mortgage Loan for which there has not been issued a title policy showing the Borrower as first lienholder or a title policy has been issued showing the Borrower as first lienholder, but with encumbrances or exceptions of a material nature unless otherwise insured against;

(viii) Any Mortgage Loan, the principal balance of which is more than 80% of the value as determined by an Appraisal of the property secured by such Mortgage Loan;

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(ix) Any Mortgage Loan where the mortgagor thereof is currently the subject of a bankruptcy proceeding or is otherwise insolvent;

(x) Any Mortgage Loan with respect to a property which has been in operation as a licensed skilled nursing home or long-term care facility for less than one year, provided, however, that (a) if the Operator of any such property which has been in operation less than one year is a publicly-traded company with a ratio of (i) net income plus depreciation, amortization, other non-cash charges and Interest Expense to (ii) Interest Expense of at least 1.00:1.00 (calculated as of the end of each fiscal quarter for the period of four quarters then ended and calculated in accordance with generally accepted accounting principles), such Mortgage Loan shall be considered eligible hereunder and (b) up to \$20,000,000 (calculated on an aggregate basis with amounts permitted under Section (viii)(b) of the definition of "Eligible Owned Properties") of such property subject to a Mortgage Loan in operation less than one year and which does not meet the requirements of (a) and which has an Operator which is publicly-traded shall be considered eligible hereunder;

(xi) Any property subject to a Mortgage Loan for which the Operator does not have all material Governmental Approvals required for the operation thereof;

(xii) Any Mortgage Loan of which the Borrower is not the sole lender;

(xiii) Any Mortgage Loan for which an Appraisal has not been completed; or

(xiv) Any Mortgage Loan which is not free and clear of any and all Liens which are likely to have a Material Adverse Effect, encumbering or affecting the Mortgage Loan or Mortgage Note.

"Eligible Owned Properties" means, as of any date, Owned Properties, other than the following:

(i) Any Owned Properties leased to an Affiliate or which are not owned by the Borrower or its Subsidiaries in fee simple ownership;

(ii) Any Owned Property for which the lease payment is 30 or more days past due;

(iii) Any Owned Property for which the term of the lease does not extend past the Facility Termination Date or for which the Operator thereof has failed to exercise a renewal option and no new lease has been executed by the Operator thereof within 60 days prior to the expiration of such lease;

(iv) Any Owned Property for which no lease is in effect, or which has been terminated for any reason;

(v) Any Owned Property where the Operator thereof is currently the subject of a bankruptcy proceeding or is otherwise insolvent;

(vi) Any Owned Property subject to a Lien which is reasonably likely to have a Material Adverse Effect;

(vii) Any Owned Property for which the Operator does not have all material Governmental Approvals required for the operation thereof as an Owned Property;

(viii) Any Owned Property which has been in operation as a licensed skilled nursing home or long-term care facility for less than one year, provided, however, that (a) if the Operator of any such

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Owned Property which has been in operation less than one year is a publicly-traded company with a ratio of (i) net income plus depreciation, amortization, other non-cash charges and Interest Expense to (ii) Interest Expense of at least 1.00:1.00 (calculated as of the end of each fiscal quarter for the period of four quarters then ended and calculated in accordance with generally accepted accounting principles), such Owned Property shall be considered eligible hereunder and (b) up to \$20,000,000 (calculated on an aggregate basis with amounts permitted under Section (x)(b) of the definition of "Eligible Mortgage Loans") of the Book Value of Owned Property in operation less than one year and which does not meet the requirements of (a) and which has an

Operator which is publicly-traded shall be considered eligible hereunder;

(ix) Any Owned Property for which there does not exist a Phase I environmental report, any Owned Property with respect to which any material environmental claim has been made or any Owned Property for which there exists an environmental report which details the reasonable likelihood of material environmental claims;

(x) Any Owned Property for which there has not been issued a title policy showing the Borrower or any of its Subsidiaries as owner or a title policy has been issued showing the Borrower or any of its Subsidiaries as owner, but with encumbrances or exceptions of a material nature;

(xi) Any Owned Property of which the Borrower or any of its Subsidiaries is not the sole owner; or

(xii) Any Owned Property of which the Borrower or its Subsidiaries do not have full right and authority to sell, transfer or assign.

Notwithstanding the foregoing, for any Owned Property, only the lesser of (a) the Book Value or (b) the value as determined by an Appraisal (if an Appraisal exists) shall be considered eligible for Borrowing Base purposes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Event of Default" has the meaning set forth in Article 9.

"Facility Termination Date" means October 2, 2000, unless accelerated pursuant to Section 10.1.

"Fed Funds Rate" means for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (ii) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate charged to the Agent on such Business Day on such transactions as determined by the Agent.

"Governmental Approvals" means any authorization, consent, approval, license, lease, ruling, permit, waiver, exemption, filing, registration or notice by or with a Governmental Person.

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"Governmental Person" means, whether domestic or foreign, any national, federal, state or local government, any political subdivision thereof or any governmental, quasi-governmental, judicial, public or regulatory instrumentality, authority, body or entity, including the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, any central bank, the Department of Housing and Urban Development, the Health Care Financing Administration, the Department of Health and Human Services, and any comparable authority.

"Governmental Rule" means any treaty, law, rule, regulation, ordinance, order, code, judgment, decree, directive, interpretation, request, guideline, policy or similar form of decision of any Governmental Person.

"Interest Expense" means, for any Person on a Consolidated Basis, as of any date, for the fiscal quarter most recently ended and the immediately preceding three fiscal quarters, the sum of (i) the amount of all interest on Debt and (ii) all amortized discount and expenses relating to Debt (as more specifically reflected on the Borrower's income statements, prepared in accordance with Agreement Accounting Principles, under "interest").

"Interest Period" means, with respect to a LIBOR Loan, a period of one week or one, two, three or six months, commencing on a Business Day selected by the Borrower pursuant to a Conversion/Continuation Notice or otherwise pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one week or one, two, three or six months thereafter, provided, however, that if there is no such numerically corresponding day in such next week or next, second or third or sixth succeeding month, such Interest Period shall end on the last Business Day as such next week or next, second or third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day. No Interest Period may end after the Facility Termination Date. (If the Borrower shall have selected an

Interest Period which ends after the Facility Termination Date, such Interest Period shall end on the Facility Termination Date, and the Borrower shall pay to the Lenders all amounts due under Section 3.1 as a result of such termination.)

"Investment" means, for any Person, any investment made in cash or by delivery of Property:

(i) In any Person, whether by acquisition of stock, indebtedness or other obligation or investment security, or by loan, guarantee, advance, capital contribution or otherwise; or

(ii) In any Property, the amount of any investment shall be at cost (the amount of cash or the fair market value of other property given in exchange therefor).

"Lenders" is defined in the first paragraph hereof.

"Leverage Ratio" means for the Borrower and its Subsidiaries on a Consolidated Basis, determined as of the end of each fiscal quarter, the ratio of (i) Total Liabilities outstanding at such time to (ii) Tangible Net Worth.

"LIBOR" means, for any Interest Period for any LIBOR Loan, the arithmetic mean (rounded upwards, if necessary, to the nearest 1/16 of 100%), as determined by the Agent of the respective rates per annum quoted by Telerate, Inc. at approximately 11:00 a.m. London time (or as soon thereafter as practicable), on the date 2 Business Days before the first day of such Interest Period for the offering by lenders to leading banks in the London Interbank Market of Dollar deposits having a term comparable

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to such Interest Period and in an amount comparable to the principal amount of the LIBOR Loans to be made by the Lenders for such Interest Period.

"LIBOR Loan" means a Loan when it bears interest at the LIBOR Rate.

"LIBOR Rate" means, with respect to a LIBOR Loan for the relevant Interest Period, the sum of (i) LIBOR applicable to such Interest Period plus (ii) 1.25% per annum. The LIBOR Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Lien" means any voluntary or involuntary lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including the lien or retained title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

"Loan" means, with respect to a Lender, a LIBOR Loan or a Reference Rate Loan.

"Loan Documents" means this Agreement, the Notes and any other agreements (including, but not limited to any fee letters) executed by the Borrower in connection herewith, as such agreements and documents may be amended, supplemented and otherwise modified from time to time in accordance with the terms hereof.

"Material Adverse Effect" means a material adverse effect on (i) the business, Property, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents to which it is a party or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Moody's" means Moody's Investors Service, Inc.

"Mortgage" means, with respect to any Mortgage Loan, the mortgage, deed of trust or other instrument creating a first mortgage lien on the related Mortgage Property. In the case of a Mortgage Loan secured by more than one Mortgage, the term "Mortgage" shall refer to each such Mortgage.

"Mortgaged Property" means, with respect to any Mortgage Loan, any fee interest of the obligor on the related Mortgage Note in land and the improvements thereof subject to the lien of the related Mortgage. In the case of any Mortgage Loans secured by more than one Mortgaged Property, the term "Mortgaged Property" shall refer to each such Mortgaged Properties.

"Mortgage Loan" means each loan made by any Person to finance Owned Properties, evidenced by a Mortgage Note secured by a Mortgage, together with all direct rights to payment in respect thereof under the Mortgage Note and any and all related agreements, any security interest thereunder and any guarantee relating to the Mortgaged Property and any such loan.

"Mortgage Note" means, with respect to any Mortgage Loan, the note (or notes) or other instrument(s) evidencing the indebtedness under such Mortgage Loan.

"Multiemployer Plan" means a Plan that is a "multiemployer plan" as defined in Section 3(37) or 4001(i)(3) of the Borrower's ERISA Plan.

"Net Income" means, for the Borrower and its Subsidiaries on a Consolidated Basis, net income as determined in accordance with Agreement Accounting Principles.

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"Notes" mean promissory notes, in substantially the form of Exhibit A hereto, duly executed by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Notice of Assignment" is defined in Section 14.3(ii).

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under the Loan Documents.

"Operator" means (i) the lessee of any Owned Property owned by the Borrower and (ii) the mortgagor or lessee of a Mortgaged Property to the extent such entity controls the operation of the Mortgaged Property.

"Owned Property" means a healthcare facility offering long-term healthcare-related products and services, including any skilled nursing homes, long-term care facilities, assisted living facilities and other similarly related healthcare facilities.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Person" means any natural person, corporation, firm, limited liability company, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code maintained by or contributed to by the Borrower or any member of the Controlled Group.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Purchasers" is defined in Section 14.3(i).

"Rating" means a rating issued (not implied) from time to time by S&P or Moody's for senior, unsecured, non-credit enhanced long-term Debt of the Borrower.

"Reference Rate" means, for any day, the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) equal to the higher of (i) the annual rate of interest announced from time to time by the Agent at its office in Chicago, Illinois as its corporate reference rate (it being understood that such rate is a rate set by the Agent based upon various factors including general economic and market conditions, that such rate is used as a reference point for pricing certain loans and that the Agent may price its loans at, above or below such rate) and (ii) the sum of the Fed Funds Rate plus 1/2% per annum.

"Reference Rate Loan" means a Loan when it bears interest at the Reference Rate.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

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"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"REIT" means a Real Estate Investment Trust (as defined in the Code) formed and operated in compliance with the Code.

"REMIC" means a Real Estate Mortgage Investment Conduit (as defined in the Code) formed and operated in compliance with the Code.

"REMIC Certificate" means any certificates issued by or on behalf of any REMIC formed by the Borrower or any of its Subsidiaries representing an interest in a mortgage portfolio held by or on behalf of such REMIC.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Single Employer Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66 2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66 2/3% of the aggregate unpaid principal amount of the outstanding Loans. Any Lender which has refused (except if such refusal is mandated by law) to make available its Commitment Percentage of any Advance shall not be included in this calculation.

"Requirement of Law" means as to any Person, the articles or certificate of incorporation of such Person, and any material law, treaty, rule or regulation, determination or policy statement or interpretation of an arbitrator or a court or other Governmental Person, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Revolving Credit Agreement" means the Credit Agreement dated as of October 3, 1997 among the Borrower, the lenders referred to therein, Sanwa, as Administrative Agent, and the other agents referred to therein.

"S&P" means Standard and Poor's Ratings Group.

"Sanwa" is defined in the first paragraph hereof.

"SEC" means the United States Securities and Exchange Commission or any successor thereto.

"SEC Report" means a Current Report on Form 8-K pursuant to the Securities Exchange Act of 1934.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

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"Senior Debt" means the sum of the outstanding principal balance of all Debt, other than Subordinated Debt, of the Borrower and its Subsidiaries on a Consolidated Basis (excluding non-recourse Mortgage Loans).

"Senior Leverage Ratio" means for the Borrower and its Subsidiaries on a Consolidated Basis, determined as of the end of each fiscal quarter, the ratio of (i) Senior Debt outstanding at such time to (ii) Tangible Net Worth.

"Significant Subsidiary" means any Subsidiary of the Borrower, the stock of which is directly owned by the Borrower and which has Tangible Net Worth of at least \$2,500,000.

"Single Employer Plan" means a Plan other than a Multiemployer Plan.

"Subordinated Indebtedness" means, collectively, Debt (i) for which the Borrower is directly and primarily liable and in respect of which none of its Subsidiaries is contingently or otherwise obligated, (ii) that does not have any principal or sinking fund payment due prior to the Facility Termination Date and (iii) that is subordinated (on terms set forth in Schedule 6 or such other terms as are acceptable to the Required Lenders) to the Obligations of the Borrower hereunder and under other Loan Documents, and pursuant to documentation containing other terms (including covenants and events of default) that are not more favorable than those applicable to the Loans. Notwithstanding the foregoing, the Borrower's 8.25% Convertible Subordinated Debentures due September 1999 in the original issued amount of \$10,000,000 shall be deemed Subordinated Indebtedness.

"Subsidiary" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any general partner of any partnership (but not the partnership itself), any association, any joint venture or any similar business organization more than 50% of the ownership interests having ordinary voting power of which shall

at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Tangible Net Worth" means, as at any date for any Person, the sum for such Person and its Subsidiaries (determined on a Consolidated Basis without duplication in accordance with Agreement Accounting Principles) of the following:

(i) The total amount of shareholders' equity, minus

(ii) The sum of the following: the cost of treasury shares and the book value of all assets which should be classified as intangibles (without duplication of deductions in respect of items already deducted in arriving at surplus and retained earnings) but in any event including Debt issuance costs, unamortized costs of securitization, unrealized gain or loss on mortgage-backed securities, goodwill, research and development costs, trademarks, tradenames, copyrights, patents and franchises, unamortized debt discount and expense, and any write-up of the book value of assets resulting from a revaluation of such assets subsequent to the Closing Date, minus

(iii) All amounts (without duplication) due to such Person from current and former officers, directors, consultants, employees.

"Taxes" is defined in Section 3.2.

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"Total Investments" mean any Investment made, directly or indirectly, (i) in the unpaid principal balance of any Mortgage Loan, (ii) in the Book Value plus depreciation relating to any Owned Property and (iii) in the unpaid principal balance of the Mortgage Loans underlying any REMIC Certificate (minus any Mortgage Loans payable by the Borrower or its Subsidiaries to such REMIC).

"Total Liabilities" means, as of any date, the sum, for the Borrower and its Subsidiaries on a Consolidated Basis in accordance with Agreement Accounting Principles of the following:

(i) all Debt and

(ii) all other liabilities which should be classified as liabilities on the balance sheet, including all reserves (other than general contingency reserves) and all deferred taxes and other deferred items.

"Transferee" is defined in Section 14.4.

"Type" means, with respect to a Loan, its nature as a Reference Rate Loan or a LIBOR Loan.

"Unfunded Liabilities" means the amount (if any) by which the present value of all nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined in accordance with the respective most recent valuations for such Plans.

1.2 Rules and Interpretation.

(i) A reference to any document or agreement shall mean such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Agreement.

(ii) The singular includes the plural and the plural includes the singular.

(iii) A reference to any law includes any amendment or modification of such law.

(iv) A reference to any Person includes its permitted successors and permitted assigns.

(v) Accounting terms capitalized but not otherwise defined herein shall have their meanings applied to them by Agreement Accounting Principles applied on a consistent basis by the accounting entity to which they refer.

(vi) The words "include," "includes" and "including" are not limiting.

(vii) All terms not specifically defined herein or by Agreement Accounting Principles, which terms are defined in the Uniform Commercial Code as in effect in the State of California, have the meanings assigned to them therein.

(viii) Reference to a particular "section" refers to that section of this Agreement unless otherwise indicated.

(ix) The words "herein," "hereof," "hereunder" and words of like import shall mean to this Agreement as a whole and not to any particular section or

subdivision of this Agreement.

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ARTICLE 2
THE TERM CREDIT FACILITY

2.1 Commitments. Each Lender agrees severally, on the terms and conditions set forth in this Agreement, to make a single Loan to the Borrower in Dollars on or after the Closing Date, such Loan to be in an amount not to exceed the amount of such Lender's Commitment; provided, however, that the aggregate principal amount of such Loans made by all of the Lenders shall not exceed the lesser of (i) the Aggregate Commitment or (ii) the Borrowing Base. Loans that are prepaid under this Agreement may not be reborrowed. Not more than two Interest Periods in respect of LIBOR Loans may be outstanding at any time.

2.2 Borrowing Base. The Borrowing Base availability shall be determined on the basis of the Borrowing Base Certificate which is delivered on the Closing Date and in accordance with Section 7.1(iv).

2.3 Commitment Percentage. The principal amount of the Loan made by a Lender on the occasion of each Advance hereunder shall be the amount equal to the product of (i) such Lender's Commitment Percentage (expressed as a fraction) and (ii) the total amount of the Advance requested; provided that in no event shall any Lender be obligated to make a particular Loan if after giving effect to such Loan such Lender's Loans would exceed its Commitment.

2.4 Types of Loans. Except as limited herein, the Loans may from time to time be (i) LIBOR Loans, (ii) Reference Rate Loans or (iii) a combination thereof, as determined by the Borrower and notified to the Agent in accordance with Section 2.11. Each Lender may make or maintain its Loans to the Borrower by or through any Applicable Lending Office.

2.5 Evidence of Obligations. The Loans made by each Lender to the Borrower shall be evidenced by a Note, with appropriate insertions therein as to payee, date and principal amount, payable to the order of such Lender and representing the obligation of the Borrower to pay the aggregate unpaid principal amount of all Loans made by such Lender to the Borrower, with interest thereon as prescribed in Sections 2.13 and 2.14. Each Lender is hereby authorized (but not required) to record the date and amount of each payment or prepayment of principal of its Loans made to the Borrower, each continuation thereof, each conversion of all or a portion thereof to another Type and, in the case of LIBOR Loans, the length of each Interest Period with respect thereto, in the books and records of such Lender, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded. The failure of any Lender to make any such recordation or notation in its books and records (or any error in such recordation or notation) shall not affect the obligations of the Borrower hereunder or under the Notes. Each Note shall (i) be dated the Closing Date, (ii) provide for the payment of interest in accordance with Sections 2.13 and 2.14 and (iii) be stated to be payable on the Facility Termination Date.

2.6 Commitment Reduction. At the Borrower's option and upon at least five Business Days' prior irrevocable written notice to the Agent, with such notice specifying the amount and the date of such reduction, the Borrower may permanently reduce the Aggregate Commitment in whole at any time or in part from time to time; provided, however, that (i) each partial reduction of the Aggregate Commitment shall be in an aggregate amount equal to at least \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and (ii) the Borrower may not reduce the Aggregate Commitment below an amount equal to the sum of all Loans outstanding. The Agent shall promptly notify each Lender (by telecopy or by telephone) of each requested Commitment reduction.

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In addition, the Commitments shall automatically terminate upon the occurrence of a Change of Control.

Reductions of the Aggregate Commitment pursuant to this Section 2.6 shall automatically effect a reduction of the Commitment of each Lender to an amount equal to the product of (i) the Aggregate Commitment of all Lenders, as reduced pursuant to this Section 2.6, and (ii) the Commitment Percentage of such Lender.

2.7 Required Payments. The outstanding Loans and all other unpaid Obligations shall be paid in full by the Borrower on the Facility Termination Date.

2.8 Interest Limitation. Notwithstanding any other term of this Agreement or any Note or any other Loan Document or any other document referred to herein or therein, the maximum amount of interest which may be charged to or collected from any Person liable hereunder or under any Note by the Lenders shall be absolutely limited to, and shall in no event exceed, the maximum amount of interest which could lawfully be charged or collected under applicable law, and any term of this Agreement, any Note, any other Loan Document or any other

document referred to herein or therein which could be construed as providing for interest in excess of such lawful maximum shall be and hereby is made expressly subject to and modified by the provisions of this Section.

2.9 Fees.

(i) The Borrower agrees to pay to Bank of Montreal, for its own account, an administrative fee for its services as the Agent and an upfront fee, in such amounts and payable at such times as specified in a letter agreement dated the Closing Date entered into by the Borrower and Bank of Montreal.

(ii) The Borrower agrees to pay to Sanwa, for its own account, an upfront fee in such amount and payable at such time as specified in a letter agreement dated the Closing Date entered into by the Borrower and Sanwa.

2.10 Voluntary Conversion of Advances. The Borrower may on any Business Day, upon written notice (a "Conversion/Continuation Notice") given to the Agent not later than 11:00 a.m., Chicago time, on the third Business Day before the date of the proposed conversion, convert any Advance into an Advance of another Type; provided, however, that, with respect to a conversion from LIBOR Loans into Reference Rate Loans, any such conversion shall be made on, and only on, the last day of the Interest Period for such Loans. Each such notice of a conversion shall, within the restrictions specified above, specify (i) the Loans to be converted, (ii) the Type of Loans into which such Loans are to be converted and (iii) the requested date for such conversion. Upon receipt of any such notice, the Agent shall promptly notify each Lender thereof. Any part of outstanding LIBOR Loans and Reference Rate Loans may be converted as provided herein, provided (a) no Loan may be converted into a LIBOR Loan after the date that is one month prior to the Facility Termination Date and (b) the Borrower shall not have the right to continue or convert to a LIBOR Loan if a Default shall have occurred and be continuing. However, if the Borrower shall fail to give any required notices described above in this Section or if continuation of LIBOR Loans is not permitted pursuant to the preceding sentence, all outstanding LIBOR Loans shall be automatically converted to Reference Rate Loans on the last day of the then-expiring Interest Period therefor.

2.11 Notice of Borrowing. The Borrower shall give the Agent telephonic notice, which must be promptly confirmed by written notice substantially in the form of Exhibit D attached hereto (which telephonic notice must be received by the Agent prior to 11:00 a.m., Chicago time, on the

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proposed Borrowing Date or, if all or any part of the Loans requested are to be made as LIBOR Loans, three Business Days prior to the proposed Borrowing Date), requesting that the Lenders make Loans on the proposed Borrowing Date and specifying (i) the aggregate amount of Loans requested to be made (which must be in an aggregate amount equal to at least \$5,000,000 and in an integral multiple of \$1,000,000), (ii) subject to Section 2.1, whether the Loans are LIBOR Loans or Reference Rate Loans or a combination thereof and (iii) if the Loans are to be entirely or partly LIBOR Loans, the respective amounts of each such Type of Loan and the respective lengths of the Interest Periods therefor. On receipt of such notice, the Agent shall promptly notify each Lender thereof no later than 10:00 a.m., Los Angeles time, on the date of receipt of such telephonic notice. On the proposed Borrowing Date, not later than 12:00 noon, Los Angeles time, each Lender shall make available to the Agent at its office specified in Section 15.1 such Lender's Commitment Percentage of the aggregate borrowing amount (as determined in accordance with Section 2.3) in immediately available funds and in Dollars. Not later than 12:00 noon, Los Angeles time, on the date of such Loans and upon fulfillment of the applicable conditions set forth in Article 4, the Agent shall make such Loans available to the Borrower in immediately available funds. Each notice pursuant to this Section 2.11 shall be irrevocable and binding on the Borrower and, to the extent that any discrepancy exists between the telephonic notice and the later written notice, the telephonic notice shall take precedence. The Agent may, in the absence of notification from any Lender that such Lender has not made its Commitment Percentage of the requested Loans available to the Agent on such date, credit the account of the Borrower on the books of such office of the Agent with the aggregate amount of Loans to be made by such Lender on such date.

2.12 Commitment Obligations. Neither the Agent nor any Lender shall be responsible for the obligation or Commitment of any other Lender hereunder, nor will the failure of any Lender to comply with the terms of this Agreement relieve any other Lender or the Borrower of their obligations under this Agreement and the Notes. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights which the Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.13 Interest. A Reference Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Loan is made or is converted from a LIBOR Loan into a Reference Rate Loan pursuant to Section 2.10 to (but not including) the date it becomes due or is converted into a LIBOR Loan pursuant to Section 2.10 hereof, at a rate per annum

equal to the Reference Rate for such day. Changes in the rate of interest on any Loan maintained as a Reference Rate Loan will take effect simultaneously with each change in the Reference Rate. Each LIBOR Loan shall bear interest from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the LIBOR Rate determined as applicable to such LIBOR Loan.

2.14 Rates Applicable After Default. Notwithstanding anything to the contrary contained herein, during the continuance of an Event of Default no Loan may be made as, converted into or continued as a LIBOR Loan. During the continuance of an Event of Default each Loan shall bear interest at a rate per annum equal to the Reference Rate plus 2% per annum. All such interest shall be payable on demand of the Agent.

2.15 Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds in Dollars to the Agent at the address specified pursuant to Article 15, or at any other Applicable Lending Office of the Agent specified in writing by the Agent to the Borrower, by 12:00 noon, Chicago time, on the date when due and shall be applied ratably by the Agent among the Lenders (except for amounts required under Sections 3.1, 3.2 and 3.3, in which case such amounts shall be paid to the affected Lender or Lenders). Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the

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Agent to such Lender in the same type of funds that the Agent received, at such Lender's address specified pursuant to Article 15 or at any Applicable Lending Office specified in a notice received by the Agent from such Lender.

2.16 Telephonic Notices. The Borrower hereby authorizes the Lenders and the Agent to convert or continue Loans and effect selections of Types of Loans based on telephonic notices made by any Person or Persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

2.17 Interest Payment Dates; Interest and Fee Basis. Interest accrued on each Reference Rate Loan shall be payable in arrears on the first Business Day of each calendar month, commencing with the first such date to occur after the Closing Date, on any date on which Reference Rate Loan is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any Reference Rate Loan converted into a LIBOR Loan on a day other than an interest payment date shall be payable on the date of conversion. Interest accrued on each LIBOR Loan shall be payable on the last day of its applicable Interest Period (and, in the case of any LIBOR Loan with an Interest Period of six months, on the day that is three months after the first day of such Interest Period), on any date on which the LIBOR Loan is prepaid, whether by acceleration or otherwise, and at maturity.

Interest on LIBOR Loans and fees shall be calculated for actual days elapsed on the basis of a 360-day year, and interest on Reference Rate Loans shall be calculated for actual days elapsed on the basis of a year of 365 or 366 days, as applicable. Interest shall be payable for the day a Loan is made but not for the day of any payment on the amount paid if payment is received prior to 12:00 noon, Los Angeles time, at the place of payment. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest; provided, however, that, if such extension would cause any payment of interest on or principal of any LIBOR Loan to be made in the next following calendar month, then such payment shall instead be made on the next preceding Business Day, and such shortened time shall in such case be used in the computation of payment of interest.

2.18 Notification of Loan, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each borrowing notice, Conversion/Continuation Notice and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Loan promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Reference Rate.

Each determination of an interest rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error.

2.19 Applicable Lending Offices. Each Lender may book its Loans at any Applicable Lending Office selected by such Lender and may change its Applicable Lending Office from time to time. All terms of this Agreement shall apply to any such Applicable Lending Office, and the Notes shall be deemed held by each

Lender for the benefit of such Applicable Lending Office. Each Lender may, by written or telex notice to the Agent and the Borrower, designate an Applicable Lending Office through which the Loans will be made by it and for whose account Loan payments are to be made. For purposes of Article 3 and determining the LIBOR Rate, all LIBOR Loans shall be deemed to have been

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funded with offshore deposits, provided that the Lenders shall have the right to fund LIBOR Loans in any manner in their sole discretion.

2.20 Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent (or the same date, in the case of Reference Rate Loans) of (i) in the case of a Lender, the proceeds of a Loan or (ii) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount, at a rate per annum equal to (a) in the case of payment by a Lender, the Fed Funds Rate for such day or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.21 Withholding Tax Exemption. At least five Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States of America, or a state thereof, will deliver to the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, certifying in either case that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 further undertakes to deliver to the Borrower and the Agent two additional copies of such form (or a successor form) on or before the date that such form expires (currently, three successive calendar years for Form 1001 and one calendar year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

2.22 Optional Prepayment. The Borrower may, at any time and from time to time, prepay the Loans, in whole or in part, without premium or penalty (except amounts required by Section 3.1), upon at least three Business Days' irrevocable written notice, in the case of LIBOR Loans, and upon at least one Business Day's irrevocable written notice, in the case of Reference Rate Loans, from the Borrower to the Agent, specifying the date and amount of prepayment, whether the prepayment is of LIBOR Loans, Reference Rate Loans or a combination thereof, and the amount allocable to each. Any prepayment of a LIBOR Loan on a day other than the last day of an Interest Period applicable thereto shall also be subject to the payment of amounts due under Section 3.1 hereof. Upon receipt of any such notice from the Borrower, the Agent shall promptly notify each Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable by the Borrower on the date specified therein, together with accrued interest to such date on the amount prepaid. Partial prepayments of Loans shall be in an aggregate principal amount of \$5,000,000 or in increments of \$1,000,000 above such amount. Optional prepayments shall be applied as directed by the Borrower and, in the absence of such direction, as the Agent shall determine.

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2.23 Mandatory Prepayments.

(i) If at any time the aggregate principal amount of all Loans outstanding shall exceed the lesser of (a) the Aggregate Commitment or (b) the Borrowing Base, the Borrower shall, immediately upon demand made by the Agent, prepay such of the Loans as the Borrower may elect in the aggregate principal amount equal to such excess.

(ii) Upon a Change of Control, the Borrower shall immediately prepay all

of the Loans.

2.24 Application of Repayments. All repayments of principal made pursuant to Section 2.23 shall be applied, in the absence of instruction by the Borrower, first to the principal of Reference Rate Loans and then to the principal of LIBOR Loans. Each partial repayment shall be allocated among the Lenders in proportion, as nearly as practicable, to their respective Commitment Percentages, with adjustments to the extent practicable, to equalize any prior repayments not exactly in proportion.

Notwithstanding the rights given to the Borrower pursuant to California Civil Code Sections 1479 and 2822, or equivalent provisions in the laws in the State of California, to designate how payments will be applied, the Borrower hereby waives such rights and the Agent shall have the right in its sole discretion, other than as specifically set forth herein, to determine the order and method of application of payments to outstanding Obligations and to revise such application prospectively or retroactively at its discretion.

ARTICLE 3 CHANGE IN CIRCUMSTANCES

3.1 Yield Protection.

(i) If any repayment of principal of, or conversion of, any LIBOR Loan is made other than on the last day of an Interest Period therefor, as a result of a prepayment, payment or conversion, or an acceleration of the maturity of the Loans pursuant to Article 10, or for any other reason, or if the Borrower shall fail to borrow a LIBOR Loan after requesting one, then the Borrower shall, upon demand by the Agent upon request of any affected Lender, pay to the Agent for the account of such affected Lender any amounts required to compensate it for any additional losses, costs or expenses that it may reasonably incur as a result of such repayment, conversion or failure to borrow, including any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain such LIBOR Loan. The calculation of such losses, costs or expenses shall be on the basis of the difference between (a) the LIBOR Rate applicable to such LIBOR Loan in effect prior to the event resulting in such losses, costs or expenses and (b) the LIBOR Rate at the time the affected Lender suffers any such additional losses, costs or expenses as a result of actions by the Borrower. A certificate as to such amounts, submitted to the Borrower by the Lenders through the Agent, shall be conclusive and binding for all purposes, absent manifest error.

(ii) If, due to either (a) the introduction of or any change in or in the interpretation of any Governmental Rule or (b) the compliance by the Lenders with any Governmental Rule (whether or not having the force of law), there is any increase in the cost to any Lender of agreeing to make, making, funding or maintaining any LIBOR Loan, then the Borrower shall from time to time, upon written demand by the Agent upon request of any affected Lender, pay to the Agent for the account of such

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affected Lender additional amounts sufficient to compensate such affected Lender upon request of any Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to the Borrower by the Lenders through the Agent, shall be conclusive and binding for all purposes, absent manifest error.

(iii) Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any Governmental Rule makes it unlawful, or any Governmental Person asserts that it is unlawful, for any Lender to perform its obligations hereunder to make LIBOR Loans or to continue to fund or maintain LIBOR Loans hereunder, then, on notice thereof and demand therefor by the Lenders through the Agent to the Borrower, (a) the obligation of such Lender to make LIBOR Loans and to convert Reference Rate Loans into LIBOR Loans shall terminate and (b) the Borrower shall forthwith prepay in full all LIBOR Loans then outstanding, together with interest accrued thereon, unless the Borrower, within five Business Days of such notice and demand, converts all LIBOR Loans then outstanding into Reference Rate Loans in accordance with Section 2.10.

(iv) If, with respect to any LIBOR Loan, the Agent notifies the Borrower that LIBOR for such Loan will not adequately reflect the cost to one or more Lenders (as determined by such Lender(s) in good faith on the basis of market conditions then in effect) of making, funding or maintaining such Loan, then (a) such Loan will automatically, on the last day of the then existing Interest Period therefor, convert into a Reference Rate Loan on which interest and principal shall be payable contemporaneously with the related LIBOR Loans and (b) the obligation of the affected Lender to make, or to convert Reference Rate Loans into, LIBOR Loans shall be suspended until the Agent notifies the Borrower that the circumstances causing such suspension no longer exist.

3.2 Taxes. Subject to the Lenders' compliance with Section 2.21, all

payments by or on behalf of the Borrower hereunder shall be made without setoff or counterclaim and in such amounts as may be necessary in order that all such payments (after deduction or withholding for or on account of any present or future taxes, levies, imposts, duties or other charges of whatsoever nature imposed by any Governmental Person, other than any tax on or measured by the overall net income of the Agent or a Lender pursuant to the income tax laws of the United States, the jurisdiction where the Agent's or such Lender's principal office is located or any political subdivision thereof (collectively, the "Taxes")) shall not be less than the amounts otherwise specified to be paid hereunder. A certificate as to any additional amounts payable to the Agent or a Lender hereunder submitted to the Borrower by the Agent shall show in reasonable detail the amount payable to the Agent or a Lender and the calculations used to determine in good faith such amount and shall be conclusive absent manifest error. Any amounts payable by the Borrower hereunder with respect to past payments shall be due within ten days following receipt by the Borrower of such certificate from the Agent; and such amounts payable with respect to future payments shall be due concurrently with such future payments. With respect to each deduction or withholding for or on account of any Taxes, the Borrower shall promptly furnish to the Agent such certificates, receipts and other documents as may be required (in the reasonable judgment of the Agent) to establish any tax credit to which a Lender may be entitled. The agreements and obligations of the Borrower under this paragraph shall survive the payment in full of the Loans.

3.3 Changes in Capital Adequacy Regulations. If a Lender determines that the amount of capital required to be maintained by such Lender, any Applicable Lending Office of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (i) any change after the Closing Date in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law,

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governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the Closing Date which affects the amount of capital required or expected to be maintained by any Lender or any Applicable Lending Office or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (a) the risk-based capital guidelines in effect in the United States on the Closing Date, and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the Closing Date.

3.4 Replacement of Lenders. If the Borrower is obligated to pay to any Lender (other than the Agent) any amount under Section 3.1, 3.2 or 3.3 or if any Lender requests that its LIBOR Loans be converted into Reference Rate Loans pursuant to Section 3.1(iv), the Borrower may, so long as no Default then exists, replace such Lender with another Lender which meets all of the qualifications of being an Eligible Assignee and which complies with the provisions of Section 14.3.

ARTICLE 4 CONDITIONS PRECEDENT

4.1 Conditions to Loans. The Lenders shall not be required to make their Loans unless the Borrower has furnished the following documents to the Agent and unless the following circumstantial conditions shall be in effect:

(i) this Agreement and the Notes duly executed by the Borrower;

(ii) the charter documents of the Borrower certified by the Secretary of State of Maryland, together with good-standing certificates from the States of Maryland and California;

(iii) the resolutions of the Board of Directors of the Borrower approving the execution, delivery and performance by the Borrower of the Loan Documents, together with a copy of the Borrower's bylaws, certified by the Secretary of the Borrower to be true and correct and in full force and effect;

(iv) an incumbency certificate of the Borrower;

(v) one or more favorable legal opinions (in form and substance satisfactory to the Agent and the Lenders) of counsel to the Borrower;

(vi) a Borrowing Base Certificate as of February 26, 1999;

(vii) all fees and expenses to be paid on the Closing Date;

(viii) no statute, rule, regulation, order, decree or preliminary or permanent injunction of any court or administrative agency or, to the best knowledge of the Borrower, any such action threatened by any Person, shall be in effect that prohibits the Agent or the Lenders from consummating the transactions contemplated by this Agreement and the other Loan Documents;

(ix) copies of the Borrower's Consolidated and Consolidating financial statements for the period ended December 31, 1998;

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(x) a Compliance Certificate dated the Closing Date and containing information as of December 31, 1998; and

(xi) such other documents, instruments and opinions as the Agent, any Lender or its respective counsel may have reasonably requested.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1 Authorization. The execution, delivery and performance by the Borrower of the Loan Documents to which it is a party are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action and do not contravene any applicable law, rule, regulation or order or any contractual restriction binding on or affecting the Borrower or its Subsidiaries.

5.2 Enforceability. Each Loan Document is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally.

5.3 Use of Proceeds. The Borrower will use the proceeds of the Loans solely as set forth in Section 7.2. No action has been taken or is currently planned by the Borrower, or any agent acting on its behalf, which would cause this Agreement or the Notes to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities and Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock as one of its important activities, and none of the proceeds of the Loans will be used directly or indirectly for such purpose.

5.4 Litigation. Except as disclosed in writing to the Agent and the Lenders before the date of this Agreement, there is no litigation, tax claim, proceeding, arbitration or dispute pending or, to the best knowledge of the Borrower, threatened against or affecting the Borrower or any Significant Subsidiary or their respective Property, an adverse determination in which could reasonably be expected to have a Material Adverse Effect.

5.5 Financial Statements. The Consolidated financial statements of the Borrower dated December 31, 1997 and September 30, 1998, copies of which have been delivered to the Lenders, fairly and accurately reflect the financial condition of the Borrower and its Subsidiaries as of such dates, and since September 30, 1998 there has been no Material Adverse Effect.

5.6 Taxes. To the best of its knowledge, the Borrower and each Subsidiary have filed all tax returns and reports required to be filed and have paid all applicable federal, state and local franchise and income taxes which are due and payable.

5.7 Subsidiaries. Schedule 2 hereto contains an accurate list of all of the presently existing Subsidiaries of the Borrower, setting forth their respective jurisdictions of incorporation or organization and the percentage of their respective capital stock or ownership interests owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of such Subsidiaries have been duly authorized and issued and are fully paid and non-assessable.

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5.8 ERISA. There are no Unfunded Liabilities of the Borrower or any Subsidiary. Each Single Employer Plan complies in all material respects with all applicable requirements of law and regulations, except to the extent that the failure to comply therewith does not have a Material Adverse Effect. No Reportable Event has occurred with respect to any Single Employer Plan, except to the extent that such Reportable Event has no Material Adverse Effect. Neither the Borrower nor any Subsidiary (a) is a party to any Multiemployer Plan or (b) has withdrawn from any Multiemployer Plan, except to the extent such actions do not have a Material Adverse Effect.

5.9 Accuracy of Information. No information, exhibit or report furnished by the Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading in any material respect.

5.10 Organization and Existence. The Borrower is duly organized, validly existing and in good standing under the laws of the State of Maryland and has the corporate power and authority, and the legal right, to own and operate its Property and to conduct the business in which it is currently engaged and in which it proposes to be engaged after the Closing Date and is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of Property or the conduct of its business requires such qualification, except to the extent that the failure to comply thereunder could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and the Borrower is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.11 Consents. No consent or authorization of, or filing with or other act by or in respect of, any Governmental Authority, or any other Person is required in connection with the Loans hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Documents. The execution, delivery and performance of this Agreement, the Notes and the other Loan Documents and the use of the proceeds thereof will not violate any Requirement of Law or contractual obligation of the Borrower or any of its Subsidiaries which could be reasonably expected to have a Material Adverse Effect and will not result in, or require, the creation or imposition of any Lien on any of its respective Properties or revenues pursuant to any such Requirement of Law or contractual obligation, except pursuant to the Loan Documents or otherwise as permitted hereunder, which Lien could reasonably be expected to have a Material Adverse Effect.

5.12 Intellectual Property. The Borrower and each of its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, patents, copyrights, material permits, licenses or other intangibles necessary for the conduct of its business as currently conducted without conflict with the rights of others, except to the extent that the failure to own or license such property could not reasonably be expected to have a Material Adverse Effect.

5.13 Default. There exists no Default.

5.14 Nature of Business. Neither the Borrower nor any of its Subsidiaries is engaged in any material business other than as provided in this Agreement or as set forth in the Report on Form 10-K pursuant to the Securities Exchange Act of 1934 for the Borrower for fiscal year 1997.

5.15 Ranking of Loans. This Agreement and the other Loan Documents to which the Borrower is party, when executed, and the Loans, when borrowed, are and will be the direct and general

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obligations of the Borrower. The Borrower's Obligations hereunder and thereunder will rank at least pari passu in priority of payment with all other Senior Debt, except to the extent otherwise permitted hereunder.

5.16 Investment Company Acts; Other Regulations. Neither the Borrower nor any of its Subsidiaries is an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

5.17 Environmental Matters. Except as disclosed to the Agent, the Borrower and its Subsidiaries are in compliance in all material respects with all applicable environmental laws, and there is no contamination at, under or about any of their respective Properties, or violation of any environmental law with respect to any of their respective Properties or the business conducted at any of their respective Properties which involves a matter or matters which has caused or reasonably likely to cause a Material Adverse Effect.

5.18 Title. Except for assets which may have been disposed of in the ordinary course of business, the Borrower and its Subsidiaries have good and marketable title to all of the Property reflected in financial statements delivered to the Lenders and to all Property acquired by the Borrower and its Subsidiaries since the date of said financial statements, free and clear of all Liens, encumbrances, security interests and adverse claims except (i) those specifically referred to in said financial statements, (ii) those permitted by Section 8.8 hereof and (iii) those that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.19 REIT and REMIC Status. The Borrower is a REIT, and each of the purported REMICs formed by the Borrower or any of its Subsidiaries is a REMIC.

ARTICLE 6
FINANCIAL COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1 Senior Leverage Ratio. The Borrower and its Subsidiaries on a Consolidated Basis shall not permit, at any time, the Senior Leverage Ratio to be greater than 0.65:1.00.

6.2 Leverage Ratio. The Borrower and its Subsidiaries on a Consolidated Basis shall not permit, at any time, the Leverage Ratio to be greater than 1.25:1.00.

6.3 Minimum Tangible Net Worth. The Borrower and its Subsidiaries on a Consolidated Basis shall at all times maintain Tangible Net Worth of not less than \$250,000,000 plus 75% of net cash proceeds of any new equity issuances or any conversion of convertible Subordinated Indebtedness subsequent to June 30, 1997.

6.4 Debt Service Coverage Ratio. The Borrower and its Subsidiaries on a Consolidated Basis shall maintain at all times a Debt Service Coverage Ratio of not less than 2.25:1.00.

6.5 Minimum Cash Flow Coverage Ratio. The Borrower and its Subsidiaries on a Consolidated Basis shall not permit at any time the Cash Flow Coverage Ratio to be less than 1.00:1.00.

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ARTICLE 7
AFFIRMATIVE COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

7.1 Financial Reporting. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with Agreement Accounting Principles, and furnish to each of the Lenders:

(i) As soon as available and in any event within 50 days after the end of each quarterly fiscal period of each fiscal year of the Borrower (except the last fiscal quarter), Consolidated statements of income, retained earnings and cash flow of the Borrower and its Subsidiaries and Consolidating statements of income and balance sheet of the Borrower, its Significant Subsidiaries and its Subsidiaries having assets in excess of 5% of the Borrower's Consolidated total assets, each for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such period, setting forth in each case in comparative form the corresponding Consolidated figures for the corresponding period in the preceding fiscal year, accompanied by a certificate of an Authorized Officer of the Borrower, which certificate shall state that those Consolidated financial statements fairly present, respectively, the Consolidated financial condition and results of operations of the Borrower and its Subsidiaries and the Consolidating financial condition and results of operations of the Borrower, its Significant Subsidiaries and Subsidiaries having assets in excess of 5% of the Borrower's Consolidated total assets, in each case in accordance with Agreement Accounting Principles, consistently applied, as at the end of, and for, such period (subject to normally recurring audit adjustments).

(ii) As soon as available and in any event within 95 days after the end of each fiscal year of the Borrower, Consolidated statements of income, retained earnings and cash flow of the Borrower and its Subsidiaries and Consolidating statements of income and balance sheet of the Borrower, its Significant Subsidiaries and Subsidiaries having assets in excess of 5% of the Borrower's Consolidated total assets, each for such fiscal year and the related Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, setting forth in each case in comparative form the corresponding Consolidated figures for the preceding fiscal year, and accompanied, in the case of the Consolidated balance sheet of the Borrower, by an unqualified opinion of independent certified public accountants of recognized national standing, which opinion shall state that those Consolidated financial statements fairly present, respectively, the Consolidated financial condition and results of operations of the Borrower and its Subsidiaries, as at the end of, and for, such fiscal year in accordance with Agreement Accounting Principles, consistently applied.

(iii) Together with the financial statements required in Sections 7.1(i) and (ii), a compliance certificate in substantially the form of Exhibit B hereto (a "Compliance Certificate") signed by an Authorized Officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default exists, or if any Default exists, stating the nature and status thereof.

(iv) As soon as possible and in any event within 50 days after the end of each calendar quarter, a report setting forth the aging of the Mortgage Loans and any Mortgage securing a REMIC Certificate and each Operator which operates, leases or has Mortgage Loans in excess of 15% of the Borrower's Total Investments, together with a Borrowing Base Certificate signed by an Authorized Officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default exists, or if any Default exists, stating the nature and status thereof.

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(v) As soon as possible and in any event within 10 days after the Borrower knows that any Reportable Event has occurred with respect to any Single Employer Plan, a statement, signed by an Authorized Officer, describing said Reportable Event and the action which the Borrower proposes to take with respect thereto.

(vi) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by the Borrower or any of its Subsidiaries, which, in either case, could have a Material Adverse Effect.

(vii) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(viii) Promptly upon the filing thereof, copies of all registration statements and all other filings and annual, quarterly, monthly or other regular reports or statutory statements which the Borrower or any of its Subsidiaries files with the SEC or any insurance or regulatory agency.

(ix) As soon as possible and in any event as soon as the Borrower knows of any litigation or administrative or regulatory proceeding affecting the Borrower where the amount claimed against the Borrower or where the granting of relief requested could have a Material Adverse Effect, a statement, signed by an Authorized Officer, describing said litigation or proceeding and the action which the Borrower proposes to take with respect thereto.

(x) As soon as possible and in any event within 10 days of any change in the location of any of the Borrower's places of business or the establishment of any, or the discontinuance of any existing, places of businesses, notice of the same.

(xi) As soon as available and in any event within 95 days after the end of each fiscal year of any Operator which is not a publicly traded company and which operates 10% or more of the Borrower's Total Investments, statements of income, retained earnings and cash flow of such Operator for such fiscal year and the related balance sheet of such Operator as of the end of such fiscal year, accompanied by an unqualified opinion of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements fairly present the financial condition and results of operations of such Operator as at the end of, and for, such fiscal year in accordance with Agreement Accounting Principles, consistently applied.

(xii) As soon as available and in any event within 95 days after the end of each fiscal year of the Borrower, the Borrower's Consolidated financial projections for the next two fiscal years of the Borrower and its Subsidiaries.

(xiii) As soon as available, but prior to the effective date of any Acquisition of \$25,000,000 or more (which is not in the ordinary course of the Borrower's business, but which is permitted pursuant to Section 8.5), historical financial statements of the Person to be acquired and information regarding terms of the Acquisition as the Agent may from time to time reasonably request.

(xiv) Promptly upon request therefor, such other statements, lists of property and accounts, budgets, forecasts, reports or other information (including non-financial information) as the Agent may from time to time reasonably request, in form satisfactory to the Agent.

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7.2 Use of Proceeds. The Borrower will use the proceeds of the Loans (i) to fund investments in Owned Properties and related Mortgage Loans and (ii) for general corporate purposes. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any "margin stock" (as defined in Regulation U).

7.3 Notice of Default. The Borrower will, and will cause each Subsidiary to, give prompt (but in any case, within 5 Business Days) notice in writing to

the Lenders of the occurrence of any Default and of any other development, financial or otherwise, which could have a Material Adverse Effect.

7.4 Conduct of Business. The Borrower will, and will cause each Subsidiary to, maintain its corporate existence, carry on and conduct its business in the fields in which it currently conducts business and related fields, do all things necessary to remain in good standing in its respective jurisdiction of organization and maintain all requisite authority to conduct its business in each jurisdiction in which its respective businesses are conducted. The Borrower shall not, and shall not permit any of its Subsidiaries to, make any material change in the nature of its business as presently conducted.

7.5 Records. The Borrower will, and will cause each Subsidiary to, keep adequate records and books of account, in which full and correct entries shall be made in accordance with Agreement Accounting Principles of all financial transactions of the Borrower, its Subsidiaries, its assets and its business.

7.6 Insurance. The Borrower will, and will cause each Subsidiary to, maintain insurance on all its Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Agent upon request full information as to the insurance carried.

7.7 Compliance with Laws. The Borrower will, and will cause each Subsidiary to, comply in all material respects with all applicable laws, rules, regulations and orders (including, without limitation, all applicable environmental laws and the rules and regulations thereunder), such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its Property, except such taxes, assessments and governmental charges as are being contested in good faith by appropriate proceedings and as to which appropriate reserves are maintained.

7.8 Maintenance of Properties. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its respective Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its respective business carried on in connection therewith may be properly conducted at all times.

7.9 Inspection/Audits. At any reasonable time and from time to time upon reasonable notice, the Borrower will, and will cause each Subsidiary to, permit the Agent and any Lender, by its respective representatives and agents, to inspect and audit any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, its respective officers at such reasonable times and intervals as any Lender may designate. The Borrower will also, and will cause its Subsidiaries to, cooperate in all audits of the books and records of the Borrower and its Subsidiaries, all at the Borrower's expense, and will deliver to the Agent and the

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Lenders, at least on an annual basis, an audit (in form and substance satisfactory to the Agent) of the books and records of the Borrower and its Subsidiaries.

7.10 Payment of Obligations. The Borrower and each of its Subsidiaries will pay and discharge promptly all taxes, assessments and other governmental charges and claims levied or imposed upon it or its respective Property, or any part thereof, provided, however, that the Borrower and its Subsidiaries shall have the right in good faith to contest any such taxes, assessments, charges or claims and, pending the outcome of such contest, to delay or refuse payment thereof provided that adequately funded reserves are established by it to pay and discharge any such taxes assessments, charges and claims.

7.11 REIT Status. The Borrower shall at all times maintain its status as a REIT.

7.12 Management. The Borrower shall cause a person (reasonably acceptable to the Required Lenders) to be appointed Chairman and Chief Executive Officer within 6 months after the departure of Andre C. Dimitriadis from the Borrower.

7.13 Year 2000 Compliance. The Borrower shall, and shall cause each Subsidiary to, perform all acts reasonably necessary to ensure that the Borrower and its Subsidiaries become Year 2000 Compliant in a timely manner. Such acts shall include performing a review and assessment of all of the Borrower's and its Subsidiaries material systems and adopting a plan with a budget for the remediation and testing of such systems. For the purposes hereof, "Year 2000 Compliant" shall mean that all software, hardware, firmware, equipment, goods or systems utilized by and material to the business operations or financial condition of the Borrower or any Subsidiary will properly perform date-sensitive functions before, during and after the year 2000. The Borrower shall, and shall

cause each Subsidiary to, use efforts to remain informed as to whether its major customers, suppliers and vendors are Year 2000 Compliant. The Borrower shall, upon the Agent's reasonable request, provide the Agent with such certifications or other evidence of the Borrower's and its Subsidiaries' compliance with the terms hereof as the Agent may from time to time require.

ARTICLE 8 NEGATIVE COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

8.1 Debt. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Debt, except:

(i) Debt of the Borrower under the Loan Documents;

(ii) Debt in existence on the date hereof, as set forth on Schedule 3;

(iii) trade Debt incurred to acquire goods, supplies, and services and incurred in the ordinary course of business;

(iv) Subordinated Indebtedness incurred either (a) to refinance all or a portion of the Loans as long as all proceeds are used to repay the Loans or (b) to refinance Subordinated Indebtedness outstanding, provided such refinancing occurs substantially simultaneously with the repayment of such outstanding Subordinated Indebtedness, and provided further that all such Subordinated Indebtedness

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permitted under this subsection (iv) does not mature prior to the maturity of Loans remaining outstanding;

(v) Debt, including contingent liabilities and medium-term notes, that is pari passu with the Loans outstanding hereunder, but only if and so long as (a) either S&P or Moody's has issued a Rating of BBB- or Baa3, as applicable, and (b) the repayment terms, covenants and events of default applicable to such pari passu Debt are not more favorable to the lenders thereof than the repayment terms, covenants and events of default applicable to the Loans;

(vi) Debt under operating leases for real or personal property used in the Borrower's business as presently conducted;

(vii) Capitalized Leases incurred subsequent to October 3, 1997 not to exceed in aggregate principal amount \$5,000,000;

(viii) The endorsement of negotiable instruments for deposit or collection in the ordinary course of the Borrower's business as presently conducted;

(ix) non-recourse Debt;

(x) interest-rate protection agreements not to exceed in aggregate amount the sum of (a) an amount equal to 100% of the unpaid principal balance of all Mortgage Loans and (b) outstanding Loans hereunder; and

(xi) Debt incurred by a Subsidiary as a result of its position as a general partner in a limited partnership which has borrowed amounts from the Borrower pursuant to Section 8.9(ii).

8.2 Merger. The Borrower will not, nor will it permit any Subsidiary to, enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of all or substantially all of its Property, business or assets; provided that the Borrower may merge or consolidate with another Person, including, without limitation, a Subsidiary, if (i) the Borrower is the surviving corporation, (ii) the Borrower will be in pro forma compliance with all provisions of this Agreement subsequent to such merger or consolidation, (iii) the Borrower shall have filed an SEC Report (if required to do so by law) and (iv) the Borrower will not engage in any material line of business substantially different from those engaged in as of the Closing Date.

8.3 Sale of Assets. The Borrower will not, nor will it permit any Subsidiary to, lease, sell or otherwise dispose of its respective Property to any other Person, except for (i) sales of Property in the ordinary course of business for fair consideration and (ii) leases, sales or other dispositions of its respective Property that, together with all other Property of the Borrower and its Subsidiaries previously leased, sold or disposed of (other than inventory in the ordinary course of business) as permitted by this Section during the term of this Agreement, do not require the Borrower to file an SEC Report; provided that the foregoing shall not be construed as prohibiting (a) a transfer of assets from a Subsidiary to the Borrower or (b) the merger of a Subsidiary into the Borrower.

8.4 Prepayments of Convertible Subordinated Debt. The Borrower will not, and will not permit any of its Subsidiaries to, prepay any convertible Subordinated Indebtedness in an aggregate amount in excess of \$10,000,000, unless such prepayment is as the result of a refinancing due to the issuance of Subordinated Indebtedness and/or the issuance of equity.

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8.5 Acquisitions. Except for Owned Properties and Mortgage Loans (subject to the limitations set forth in Section 8.12) and Investments permitted under Section 8.10, the Borrower will not, nor will it permit any Subsidiary to, enter into any agreement, contract, binding commitment or other arrangement providing for any Acquisition, or take any action to solicit the tender of securities or proxies in respect thereof in order to effect any Acquisition, unless:

(i) the Person to be (or whose assets are to be) acquired does not oppose such Acquisition and the line or lines of business of the Person to be acquired (or the assets to be acquired) are in healthcare- or education-related businesses;

(ii) no Default shall have occurred and be continuing either immediately prior to or immediately after giving effect to such Acquisition on a pro forma basis;

(iii) during the period from and including October 3, 1997 until the Facility Termination Date, the aggregate consideration for all Acquisitions which are not Mortgage Loans or Owned Properties (but which must still be in healthcare- or education-related areas) shall not exceed an amount equal to 10% of the Borrower's Consolidated total assets (as determined in accordance with Agreement Accounting Principles), of which no more than \$20,000,000 in aggregate amount shall be paid in cash; and

(iv) the Borrower's REIT status is not adversely affected.

8.6 Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction; provided that the foregoing shall not be construed as prohibiting a transfer of assets from a Subsidiary to the Borrower or the merger of a Subsidiary into the Borrower. Notwithstanding the foregoing, the Borrower may make capital contributions to Significant Subsidiaries for the purpose of establishing such Significant Subsidiaries and providing assets for such Significant Subsidiaries to meet their respective obligations.

8.7 ERISA. The Borrower will not, and will not permit any Subsidiary, to have Unfunded Liabilities for any and all Plans maintained for or covering employees of the Borrower or any Subsidiary to exceed \$2,000,000 in the aggregate at any time.

8.8 Encumbrances and Liens. The Borrower will not, and will not permit any Subsidiary to, create, assume or suffer to exist any Lien (other than for taxes not delinquent and for taxes and other items being contested in good faith, with appropriate reserves maintained) on Property of any kind, whether real, personal or mixed, now owned or hereafter acquired by the Borrower or any of its Subsidiaries, or upon the income or profits thereof, except for (i) minor encumbrances and easements on real property which do not materially affect its market value; (ii) existing Liens on the Borrower's Property as set forth on Schedule 4; (iii) future purchase-money security interests encumbering only the Property purchased or security interests relating to any refinancing of any such purchase-money security interests, as long as the Lien encumbers only the original Property and such additional related personal Property acquired in the ordinary course of the Borrower's or such Subsidiary's business; (iv) statutory liens of bankers, carriers, warehousemen, mechanics, materialmen, and other similar Liens imposed by law, which are incurred in the ordinary course of business for sums not more than 30 days delinquent or which are being contested in good faith by appropriate proceedings; (v) deposits made in the ordinary course of business to secure liability to insurance carriers; (vi) attachment and judgment Liens securing

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claims less than \$5,000,000 in the aggregate (excluding for purposes of said calculation any such Liens for which execution has been stayed, payment is covered in full by insurance, or the Borrower is prosecuting an appeal in good faith by appropriate proceedings); (vii) monetary obligations of the Borrower under any leasing or similar arrangement which, in accordance with Agreement Accounting Principles, is classified as a Capitalized Lease; (viii) Liens securing non-recourse Debt; and (ix) Liens existing on Property when it is acquired by the Borrower or any of its Subsidiaries.

8.9 Loans, Advances and Guaranties. The Borrower will not, and will not permit any Subsidiary to, except in the ordinary course of business, make any loans or advances, become a guarantor or surety, pledge its credit or Properties in any manner or extend credit, except that (i) the Borrower may make loans or advances to its current and former officers, directors, consultants and employees in an aggregate amount not to exceed at any time \$15,000,000 for the purpose of exercising stock options or warrants (of which up to \$2,000,000 may be used as employment incentives), (ii) the Borrower may make loans permitted under Section 8.10(vii)(c), (iii) the Borrower may guarantee payment of bonds payable to the Oregon Department of Housing in an aggregate principal amount not to exceed \$4,210,000, (iv) the Borrower may make loans to LTC Healthcare, Inc. in an aggregate principal amount not to exceed \$20,000,000 and (v) the "Guarantors" may issue the "Guaranties" (as such terms are defined in the Revolving Credit Agreement).

8.10 Investments. The Borrower will not, and will not permit any Subsidiary to, have or purchase the Debt of another Person or entity or have or make any Investment except for:

(i) certificates of deposit, time deposits, Eurodollar time deposits, repurchase agreements, reverse repurchase agreements, or bankers' acceptances, having in each case a maturity date of not more than twelve months from the date of acquisition by the Borrower, issued by a Lender or any U.S. commercial bank or any branch or agency of a non-U.S. bank licensed to conduct business in the U.S. having combined capital and surplus or not less than \$50,000,000 whose short-term securities are rated at least "A-1" by S&P (or the equivalent rating provided by any of Moody's, Duff & Phelps Credit Rating Co. or Fitch Investors Services, Inc.);

(ii) interest-bearing or discounted obligations of the United States Government, any agency thereof (including without limitation the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Farm Credit System) or any entities or pools of mortgages or other instruments formed by the United States Government or any such agencies, and in any case only if such obligation has a maturity date not more than twelve months from the date of acquisition by the Borrower;

(iii) obligations issued by state and local governments or their agencies, instrumentalities, authorities or subdivisions, if such issuer has received a rating of at least "A-1" by S&P (or the equivalent rating provided by any of Moody's, Duff & Phelps Credit Rating Co. or Fitch Investors Services, Inc.), and in any case only if such obligation has a maturity date of not more than twelve months from the date of acquisition by Borrower;

(iv) commercial paper of an issuer rated at least "A-1" by S&P (or the equivalent rating provided by any of Moody's, Duff & Phelps Credit Rating Co. or Fitch Investors Services, Inc.), and in any case only if such obligation has a maturity date not more than twelve months from the date of acquisition by the Borrower;

(v) Investments in money market funds, including short-term adjustable rate money market funds;

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(vi) Investments by the Borrower in REMICs formed by the Borrower and REMIC Certificates issued by REMICs formed by the Borrower, not to exceed at any time an aggregate amount equal to \$125,000,000 plus 25% of any increase in the Borrower's Tangible Net Worth subsequent to June 30, 1997;

(vii) subsequent to October 3, 1997, the sum of (a) loans, advances to and investments in any Person or asset other than those loans, advances and investments already permitted in Section 8.10 and those Acquisitions already permitted in Section 8.5, plus (b) investments in stock, now owned or hereafter acquired, of publicly-traded companies (but not more than 10% of the stock of any single company), plus (c) loans or advances to limited partners (of partnerships of which the general partner is a Subsidiary of the Borrower) and limited partnerships (of which the general partner is a Subsidiary of the Borrower) for the purposes of funding the limited partners' tax obligations resulting from the sale of limited partnership facilities and paying previously agreed-upon Distributions to such limited partners, shall not exceed in aggregate principal amount at any time outstanding \$20,000,000; and none of such investments, loans or advances shall be in any Person engaged in any education-related line of business;

(viii) loans and advances otherwise permitted under Section 8.9 (to the extent such loans or advances may be deemed Investments);

(ix) Investments in current and all future Subsidiaries, directly or indirectly wholly-owned by the Borrower;

(x) Acquisitions otherwise permitted under Section 8.5;

(xi) Investments of the Borrower and its Subsidiaries in existence on the date hereof, as set forth on Schedule 5;

(xii) Investments as a result of the purchase (by the payment of cash or the issuance of Borrower stock), of limited partner interests of partnerships of which the general partner is a Subsidiary of the Borrower; and

(xiii) any purchase of a fee interest in real property used primarily for education-related purposes, any loan secured by a mortgage, deed of trust or other instrument creating a first mortgage lien on a fee interest in real property used primarily for education-related purposes and any Investment in a Person engaged primarily in education-related business, provided that (a) such purchases and loans shall not exceed an aggregate of \$20,000,000 in respect of a single property and (b) the aggregate amount of all such purchases, loans and Investments shall not exceed \$75,000,000.

8.11 Dividends and Distributions. The Borrower will not, and will not permit any of its Subsidiaries to, declare or pay any Distribution (other than Distributions payable solely in common stock), provided that (i) each Subsidiary that is a wholly-owned Subsidiary of the Borrower may declare and pay Distributions to its shareholder and (ii) the Borrower may declare and pay Distributions in any fiscal year in an aggregate amount not to exceed 95% of its Cash Flow (minus Interest Expense) for such fiscal year. In addition, the Borrower shall not, and shall not permit any of its Subsidiaries to, redeem, convert, retire or otherwise acquire shares of any class of its capital stock, except that the Borrower may repurchase up to \$5,000,000 of its capital stock in any fiscal year. The Borrower shall not effect or permit any change in or amendment to any document or instrument pertaining to the terms of the capital stock of the Borrower, except to increase the authorized capital of the Borrower.

8.12 Concentrations.

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(i) The Borrower shall not, and shall not permit any Subsidiary to, invest in or acquire any Owned Property or Mortgage Loan where a single Operator (excluding Affiliates) operates or leases more than 15% of the Total Investments of the Borrower and its Subsidiaries, except that the Borrower and its Subsidiaries may invest up to 45% of the Borrower's and its Subsidiaries' Total Investments in Sun Healthcare, Inc. and Assisted Living Concepts, Inc., provided that the maximum concentration to either of such Operators shall not exceed 25% of the Borrower's and its Subsidiaries' Total Investments;

(ii) The Borrower shall not invest in or acquire any single Owned Property or Mortgage Loan secured by a single Property in an aggregate amount in excess of \$20,000,000.

ARTICLE 9 DEFAULTS

The occurrence of any one or more of the following events shall constitute an "Event of Default":

9.1 Payment Defaults. The Borrower shall fail to pay when due any payment of principal of any Loan or shall fail to pay within 3 days of when due any interest, any other charge or any fee payable under the terms of this Agreement or any other Loan Document.

9.2 Representations and Warranties. Any representation or warranty made by the Borrower under any Loan Document shall prove to have been incorrect or misleading in any material respect when made.

9.3 Other Loan Document Defaults. The Borrower shall fail to perform (i) any obligation set forth in Section 7.2, 7.13, 8.1, 8.2, 8.3, 8.4, 8.5, 8.9, 8.10, 8.11 or 8.12(ii) of this Agreement; or (ii) any obligation set forth in Section 8.12(i), and such failure shall continue for 180 days after the earlier of actual knowledge by the Borrower or written notice thereof from the Agent; or (iii) any other obligation contained in this Agreement or the other Loan Documents, and such failure shall continue for 30 days after the earlier of actual knowledge by the Borrower or written notice thereof from the Agent.

9.4 Bankruptcy. (i) The Borrower or any Significant Subsidiary shall fail to pay its Debts generally as they become due or shall file any petition or action for relief under any bankruptcy, insolvency, reorganization, moratorium or creditor composition law, or any other law for the relief of or relating to debtors; (ii) an involuntary petition under any bankruptcy law shall be filed against the Borrower or any Significant Subsidiary and shall not be dismissed or discharged within 45 days of filing; or (iii) a custodian, receiver, trustee, assignee for the benefit of creditors, or other similar official shall be appointed to take possession, custody or control of the Properties of the Borrower or any Significant Subsidiary and shall not be dismissed or discharged within 60 days of appointment.

9.5 Other Agreements. The Borrower or any Significant Subsidiary shall fail to pay when due principal or interest payments required under the terms of any bonds, notes, debentures or other agreements evidencing, in the aggregate, at least \$2,000,000 of Debt (excluding, for purposes of this calculation, payments required under this Agreement or any of the other Loan Documents), and such non-payment shall continue beyond any period of grace provided with respect thereto, or the Borrower or any Significant Subsidiary shall default in the observance or performance of any other agreement contained in any such bonds, notes, debentures or other agreements evidencing indebtedness, and the effect of such failure or default is to permit the holders thereof the right to cause the indebtedness evidenced thereby to become due prior to its stated date of maturity.

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9.6 ERISA. Any Governmental Person shall take any action under ERISA, or the Borrower or any Significant Subsidiary shall fail to meet minimum funding requirements thereunder, or any other event shall occur with respect to any Plan, that could have a Material Adverse Effect or that causes unfunded liabilities to exceed \$2,000,000.

9.7 Judgments. A final judgment or order for the payment of money in excess of \$10,000,000 (exclusive of amounts covered by insurance) shall be rendered against the Borrower or any Significant Subsidiary and the same shall remain undischarged for a period of 60 days during which execution shall not be effectively stayed, or any judgment, writ, warrant of attachment, or execution or similar process, shall be issued or levied against a substantial part of the Borrower's or any Significant Subsidiary's property and such judgment, writ, warrant of attachment, or execution or similar process, shall not be released, stayed, vacated, bonded or otherwise dismissed within 20 days after its issue or levy.

9.8 Loan Documents. Any Loan Document shall fail to remain in full force or effect, or any action shall be taken by the Borrower to discontinue or to assert the invalidity or unenforceability of any Loan Document.

9.9 Change of Control. A Change of Control shall have occurred.

9.10 REIT Status. The Borrower shall at any time fail to maintain its REIT status.

ARTICLE 10 ACCELERATION, WAIVERS AND AMENDMENTS

10.1 Acceleration. If any Event of Default described in Section 9.4 occurs with respect to the Borrower or any Significant Subsidiary, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Event of Default occurs, the Required Lenders may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives. The Agent agrees to promptly notify the Borrower of any Event of Default, but failure by the Agent to give such notice shall not affect any of the Borrower's obligations or any of the Agent's or the Lenders' rights and remedies hereunder.

10.2 Additional Remedies. The rights, powers and remedies given to the Agent and the Lenders hereunder shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to the Agent and the Lenders by law against the Borrower or any other Person, including but not limited to any Lender's right of setoff or banker's lien.

10.3 Amendments and Waivers. Subject to the provisions of this Article 10, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding, waiving or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement or waiver shall, without the consent of each Lender affected thereby:

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(i) Extend the maturity of any Loan or Note or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon.

(ii) Reduce the percentage specified in the definition of Required Lenders.

(iii) Increase the amount of, or extend, the Commitment of any Lender

hereunder or permit the Borrower to assign its rights under this Agreement.

(iv) Amend in any respect the Borrowing Base (or any components thereof or definitions related thereto) or any change to the advance rate thereunder.

(v) Amend this Section 10.3.

No amendment of any provision of this Agreement relating to the Agent's specific rights and responsibilities hereunder shall be effective without the written consent of the Agent. No amendment of any provision of this Agreement relating to the Documentation Agent's specific rights and responsibilities hereunder shall be effective without the written consent of the Documentation Agent. The Agent may waive payment of the fees required under Section 14.3(ii) without obtaining the consent of any other party to this Agreement.

10.4 Preservation of Rights. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan or shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to Section 10.3, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE 11 GENERAL PROVISIONS

11.1 Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Notes and the making of the Loans herein contemplated.

11.2 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

11.3 Headings. Section headings in the Loan Documents are for convenience of reference only and shall not govern the interpretation of any of the provisions of the Loan Documents.

11.4 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof.

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11.5 Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint, and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

11.6 Expenses; Indemnification. The Borrower shall reimburse the Agent for any costs, internal charges and out-of-pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Agent and the Documentation Agent and audit and exam expenses), paid or incurred by the Agent and the Documentation Agent in connection with the negotiation, documentation and syndication of this Agreement. The Borrower shall also reimburse the Agent and each Lender for any costs, internal charges and out-of-pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Agent and each Lender) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. The Borrower further agrees to indemnify the Agent, the Documentation Agent and each Lender, and its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation thereof whether or not the Agent, the Documentation Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder, provided that no Person shall have the right to be indemnified hereunder for such Person's own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

11.7 Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

11.8 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

11.9 Nonliability of Lenders. The relationship between the Borrower and the Lenders, the Documentation Agent and the Agent shall be solely that of borrower and lender. Neither the Agent, the Documentation Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent, the Documentation Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

11.10 Choice of Law. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF CALIFORNIA, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

11.11 Consent to Jurisdiction. SUBJECT TO SECTION 11.15 BELOW, THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR CALIFORNIA STATE COURT SITTING IN LOS ANGELES IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY

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LOAN DOCUMENTS, AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. SUBJECT TO SECTION 11.15 BELOW, NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT, THE DOCUMENTATION AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. SUBJECT TO SECTION 11.15 BELOW, ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT, THE DOCUMENTATION AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT, THE DOCUMENTATION AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN LOS ANGELES, CALIFORNIA.

11.12 Waiver of Jury Trial. SUBJECT TO SECTION 11.15 BELOW, THE BORROWER, THE AGENT, THE DOCUMENTATION AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

11.13 Integration Clause. Except for documents and instruments specifically referenced herein, this Agreement constitutes the entire agreement among the Agent, the Documentation Agent, the Lenders and the Borrower regarding the Loans, and all prior communications, oral or written, between the Borrower and the Agent, the Documentation Agent or any Lender shall be of no further effect or evidentiary value.

11.14 Confidentiality. The Lenders shall take normal and reasonable precautions to maintain the confidentiality of all non-public information obtained pursuant to the requirements of this Agreement which has been identified as such by the Borrower but may, in any event, make disclosures (i) reasonably required by any bona fide transferee, assignee or participant in connection with the contemplated transfer or assignment of any of the Commitments or Loans or participations therein or (ii) as required or requested by any governmental agency or representative thereof or as required pursuant to any legal process or (iii) to its attorneys and accountants or (iv) as required by law or (v) in connection with litigation involving any Lender.

11.15 Dispute Resolution. It is understood and agreed that upon the request of any party hereto any dispute, claim, or controversy of any kind, whether in contract or in tort, statutory or common law, legal or equitable, now existing or hereinafter arising out of, pertaining to or in connection with this Agreement or the other Loan Documents, or any related agreements, documents, or instruments, shall be resolved through final and binding arbitration administered by Judicial Arbitration & Mediation Services, Inc. ("J.A.M.S."). The hearing shall be conducted at a location determined by the arbitrator in Los Angeles, California and shall be administered by and in accordance with the then existing Rules of Practice and Procedure of Judicial Arbitration & Mediation Services, Inc., and judgment upon any award rendered by the arbitrator may be entered by an State or Federal Court having jurisdiction thereof. The arbitrator shall determine which is the prevailing party or parties and shall include in the award that party's or parties' reasonable attorneys' fees and costs. As soon as practicable after selection of the arbitrator, the arbitrator or his/her

designated representative shall determine a reasonable estimate of anticipated fees and costs of the arbitrator, and render a statement to each party setting forth that party's pro-rata share of said fees and costs. Thereafter each party shall, within ten days of receipt of said

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statement, deposit said sum with the arbitrator. Failure of any party to make such a deposit shall result in a forfeiture by the non-depositing party of the right to prosecute or defend that claim which is the subject of the arbitration, but shall not otherwise serve to abate, stay under this paragraph, nor any other provision of this dispute resolution provision, or limit the right of any party to obtain provisional or ancillary remedies such as injunctive relief from any court having jurisdiction before, during or after the pendency of any arbitration. The institution and maintenance of any action for the pursuit of provisional or ancillary remedies shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration.

ARTICLE 12 THE AGENT

12.1 Appointment. Bank of Montreal is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this Article 12. The Agent shall not have a fiduciary relationship in respect of the Borrower or any Lender by reason of this Agreement.

12.2 Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

12.3 General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

12.4 No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (i) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (iii) the satisfaction of any condition specified in Article 4 except receipt of items required to be delivered to the Agent; or (iv) the validity, effectiveness or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

12.5 Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. At the request of the Required Lenders the Agent shall give any notice described in Section 9.3. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

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12.6 Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

12.7 Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to

have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

12.8 Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (i) for any expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents and (ii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents, provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this Section 12.8 shall survive payment of the Obligations and termination of this Agreement.

12.9 Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

12.10 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

12.11 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, and the Agent may be removed at any time with or without cause by the Required Lenders, such resignation or removal to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign or thirty days after removal notice has been given to the Agent. Upon any such resignation or removal, the Required Lenders shall have the right to appoint, with the consent (which shall not be unreasonably withheld) of the Borrower, if no Default has occurred and is continuing, on behalf of the Borrower and the Lenders, a successor Agent. If no successor Agent shall

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have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent. If the Agent has resigned or been removed and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$150,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation or removal of the Agent, the departing Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation or removal of an Agent, the provisions of this Article 12 shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

12.12 Documentation Agent. None of the financial institutions identified on the facing page, preamble or signature pages of this Agreement as a "documentation agent" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "documentation agent" shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the financial institutions so identified in deciding to enter into this Agreement or in taking or not taking action

hereunder.

ARTICLE 13
SETOFF; RATABLE PAYMENTS

13.1 Setoff. Upon the occurrence and during the continuance of any Event of Default, the Lenders are hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by any Lender to or for the credit or the account of the Borrower against any and all obligations of the Borrower now or hereafter existing under the Loan Documents, irrespective of whether or not any Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of the Lenders under this Section are in addition to other rights and remedies (including other rights of setoff) that the Lenders may have.

13.2 Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to Section 3.1, 3.2 or 3.3) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their respective Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

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ARTICLE 14
BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

14.1 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (i) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Lender must be made in compliance with Section 14.3. Notwithstanding clause (ii) of this Section, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; provided, however, that no such assignment shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with Section 14.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

14.2 Participations.

(i) Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

(ii) Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest which forgives principal, interest or fees or reduces the interest rate or fees payable with respect to any such Loan or Commitment, which postpones any date fixed for any regularly scheduled payment of principal of, or interest or fees on, any such Loan or Commitment or which is otherwise subject to 100% Lender approval under Section 10.3.

(iii) Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 13.1 in respect of its

participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, provided that each Lender shall retain the right of setoff provided in Section 13.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 13.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 13.2 as if each Participant were a Lender.

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14.3 Assignments.

(i) Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more Eligible Assignees ("Purchasers") all or any part of its rights and obligations under the Loan Documents, provided, however, such assignments must be in a minimum amount at least equal to \$10,000,000 and must be on a pro rata basis of all Obligations hereunder; provided, however, that if such Purchaser is a Lender or an Affiliate thereof, no minimum amount shall be applicable. Such assignment shall be substantially in the form of Exhibit C hereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof; provided, however, that if an Event of Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld or delayed.

(ii) Effect; Effective Date. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to Exhibit C hereto (a "Notice of Assignment"), together with any consents required by Section 14.3(i), and (b) payment of a \$3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. The Notice of Assignment shall contain a representation by the Purchaser to the effect that it is an Eligible Assignee and that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement are "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 14.3(ii), the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting its Commitment, as adjusted pursuant to such assignment.

14.4 Dissemination of Information. The Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries, provided that each prospective Transferee shall execute and deliver to the Agent a confidentiality agreement (in form and substance reasonably satisfactory to the Borrower and the Agent).

14.5 Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 2.21.

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ARTICLE 15 NOTICES

15.1 Giving Notice. Except as otherwise permitted by Section 2.10 with respect to notices regarding conversion or continuation of Advances and Section 2.11 with respect to notices regarding Advances, all notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing or by facsimile and addressed or delivered to the Borrower and the Agent at their respective addresses set forth below their respective signatures hereto and to each Lender at its address set forth on Schedule 1 hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received; any notice, if transmitted by facsimile, shall be deemed given when transmitted (answerback confirmed in

the case of telexes).

15.2 Change of Address. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE 16
COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent by telex or telephone, that it has taken such action.

IN WITNESS WHEREOF, the Borrower, the Lenders, the Agent and the Documentation Agent have executed this Agreement as of the date first above written.

LTC PROPERTIES, INC.

By: /S/ DARRELL D. STRUCK

Darrell D. Struck
Treasurer

300 Esplanade Drive, Suite 1860
Oxnard, California 93030
Attention: Darrell D. Struck
Treasurer
Telecopier: (805) 981-8663
Telephone: (805) 981-8655

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BANK OF MONTREAL, as Administrative
Agent and Lender

By: /S/ KANU MODI

Name: Kanu Modi

Title: Director

115 South LaSalle Street
Chicago, Illinois 60603
Attention: Kanu Modi
Director
Telecopier: (312) 750-6057
Telephone: (312) 750-3891

with a copy of any notice to:

601 South Figueroa Street, Suite 4900
Los Angeles, California 90017
Attention: Ronald Launsbach
Director
Telecopier: (213) 239-0602
Telephone: (213) 239-0680

SANWA BANK CALIFORNIA, as
Documentation Agent and Lender

By: /S/ DIRK A. PRICE

Dirk A. Price
Vice President

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SCHEDULE 1

LENDERS AND APPLICABLE LENDING OFFICES

| Lender | Commitment | Applicable Lending Office |
|---------------------|--------------|---|
| ----- | ----- | ----- |
| Bank of Montreal | \$15,000,000 | 115 South LaSalle Street Chicago, Illinois 60603 Attention: Kanu Modi Director |

Telecopier: (312) 750-6057

with a copy of any notice to:

601 South Figueroa Street,
Suite 4900
Los Angeles, California 90017
Attention: Ronald Launsbach
Director
Telecopier: (213) 239-0602

Sanwa Bank \$10,000,000
California

601 South Figueroa Street
Los Angeles, California 90017
Attention: Dirk A. Price
Vice President
Telecopier: (213) 896-7090

Total Commitments: \$25,000,000

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SCHEDULE 2

SUBSIDIARIES (See Section 5.7)

| Investment In - - - - - | Owned By - - - - - | Percent Ownership - - - - - | Jurisdiction - - - - - |
|---|-----------------------|-----------------------------------|---------------------------|
| Kansas-LTC Corporation | LTC Properties, Inc. | 100.000% | Delaware |
| L-Tex GP, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC GP I, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC GP II, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC GP III, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC GP IV, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC GP V, Inc. | LTC Properties, Inc. | 100.000% | Delaware |
| LTC Remic Corporation | LTC Properties, Inc. | 100.000% | Delaware |
| L-TEX L.P. Corporation | LTC Properties, Inc. | 100.000% | Delaware |
| Florida-LTC, Inc. | LTC Properties, Inc. | 100.000% | Nevada |
| LTC-Dearfield, Inc. | LTC Properties, Inc. | 100.000% | Nevada |
| LTC Remic IV Corporation | LTC Properties, Inc. | 100.000% | Delaware |
| LTC-Tampa, Inc. | LTC Properties, Inc. | 100.000% | Nevada |
| LTC West, Inc. | LTC Properties, Inc. | 100.000% | Nevada |
| University Park Convalescent Center, Inc. | LTC-Tampa, Inc. | 100.000% | Florida |
| Western Healthcare Funding, Inc. | LTC Properties, Inc. | 100.000% | Nevada |
| Education Property Investors, Inc. | LTC Properties, Inc. | 100.000% | Nevada |

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SCHEDULE 3

DEBT (See Section 8.1(ii))

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SCHEDULE 4

LIENS
(See Section 8.8)

| Description | Amount |
|------------------|--------------|
| ----- | ----- |
| Washington Bonds | \$ 8,300,000 |
| Oregon Bonds | 4,210,000 |
| | ----- |
| Total | \$12,510,000 |
| | ----- |
| | ----- |

See also mortgage loans on Schedule 3.

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SCHEDULE 5

INVESTMENTS
(See Section 8.10(xi))

| Investment In | Owned By | Percent Ownership | Jurisdiction |
|----------------------------------|---------------------------|----------------------|--------------|
| ----- | ----- | ----- | ----- |
| LTC Partners I, L.P. | LTC GP I, Inc. | 80.380% | Delaware |
| LTC Partners II, L.P. | LTC GP I, Inc. | 68.820% | Delaware |
| LTC Partners III, L.P. | LTC GP I, Inc. | 74.921% | Delaware |
| LTC Partners IV, L.P. | LTC GP I, Inc. | 79.375% | Delaware |
| LTC Partners V, L.P. | LTC GP II, Inc. | 10.024% | Delaware |
| LTC Partners VI, L.P. | LTC GP III, Inc. | 81.320% | Delaware |
| LTC Partners VII, L.P. | LTC GP IV, Inc. | 10.045% | Delaware |
| LTC Partners VIII, L.P. | LTC GP V, Inc. | 99.000% | Delaware |
| Texas-LTC Limited Partnership | L-Tex L.P. Corporation | 99.000% | Texas |
| Texas-LTC Limited Partnership | L-Tex GP, Inc. | 1.000% | Texas |
| LTC Development Company, Inc. | LTC Properties, Inc. | 99.000% | Nevada |
| LTC Assisted Living, Inc. | LTC Properties, Inc. | 99.000% | Nevada |

Also included as Investments are those subsidiaries listed on Schedule 2.

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SCHEDULE 6

TERMS OF SUBORDINATION

No payment made on any Subordinated Indebtedness by the Borrower if the following events occur:

- A. A Default under the Term Loan Agreement which permits the Lenders to accelerate maturity; and
- B. Either (i) such Default is the subject of a judicial proceeding or (ii) the Lenders have delivered a notice of Default to the Borrower under the Term Loan Agreement.

No Subordinated Indebtedness payment shall be made until the Default under the Term Loan Agreement has been cured or waived or has otherwise ceased to exist.

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EXHIBIT A

TERM LOAN NOTE

\$ _____, _____

LTC PROPERTIES, INC., a Maryland corporation (the "Borrower"), promises to pay to the order of _____ (the "Lender") the principal sum of _____ Dollars (\$ _____) or such lesser amount as advanced by the Lender under the Term Loan Agreement referred to below, in immediately

available funds at the account designated from time to time by Bank of Montreal, as Administrative Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Term Loan Agreement. The Borrower shall pay the principal of and accrued and unpaid interest on the Loans in full on the Facility Termination Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Loan made by the Lender and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Term Loan Agreement dated as of March 8, 1999 (the "Term Loan Agreement") among the Borrower, the Lender and the other lenders referred to therein, Bank of Montreal, as Administrative Agent, and Sanwa Bank California, as Documentation Agent, to which Term Loan Agreement, as it may be amended, restated, supplemented or otherwise modified from time to time, reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Term Loan Agreement.

The Borrower waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands.

The Borrower shall reimburse the Lender for all costs and expenses, including without limitation reasonable attorneys' fees, as set forth in the Term Loan Agreement.

LTC PROPERTIES, INC.

By: _____
Name: _____
Title: _____

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SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL
TO
NOTE OF LTC PROPERTIES, INC.

| Date | Principal Amount of Loan | Maturity of Interest Period | Maturity | Principal Amount Paid | Unpaid Balance |
|---------|--------------------------------|-----------------------------------|-----------|-----------------------------|-------------------|
| - - - - | - - - - - | - - - - - | - - - - - | - - - - - | - - - - - |

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EXHIBIT B

COMPLIANCE CERTIFICATE

To: The Lenders Parties to the Term
Loan Agreement Described Below

This Certificate is furnished pursuant to the Term Loan Agreement dated as of March 8, 1999 (as amended, restated or otherwise modified from time to time, the "Term Loan Agreement") among LTC Properties, Inc. (the "Borrower"), the lenders referred to therein, Bank of Montreal, as Administrative Agent, and Sanwa Bank California, as Documentation Agent. Unless otherwise defined herein, capitalized terms used in this Certificate have the meanings ascribed thereto in the Term Loan Agreement.

THE UNDERSIGNED HEREBY CERTIFIES AS SET FORTH BELOW.

1. I am the duly [elected/appointed] _____ of the Borrower.

2. I have reviewed the terms of the Term Loan Agreement and have made, or have caused to be made under my supervision, a detailed review of the transactions and condition of the Borrower during the accounting period covered by the attached financial statements.

3. The reviews described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate, except as set forth below.

4. Schedule 1 attached hereto sets forth financial data and computations evidencing the Borrower's compliance with Sections 6.1-6.5, 8.5 and 8.10 of the Term Loan Agreement, all of which data and computations are true, complete and correct.

Described below are the exceptions, if any, to paragraph 3, listing in detail the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking or proposes to take with respect to each such condition or event:

- -----
- -----
- -----
- -----

The foregoing certifications, together with the computations set forth in Schedule 1 hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this ____ day of _____, ____.

EXHIBIT C

ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement") between [NAME OF ASSIGNOR] (the "Assignor") and [NAME OF ASSIGNEE] (the "Assignee") is dated as of _____, _____. The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to that certain Term Loan Agreement (which, as it may be amended, restated or otherwise modified from time to time, is herein called the "Loan Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Loan Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Loan Agreement such that after giving effect to such assignment the Assignee shall have purchased pursuant to this Assignment Agreement the percentage interest specified in Item 3 of Schedule 1 of all outstanding rights and obligations under the Loan Agreement relating to the facilities listed in Item 3 of Schedule 1 and the other Loan Documents. The aggregate Commitment (or Loan, if the applicable Commitment has been terminated) purchased by the Assignee hereunder is set forth in Item 4 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the date specified in Item 5 of Schedule 1. A Notice of Assignment substantially in the form of Exhibit "I" attached hereto must be delivered to the Agent. Such Notice of Assignment must include any consents required to be delivered to the Agent by Section 14.3(i) of the Loan Agreement. In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date under Sections 4 and 5 hereof are not made on the Effective Date. The Assignor will notify the Assignee of the Effective Date no later than the Business Day prior to the Effective Date. As of the Effective Date, (i) the Assignee shall have the rights and obligations of a Lender under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder and (ii) the Assignor shall relinquish its rights and be released from its corresponding obligations under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder.

4. PAYMENTS OBLIGATIONS. On and after the Effective Date, the Assignee shall be entitled to receive from the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee shall advance funds directly to the Agent with respect to all Loans and reimbursement payments made on or after the Effective Date with respect to the interest assigned hereby. In consideration for the sale and assignment of Loans hereunder, with respect to any Loan made by the Assignor and assigned to the Assignee hereunder which is outstanding on the Effective Date, (a) on the last day of the Interest Period therefor or (b) on such earlier date agreed to by the Assignor and the Assignee or (c) on the date on which any Loan either becomes due (by acceleration or otherwise) or is prepaid (the date as described in the foregoing clauses (a), (b) or (c) being hereinafter referred to as the "Payment Date"), the Assignee shall pay the Assignor an amount equal to the principal amount of the portion of such Loan assigned to the Assignee which is outstanding

on the Payment Date. If the Assignor and the Assignee agree that the Payment Date for such Loan shall be the Effective Date, they shall agree to the interest rate applicable to the portion of such Loan assigned hereunder for the period from the Effective Date to the end of the existing Interest Period applicable to any Loan (the "Agreed Interest Rate") and any interest received by the Assignee in excess of the Agreed Interest Rate shall be remitted to the Assignor. In the event interest for the period from the Effective Date to but not including the Payment Date is not paid by the Borrower with respect to any Loan sold by the Assignor to the Assignee hereunder, the Assignee shall pay to the Assignor interest for such period on the portion of such Loan sold by the Assignor to the Assignee hereunder at the applicable rate provided by the Loan

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Agreement. In the event a prepayment of any Loan which is existing on the Payment Date and assigned by the Assignor to the Assignee hereunder occurs after the Payment Date but before the end of the Interest Period applicable to such Loan, the Assignee shall remit to the Assignor the excess of the prepayment penalty paid with respect to the portion of such Loan assigned to the Assignee hereunder over the amount which would have been paid if such prepayment penalty was calculated based on the Agreed Interest Rate. The Assignee will also promptly remit to the Assignor (i) any principal payments received from the Agent with respect to a Loan prior to the Payment Date and (ii) any amounts of interest on Loans and fees received from the Agent which relate to the portion of the Loans assigned to the Assignee hereunder for periods prior to the Payment Date, and not previously paid by the Assignee to the Assignor. In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit it to the other party hereto.

5. REPRESENTATIONS OF THE ASSIGNOR; LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim created by the Assignor. It is understood and agreed that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectability of any Loan Document, including without limitation, documents granting the Assignor and the other Lenders a security interest in assets of the Borrower or any guarantor, (ii) any representation, warranty or statement made in or in connection with any of the Loan Documents, (iii) the financial condition or creditworthiness of the Borrower or any guarantor, (iv) the performance of or compliance with any of the terms or provisions of any of the Loan Documents, (v) inspecting any of the Property, books or records of the Borrower, (vi) the validity, enforceability, perfection, priority, condition, value or sufficiency of any collateral securing or purporting to secure the Loans or (vii) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

6. REPRESENTATIONS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Loan Agreement, together with copies of the financial statements requested by the Assignee and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender, (v) agrees that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vi) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA [1 and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes.]

7. INDEMNITY. The Assignee agrees to indemnify and hold the Assignor harmless against any and all losses, costs and expenses (including, without limitation, reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's non-performance of the obligations assumed under this Assignment Agreement.

- - - - -

1 Bracketed provision to be included if Assignee is organized under the laws of

any jurisdiction other than the United States or any state thereof.

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8. SUBSEQUENT ASSIGNMENTS. After the Effective Date, the Assignee shall have the right pursuant to Section 12.3(i) of the Loan Agreement to assign the rights which are assigned to the Assignee hereunder to any entity or person, provided that (i) any such subsequent assignment does not violate any of the terms and conditions of the Loan Documents or any law, rule, regulation, order, writ, judgment, injunction or decree and that any consent required under the terms of the Loan Documents has been obtained and (ii) unless the prior written consent of the Assignor is obtained, the Assignee is not thereby released from its obligations to the Assignor hereunder, if any remain unsatisfied, including, without limitation, its obligations under Sections 4, 5 and 8 hereof.

9. REDUCTIONS OF AGGREGATE COMMITMENT. If any reduction in the Aggregate Commitment occurs between the date of this Assignment Agreement and the Effective Date, the percentage interest specified in Item 3 of Schedule 1 shall remain the same, but the dollar amount purchased shall be recalculated based on the reduced Aggregate Commitment.

10. ENTIRE AGREEMENT. This Assignment Agreement and the attached Notice of Assignment embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings between the parties hereto relating to the subject matter hereof.

11. GOVERNING LAW. This Assignment Agreement shall be governed by the internal laws, and not the law of conflicts, of the State of California.

12. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Loan Agreement. For the purpose hereof, the addresses of the parties hereto (until notice of a change is delivered) shall be the address set forth in the attachment to Schedule 1.

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IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By: _____
Name: _____
Title: _____

[ASSIGNEE]

By: _____
Name: _____
Title: _____

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SCHEDULE 1
to Assignment Agreement

1. Description and date of Loan Agreement: Term Loan Agreement dated as of March 8, 1999 among LTC Properties, Inc., the Lenders referred to therein, Bank of Montreal, as Administrative Agent, and Sanwa Bank California, as Documentation Agent.
2. Date of Assignment Agreement: _____, ____
3. Amounts (as of date of Item 2 above):
 - a. Total Commitments under Loan Agreement \$ _____
 - b. Assignee's percentage purchased under the Assignment Agreement _____%
4. Assignee's Aggregate Commitment amount purchased hereunder: \$ _____
5. Effective Date: _____, ____

Accepted and Agreed:

[ASSIGNOR]

[ASSIGNEE]

By:

By:

Name:

Name:

Title:

Title:

Attachment to SCHEDULE 1 to ASSIGNMENT AGREEMENT

Attach Assignor's Administrative Information Sheet, which must include
notice addresses for the Assignor and the Assignee
(unless set forth on Schedule 1 to the Loan Agreement)

EXHIBIT "I"
to Assignment Agreement

NOTICE OF ASSIGNMENT

To: LTC Properties, Inc.
300 Esplanade Drive, Suite 1860
Oxnard, California 93030
Attention: Darrell Struck
Treasurer

Bank of Montreal, as Administrative Agent
115 South LaSalle Street
Chicago, Illinois 60603
Attention:

From: [ASSIGNOR] (the "Assignor")

[ASSIGNEE] (the "Assignee")

1. We refer to the Term Loan Agreement (the "Loan Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Loan Agreement.

2. This Notice of Assignment (this "Notice") is given and delivered to the Borrower and the Agent pursuant to Section 14.3(ii) of the Loan Agreement.

3. The Assignor and the Assignee have entered into an Assignment Agreement, dated as of _____, ____ (the "Assignment"), pursuant to which, among other things, the Assignor has sold, assigned, delegated and transferred to the Assignee, and the Assignee has purchased, accepted and assumed from the Assignor the percentage interest specified in Item 3 of Schedule 1 of all outstanding, rights and obligations under the Loan Agreement relating to the facilities listed in Item 3 of Schedule 1. The Effective Date of the Assignment shall be the date specified in Item 5 of Schedule 1, provided that the Effective Date shall not occur if any condition precedent agreed to by the Assignor and the Assignee has not been satisfied.

4. The Assignor and the Assignee hereby give to the Borrower and the Agent notice of the assignment and delegation referred to herein. The Assignor will confer with the Agent before the date specified in Item 5 of Schedule 1 to determine if the Assignment Agreement will become effective on such date pursuant to Section 3 hereof, and will confer with the Agent to determine the Effective Date pursuant to Section 3 hereof if it occurs thereafter. The Assignor shall notify the Agent and the Borrower if the Assignment Agreement does not become effective on the Effective Date as a result of the failure to satisfy the conditions precedent agreed to by the Assignor and the Assignee. At the request of the Agent and/or the Borrower, the Assignor will give the Agent and the Borrower written confirmation of the satisfaction of the conditions precedent.

5. If Notes are outstanding on the Effective Date, the Assignor and the Assignee request and direct that the Agent prepare and cause the Borrower to execute and deliver new Notes or, as appropriate, replacements

notes, to the Assignor and the Assignee. The Assignor and, if applicable, the Assignee each agree to deliver to the Agent the original Note received by it from the Borrower upon its receipt of a new Note in the appropriate amount.

6. The Assignee advises the Agent that notice and payment instructions are set forth in the attachment to Schedule 1.

7. The Assignee hereby represents and warrants that none of the funds, monies, assets or other consideration being used to make the purchase pursuant to the Assignment are "plan assets" as defined under ERISA and that its rights, benefits, and interests in and under the Loan Documents will not be "plan assets" under ERISA.

8. The Assignee authorizes the Agent to act as its agent under the Loan Documents in accordance with the terms thereof. The Assignee acknowledges that the Agent has no duty to supply information with respect to the Borrower or the Loan Documents to the Assignee until the Assignee becomes a party to the Loan Agreement.

[ASSIGNOR]

[ASSIGNEE]

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Acknowledged and consented to:

BANK OF MONTREAL, as
Administrative Agent

LTC PROPERTIES, INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[Attach photocopy of Schedule 1 to Assignment.]

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EXHIBIT D

NOTICE OF BORROWING

_____, ____
Bank of Montreal, as Administrative Agent
115 South LaSalle Street
Chicago, Illinois 60603

Attention: Kanu Modi
Director

Re: Term Loan Agreement dated as of March 8, 1999 (the "Loan Agreement")
with LTC Properties, Inc.

Ladies and Gentlemen:

Pursuant to the provisions of Section 2.12 of the Loan Agreement, LTC Properties, Inc. (the "Borrower") hereby gives irrevocable and binding notice to you, as Administrative Agent, that the Borrower is requesting a Loan to be made under the Loan Agreement, as follows (capitalized terms have the definitions set forth in the Loan Agreement):

1. Type of Loan: LIBOR/Base Rate Loan
2. Aggregate Loan Amount: \$ _____ [at least \$5,000,000 and in an integral multiple of \$1,000,000]
3. Borrowing Date: _____, ____ [same day for Base Rate Loans; at least 3 Business Days for LIBOR Loans]
4. Loans will be LIBOR Loans (\$ _____) and/or Base Loans (\$ _____)
5. LIBOR Loans will have the following Interest Periods [1, 2, 3 or 6 months]:
\$ _____: _____ months \$ _____: _____ months
6. The undersigned certifies that:

- (a) There exists no Default.
- (b) The representations and warranties contained in Article 5 of the Loan Agreement are true and correct as of the Borrowing Date.

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- (c) No event has occurred, or condition exists, which could have a Material Adverse Effect.

Sincerely,

LTC PROPERTIES, INC.

By:

Name:

Title:

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EXHIBIT E

BORROWING BASE CERTIFICATE

Accounting period ended _____, ____

Reference is made to the Term Loan Agreement dated as of March 8, 1999 (as amended, restated or otherwise modified from time to time, the "Term Loan Agreement") among LTC Properties, Inc. (the "Borrower"), the Lenders referred to therein, Bank of Montreal, as Administrative Agent, and Sanwa Bank California, as Documentation Agent. Capitalized terms used in this Certificate have the respective meanings assigned to them in the Term Loan Agreement.

Pursuant to Section 7.1(iv) of the Term Loan Agreement, the undersigned, the _____ of the Borrower, hereby certifies that, to the best of his/her knowledge, attached as Annex 1 is a true and accurate calculation of the Borrowing Base as of _____, _____, determined in accordance with the requirements of the Term Loan Agreement.

IN WITNESS WHEREOF, the undersigned has caused this Certificate to be duly executed as of the ____ day of _____, ____.

Name:

Title:

ANNEX 1
to Borrowing Base Certificate

BORROWING BASE INFORMATION

| | | |
|---|---------------|---------------|
| Eligible Mortgage Loans | \$101,682,696 | |
| 75% of Eligible Mortgage Loans | ----- | \$ 76,262,022 |
| Eligible Owned Property | \$239,162,771 | |
| Less prorated Depreciation | 16,939,000 | |
| Eligible Owned Property less | ----- | |
| Depreciation | \$222,223,771 | |
| 60% of Eligible Owned Property | | \$133,334,263 |
| | | ----- |
| Total Eligible Borrowing Base | | \$209,596,285 |
| Less any outstanding Senior Debt | | \$125,000,000 |
| | | ----- |
| Net Available Borrowing Base | | \$ 84,596,285 |
| Net Available Borrowing Base | | |
| Less Term Loan Balance Outstanding | | -0- |
| | | ----- |
| Additional availability as of February 28, 1998 | | \$ 84,596,285 |
| | | ----- |
| | | ----- |

SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Second Amended and Restated Employment Agreement (the "Agreement") is made as of March 26, 1999, by and between LTC Properties, Inc., a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and Andre C. Dimitriadis ("Executive"), and amends and restates the Amended and Restated Employment Agreement dated June 30, 1998, by and between LTC and Executive (the "Prior Employment Agreement"), and is effective as of March 26, 1999.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Appointment, Title and Duties. LTC hereby employs Executive to serve as its Chairman of the Board and Chief Executive Officer. In such capacity, Executive shall report to the Board of Directors of the Company, and shall have such duties, powers and responsibilities as are customarily assigned to the Chairman of the Board and Chief Executive Officer of a publicly-held corporation. In addition, Executive shall have such other duties and responsibilities as the Board of Directors may assign him, with his consent, including serving with the consent or at the request of the Company on the board of directors of affiliated corporations.

2. Term of Agreement. The initial term of this Agreement shall be for a four (4) year period, ending March 26, 2003. Unless the employment hereunder shall have been terminated in accordance with the provisions hereof, the term of this Agreement shall be extended beyond March 26, 2003, such that at each and every moment of time hereafter the remaining term shall not be less than four (4) years.

3. Acceptance of Position. Executive accepts the position of Chairman of the Board and Chief Executive Officer of LTC, and agrees that during the term of this Agreement he will faithfully perform his duties and, except as expressly approved by the Board of Directors of LTC, will devote substantially all of his business time to the business and affairs of LTC, and will not engage, for his own account or for the account of any other person or entity, in a business which competes with LTC. It is acknowledged and agreed that Executive may serve as an officer and/or director of companies in which LTC owns voting or non-voting stock. In addition, it is acknowledged and agreed that Executive may, from time to time, serve as a member of the board of directors of other companies, in which event the Board of Directors of LTC must expressly approve such service pursuant to a Board resolution maintained in the Company's minute books. Any compensation or remuneration which Executive receives in consideration of his service on the board of directors of other companies shall be the sole and exclusive property of Executive, and LTC shall have no right or entitlement at any time to any such compensation or remuneration.

4. Salary and Benefits. During the term of this Agreement:

a. LTC shall pay to Executive a base salary at an annual rate of not less than Four Hundred Thousand Dollars (\$400,000) per annum, paid in approximately equal installments at intervals based on any reasonable Company policy. LTC agrees from time to time to consider increases in such base salary in the discretion of the Board of Directors. Any increase, once granted, shall automatically amend this Agreement to provide that

thereafter Executive's base salary shall not be less than the annual amount to which such base salary has been increased.

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b. Executive shall participate in all health, retirement, Company-paid insurance, sick leave, disability, expense reimbursement and other benefit programs which LTC makes available to any of its senior executives, and shall be eligible for bonuses in the discretion of the Board of Directors.

c. Executive shall be entitled to reasonable vacation time, not less than four (4) weeks per year, provided that not more than two (2) weeks of such vacation time may be taken consecutively without prior notice to and non-objection by the Compensation Committee of the Board of Directors or, if there is no Compensation Committee, the Board of Directors.

5. Certain Terms Defined. For purposes of this Agreement:

a. Executive shall be deemed to be "disabled" if a physical or mental condition shall occur and persist which, in the written opinion of a licensed physician selected by the Board of Directors in good faith, has rendered Executive unable to perform the duties of Chairman of the

Board and Chief Executive Officer of LTC for a period of sixty (60) days or more and, in the written opinion of such physician, the condition will continue for an indefinite period of time, rendering Executive unable to return to his duties.

b. A termination of Executive's employment by LTC shall be deemed for "Cause" if, and only if, it is based upon (i) conviction of a felony; (ii) material disloyalty to the Company such as embezzlement, misappropriation of corporate assets or, except as permitted pursuant to Section 3 of this Agreement, breach of Executive's agreement not to engage in business for another enterprise of the type engaged in by the Company; or (iii) the engaging in unethical or illegal behavior which is of a public nature, brings LTC into disrepute, and results in material damage to the Company. The Company shall have the right to suspend Executive, with pay, for a reasonable period to investigate allegations of conduct which, if proven, would establish a right to terminate this Agreement for Cause, or to permit a felony charge to be tried. Immediately upon the conclusion of such temporary period, unless Cause to terminate this Agreement has been established, Executive shall be restored to all duties and responsibilities as if such suspension had never occurred.

c. A resignation by Executive shall not be deemed to be voluntary and shall be deemed to be a resignation with "Good Reason" if it is based upon (i) a diminution in Executive's title, duties, or salary; (ii) a reduction in benefits which is not part of an across-the-board reduction in benefits of all senior executive personnel; (iii) a direction by the Board of Directors that Executive report to any person or group other than the Board of Directors, or (iv) a geographic relocation of Executive's place of work a distance of more than seventy five (75) miles from LTC's offices located at 300 Esplanade Drive, Suite 1860, Oxnard, California. It shall also constitute Good Reason for Executive to resign his employment if the shareholders of LTC shall fail to elect or reelect him to the Board of Directors of LTC, unless he declines to be elected to such Board of Directors.

d. "Affiliate" means with respect to any Person, a Person who, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control, with the Person specified.

e. "Base Salary" means, as of any date of termination of employment, the highest base salary of Executive in the then current fiscal year or in any of the last four fiscal years immediately preceding such date of termination of employment.

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f. "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act;

g. A "Change in Control" occurs if:

i) any Person or related group of Persons (other than Executive and his Related Persons, the Company or a Person that directly or indirectly controls, is controlled by, or is under common control with, the Company) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66-2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 30% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control; or

iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

iv) a majority of the members of the Board of Directors of the Company cease to be Continuing Directors.

h. "Code" means the Internal Revenue Code of 1986, as amended.

i. "Continuing Directors" means, as of any date of determination, any member of the Board of Directors who (i) was a member

of such Board of Directors on the date of the Agreement or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

j. "Exchange Act" means the Exchange Act of 1934, as amended.

k. "Person" means any individual, corporation, partnership, limited liability company, trust, association or other entity.

l. "Related Person" means any immediate family member (spouse, partner, parent, sibling or child whether by birth or adoption) of the Executive and any trust, estate or foundation, the beneficiary of which is the Executive and/or an immediate family member of the Executive.

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6. Certain Benefits Upon Termination. Executive's employment shall be terminated upon the earlier of (i) the voluntary resignation of Executive with or without Good Reason; (ii) Executive's death or permanent disability, or (iii) upon the termination of Executive's employment by LTC for any reason at any time. In the event of such termination, the below provisions of this Section 6 shall apply.

a. If Executive's employment by LTC terminates for any reason other than as a result of (i) a termination for Cause, or (ii) a voluntary resignation by Executive without a Good Reason, or (iii) a Change in Control of the Company, then LTC shall pay Executive a lump sum severance payment equal to four times his Base Salary; provided that if employment terminates by reason of Executive's death or disability, then such salary shall be paid only to the extent the Company has available "key man" life, disability or similar insurance relating to the death or disability of Executive.

b. Upon a Change in Control of the Company whether or not Executive's employment is terminated thereby, in lieu of the severance payment described in Section 6(a) above, LTC shall pay Executive a lump sum severance payment in cash equal to \$5.0 million;

c. If Executive's employment by LTC terminates for any reason, except for LTC's termination of Executive's employment for Cause or a voluntary resignation by Executive without a Good Reason, LTC shall offer to Executive the opportunity to participate in all Company-provided medical and dental plans to the extent Executive elects and remains eligible for coverage under COBRA and for a maximum period of eighteen (18) months at Company expense; provided, however, in the event Executive's employment by LTC terminates upon a Change in Control of the Company, then Executive shall not be given the opportunity to participate in any of such medical and dental plans except to the extent required by law.

d. In the event that Executive's employment terminates by reason of his death, all benefits provided in this Section 6 shall be paid to his estate or as his executor shall direct, but payment may be deferred until Executive's executor or personal representative has been appointed and qualified pursuant to the laws in effect in Executive's jurisdiction of residence at the time of his death.

e. LTC shall make all payments pursuant to the foregoing subsections (a) through (d) within seven (7) days following the date of termination of Executive's employment or consummation of a Change in Control of the Company, as applicable.

f. LTC shall have no liability under this Section if Executive's employment pursuant to this Agreement is terminated by LTC for Cause or by Executive without a Good Reason; provided, however, that if Executive's employment pursuant to this Agreement is terminated by LTC for Cause or by Executive without a Good Reason at any time after a Change of Control which did not result in Executive's employment being terminated, such post-Change of Control termination by LTC for Cause or by Executive without a Good Reason shall not affect in any way Executive's entitlement to the lump sum severance payment described in Section 6(b), above or any other rights, benefits or entitlements to which Executive may be entitled as a result of such Change of Control.

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g. Gross-Up.

i) If it shall be determined that any payment, distribution or benefit received or to be received by Executive from the Company (whether payable pursuant to the terms of this Agreement or any other plan, arrangements or agreement with the Company or an Affiliate (as

defined above) ("Payments") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive shall be entitled to receive an additional payment (the "Excise Tax Gross-Up Payment") in an amount such that the net amount retained by Executive, after the calculation and deduction of any Excise Tax on the Payments and any federal, state and local income taxes and excise tax on the Excise Tax Gross-Up Payment provided for in this Section 6(g), shall be equal to the Payments. In determining this amount, the amount of the Excise Tax Gross-Up Payment attributable to federal income taxes shall be reduced by the maximum reduction in federal income taxes that could be obtained by the deduction of the portion of the Excise Tax Gross-Up Payment attributable to state and local income taxes. Finally, the Excise Tax Gross-Up Payment shall be reduced by income or excise tax withholding payments made by the Company or any Affiliate of either to any federal, state or local taxing authority with respect to the Excise Tax Gross-Up Payment that was not deducted from compensation payable to Executive.

ii) All determinations required to be made under this Section 6(g), including whether and when an Excise Tax Gross-Up Payment is required and the amount of such Excise Tax Gross-Up Payment and the assumptions to be utilized in arriving at such determination, except as specified in Section 6(g)(i) above, shall be made by the Company's independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive within 15 business days after the Company makes any Payments to Executive. Such determination of tax liability made by the Accounting Firm shall be subject to review by Executive's tax advisor and, if Executive's tax advisor does not agree with such determination reached by the Accounting Firm, then the Accounting Firm and Executive's tax advisor shall jointly designate a nationally recognized public accounting firm, which shall make such determination. All reasonable fees and expenses of the accountants and tax advisors retained by either Executive or the Company shall be borne by the Company. Any Excise Tax Gross-Up Payment, as determined pursuant to this Section 6(g), shall be paid by the Company to Executive within five days after the receipt of such determination. Any determination by a jointly designated public accounting firm shall be binding upon the Company and Executive.

iii) As a result of the uncertainty in the application of Subsection 4999 of the Code at the time of the initial determination hereunder, it is possible that Excise Tax Gross-Up Payments will not have been made by the Company that should have been made consistent with the calculations required to be made hereunder ("Underpayment"). In the event that Executive thereafter is required to make a payment of any Excise Tax, any such Underpayment calculated in accordance with and in the same manner as the Excise Tax Gross-Up Payment in Section 6(g)(i) above shall be promptly paid by the Company to or for the benefit of Executive. In the event that the Excise Tax Gross-Up Payment exceeds the amount subsequently determined to be due, such excess shall constitute a loan from the Company to Executive payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

7. Tax Liability Loan. Upon a Change in Control of the Company, whether or

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not Executive's employment is terminated as a result thereof, the Company shall offer Executive an unsecured loan in the amount necessary to fund Executive's tax liability arising from the accelerated vesting of restricted shares held by Executive, if any. Such loan shall be due, in full, in ten (10) years from the date made and shall bear interest at the then-current Applicable Federal Rate (the minimum rate necessary to avoid "unstated interest" under Section 7872 of the Code) with interest payments to be paid to the Company annually. Such loan shall be evidenced by a promissory note signed by, and with full recourse to, Executive.

8. Indemnification. LTC shall indemnify Executive and hold him harmless from and against all claims, actions, losses, damages, expense or liabilities (including expenses of defense and settlement) ("Claim") based upon or in any way arising from or connected with his employment by LTC, to the maximum extent permitted by law. To the extent permitted by law, LTC shall advance to Executive any expenses necessary in connection with the defense of any Claim which is brought if indemnification cannot be determined to be available prior to the conclusion of, or the investigation of, such Claim. The parties hereto agree that each understands and has understood, at all times under all prior employment agreements between LTC and Executive, that notwithstanding the above-stated provisions, nothing herein shall require LTC to hold harmless or indemnify Executive with respect to any Claim which is brought or asserted against Executive by LTC. LTC shall investigate in good faith the availability and cost of directors' and officers' insurance and shall include Executive as an insured in any policy of such insurance it maintains.

9. Attorney Fees. In the event that any action or proceeding is brought to enforce the terms and provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys fees.

10. Notices. All notices and other communications provided to either party hereto under this Agreement shall be in writing and delivered by certified or registered mail to such party at its address set forth below its signature hereto, or at such other address as may be designated by such party in a notice to the other party. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received.

11. Construction. In construing this Agreement, if any portion of this Agreement shall be found to be invalid or unenforceable, the remaining terms and provisions of this Agreement shall be given effect to the maximum extent permitted without considering the void, invalid or unenforceable provision. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning or effect shall be given to the captions of the sections in this Agreement, which are inserted for convenience of reference only.

12. Headings. The section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction or effect of this Agreement.

13. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the internal laws of the State of California as at the time in effect.

14. Entire Agreement. This Agreement constitutes the entire agreement and supersedes all other prior agreements (including the Prior Employment Agreement) and undertakings, both written and oral, among Executive and the Company, with respect to the subject matter hereof.

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IN WITNESS WHEREOF, this Agreement has been executed on the date set forth below, to be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland Corporation

Address: _____
- _____
- _____
By: /s/ James J. Pieczynski

President and Chief
Financial Officer
Date Signed: March 26, 1999

By: /s/ Wendy L. Simpson

Chairman of Compensation
Committee
Date Signed: March 26, 1999

Address: _____
- _____
- _____
/s/ Andre C. Dimitriadis

Executive
Date Signed: March 26, 1999

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the "Agreement") is made as of March 26, 1999, by and between LTC Properties, Inc., a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and James J. Pieczynski ("Executive") and amends and restates the Employment Agreement dated June 30, 1998, by and between LTC and Executive (the "Prior Employment Agreement") and is effective as of March 26, 1999.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Appointment, Title and Duties. LTC hereby employs Executive to serve as its President and Chief Financial Officer. In such capacity, Executive shall report to the Chief Executive Officer of the Company, and shall have such duties, powers and responsibilities as are customarily assigned to the President and Chief Financial Officer of a publicly held corporation, but shall also be responsible to the Board of Directors and to any committee thereof. In addition, Executive shall have such other duties and responsibilities as the Chief Executive Officer may assign him, with his consent, including serving with the consent or at the request of the Company on the board of directors of affiliated corporations.

2. Term of Agreement. The initial term of this Agreement shall be for a three (3) year period, ending March 26, 2002. Unless the employment hereunder shall have been terminated in accordance with the provisions hereof, the term of this Agreement shall be extended beyond March 26, 2002, such that at each and every moment of time hereafter the remaining term shall not be less than three (3) years.

3. Acceptance of Position. Executive accepts the position of President and Chief Financial Officer of LTC, and agrees that during the term of this Agreement he will faithfully perform his duties and, except as expressly approved by the Board of Directors of LTC, will devote substantially all of his business time to the business and affairs of LTC, and will not engage, for his own account or for the account of any other person or entity, in a business which competes with LTC. It is acknowledged and agreed that Executive may serve as an officer and/or director of companies in which LTC owns voting or non-voting stock. In addition, it is acknowledged and agreed that Executive may, from time to time, serve as a member of the board of directors of other companies, in which event the Board of Directors of LTC must expressly approve such service pursuant to a Board resolution maintained in the Company's minute books. Any compensation or remuneration which Executive receives in consideration of his service on the board of directors of other companies shall be the sole and exclusive property of Executive, and LTC shall have no right or entitlement at any time to any such compensation or remuneration.

4. Salary and Benefits. During the term of this Agreement:

a. LTC shall pay to Executive a base salary at an annual rate of not less than Two Hundred Sixty-Five Thousand Dollars (\$265,000) per annum, paid in approximately equal installments at intervals based on any reasonable Company policy. LTC agrees from time to time to consider increases in such base salary in the discretion of the Board

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of Directors. Any increase, once granted, shall automatically amend this Agreement to provide that thereafter Executive's base salary shall not be less than the annual amount to which such base salary has been increased.

b. Executive shall participate in all health, retirement, Company-paid insurance, sick leave, disability, expense reimbursement and other benefit programs which LTC makes available to any of its senior executives, and shall be eligible for bonuses in the discretion of the Board of Directors.

c. Executive shall be entitled to reasonable vacation time, not less than four (4) weeks per year, provided that not more than two (2) weeks of such vacation time may be taken consecutively without prior notice to and non-objection by the Compensation Committee of the Board of Directors or, if there is no Compensation Committee, the Board of Directors.

5. Certain Terms Defined. For purposes of this Agreement:

a. Executive shall be deemed to be "disabled" if a physical or mental condition shall occur and persist which, in the written opinion of a licensed physician selected by the Board of Directors in good faith, has rendered Executive unable to perform the duties of President and Chief Financial Officer of LTC for a period of sixty (60) days or more and, in the written opinion of such physician, the condition will continue for an indefinite period of time, rendering Executive unable to return to his duties.

b. A termination of Executive's employment by LTC shall be deemed for "Cause" if, and only if, it is based upon (i) conviction of a felony; (ii) material disloyalty to the Company such as embezzlement, misappropriation of corporate assets or, except as permitted pursuant to Section 3 of this Agreement, breach of Executive's agreement not to engage in business for another enterprise of the type engaged in by the Company; or (iii) the engaging in unethical or illegal behavior which is of a public nature, brings LTC into disrepute, and results in material damage to the Company. The Company shall have the right to suspend Executive, with pay, for a reasonable period to investigate allegations of conduct which, if proven, would establish a right to terminate this Agreement for Cause, or to permit a felony charge to be tried. Immediately upon the conclusion of such temporary period, unless Cause to terminate this Agreement has been established, Executive shall be restored to all duties and responsibilities as if such suspension had never occurred.

c. A resignation by Executive shall not be deemed to be voluntary and shall be deemed to be a resignation with "Good Reason" if it is based upon (i) a diminution in Executive's title, duties, or salary; (ii) a reduction in benefits which is not part of an across-the-board reduction in benefits of all senior executive personnel; (iii) a direction by the Board of Directors that Executive report to any person or group other than the Chief Executive Officer or the Board of Directors, or (iv) a geographic relocation of Executive's place of work a distance of more than seventy five (75) miles from LTC's offices located at 300 Esplanade Drive, Suite 1860, Oxnard, California. It shall also constitute Good Reason for Executive to resign his employment if the shareholders of LTC shall fail to elect or reelect him to the Board of

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Directors of LTC, unless he declines to be elected to such Board of Directors.

d. "Affiliate" means with respect to any Person, a Person who, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control, with the Person specified.

e. "Base Salary" means, as of any date of termination of employment, the highest base salary of Executive in the then current fiscal year or in any of the last four fiscal years immediately preceding such date of termination of employment.

f. "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act;

g. A "Change in Control" occurs if:

i) any Person or related group of Persons (other than Executive and his Related Persons, the Company or a Person that directly or indirectly controls, is controlled by, or is under common control with, the Company) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66-2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 30% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control; or

iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

iv) a majority of the members of the Board of Directors of the Company cease to be Continuing Directors.

h. "Code" means the Internal Revenue Code of 1986, as amended.

i. "Continuing Directors" means, as of any date of determination, any member of the Board of Directors who (i) was a member of such Board of Directors on the date of the Agreement or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

j. "Exchange Act" means the Exchange Act of 1934, as amended.

k. "Person" means any individual, corporation, partnership, limited liability company, trust, association or other entity.

l. "Related Person" means any immediate family member (spouse, partner, parent, sibling or child whether by birth or adoption) of the Executive and any trust, estate or foundation, the beneficiary of which is the Executive and/or an immediate family member of the Executive.

6. Certain Benefits Upon Termination. Executive's employment shall be terminated upon the earlier of (i) the voluntary resignation of Executive with or without Good Reason; (ii) Executive's death or permanent disability, or (iii) upon the termination of Executive's employment by LTC for any reason at any time. In the event of such termination, the below provisions of this Section 6 shall apply.

a. If Executive's employment by LTC terminates for any reason other than as a result of (i) a termination for Cause, or (ii) a voluntary resignation by Executive without a Good Reason, or (iii) a Change in Control of the Company, then LTC shall pay Executive a lump sum severance payment equal to three times his Base Salary; provided that if employment terminates by reason of Executive's death or disability, then such salary shall be paid only to the extent the Company has available "key man" life, disability or similar insurance relating to the death or disability of Executive.

b. Upon a Change in Control of the Company whether or not Executive's employment is terminated thereby, in lieu of the severance payment described in Section 6(a) above, LTC shall pay Executive a lump sum severance payment in cash equal to \$1.6 million;

c. If Executive's employment by LTC terminates for any reason, except for LTC's termination of Executive's employment for Cause or a voluntary resignation by Executive without a Good Reason, LTC shall offer to Executive the opportunity to participate in all Company-provided medical and dental plans to the extent Executive elects and remains eligible for coverage under COBRA and for a maximum period of eighteen (18) months at Company expense; provided, however, in the event Executive's employment by LTC terminates upon a Change in Control of the Company, then Executive shall not be given the opportunity to participate in any of such medical and dental plans except to the extent required by law.

d. In the event that Executive's employment terminates by reason of his death, all benefits provided in this Section 6 shall be paid to his estate or as his executor shall direct, but payment may be deferred until Executive's executor or personal representative has been appointed and qualified pursuant to the laws in effect in Executive's jurisdiction of residence at the time of his death.

e. LTC shall make all payments pursuant to the foregoing subsections (a) through (d) within seven (7) days following the date of termination of Executive's employment or consummation of a Change in Control of the Company, as applicable.

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f. Notwithstanding the foregoing, LTC shall have no liability under this Section if Executive's employment pursuant to this Agreement is terminated by LTC for Cause or by Executive without a Good Reason; provided, however, that if Executive's employment pursuant to this Agreement is terminated by LTC for Cause or by Executive without a Good Reason at any time after a Change of Control which did not result in Executive's employment being terminated, such post-Change of Control termination by LTC for Cause or by Executive without a Good Reason shall not affect in any way Executive's entitlement to the lump sum severance payment described in Section 6(b), above or any other rights, benefits or entitlements to which Executive may be entitled as a result of such Change of Control.

g. Gross-Up.

i) If it shall be determined that any payment, distribution or benefit received or to be received by Executive from the Company (whether payable pursuant to the terms of this Agreement or any other plan, arrangements or agreement with the Company or an Affiliate (as defined above) ("Payments") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive shall be entitled to receive an additional payment (the "Excise Tax Gross-Up Payment") in an amount such that the net amount retained by Executive, after the calculation and deduction of any Excise Tax on the Payments and any federal, state and local income taxes and excise tax on the Excise Tax Gross-Up Payment provided for in this Section 6(g), shall be equal to the Payments. In determining this amount, the amount of the Excise Tax Gross-Up Payment attributable to federal income taxes shall be reduced by the maximum reduction in federal income taxes that could be obtained

by the deduction of the portion of the Excise Tax Gross-Up Payment attributable to state and local income taxes. Finally, the Excise Tax Gross-Up Payment shall be reduced by income or excise tax withholding payments made by the Company or any Affiliate of either to any federal, state or local taxing authority with respect to the Excise Tax Gross-Up Payment that was not deducted from compensation payable to Executive.

ii) All determinations required to be made under this Section 6(g), including whether and when an Excise Tax Gross-Up Payment is required and the amount of such Excise Tax Gross-Up Payment and the assumptions to be utilized in arriving at such determination, except as specified in Section 6(g)(i) above, shall be made by the Company's independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive within 15 business days after the Company makes any Payments to Executive. Such determination of tax liability made by the Accounting Firm shall be subject to review by Executive's tax advisor and, if Executive's tax advisor does not agree with such determination reached by the Accounting Firm, then the Accounting Firm and Executive's tax advisor shall jointly designate a nationally recognized public accounting firm, which shall make such determination. All reasonable fees and expenses of the accountants and tax advisors retained by either Executive or the Company shall be borne by the Company. Any Excise Tax Gross-Up Payment, as determined pursuant to this Section 6(g), shall be paid by the Company to Executive within five days after the receipt of such determination. Any determination by a jointly designated public accounting firm shall be binding upon the Company and Executive.

iii) As a result of the uncertainty in the application of

5

Subsection 4999 of the Code at the time of the initial determination hereunder, it is possible that Excise Tax Gross-Up Payments will not have been made by the Company that should have been made consistent with the calculations required to be made hereunder ("Underpayment"). In the event that Executive thereafter is required to make a payment of any Excise Tax, any such Underpayment calculated in accordance with and in the same manner as the Excise Tax Gross-Up Payment in Section 6(g)(i) above shall be promptly paid by the Company to or for the benefit of Executive. In the event that the Excise Tax Gross-Up Payment exceeds the amount subsequently determined to be due, such excess shall constitute a loan from the Company to Executive payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

7. Tax Liability Loan. Upon a Change in Control of the Company, whether or not Executive's employment is terminated as a result thereof, the Company shall offer Executive an unsecured loan in the amount necessary to fund Executive's tax liability arising from the accelerated vesting of restricted shares held by Executive, if any. Such loan shall be due, in full, in ten (10) years from the date made and shall bear interest at the then-current Applicable Federal Rate (the minimum rate necessary to avoid "unstated interest" under Section 7872 of the Code) with interest payments to be paid to the Company annually. Such loan shall be evidenced by a promissory note signed by, and with full recourse to, Executive.

8. Indemnification. LTC shall indemnify Executive and hold him harmless from and against all claims, actions, losses, damages, expense or liabilities (including expenses of defense and settlement) ("Claim") based upon or in any way arising from or connected with his employment by LTC, to the maximum extent permitted by law. To the extent permitted by law, LTC shall advance to Executive any expenses necessary in connection with the defense of any Claim which is brought if indemnification cannot be determined to be available prior to the conclusion of, or the investigation of, such Claim. The parties hereto agree that each understands and has understood, at all times under all prior employment agreements between LTC and Executive, that notwithstanding the above-stated provisions, nothing herein shall require LTC to hold harmless or indemnify Executive with respect to any Claim which is brought or asserted against Executive by LTC. LTC shall investigate in good faith the availability and cost of directors' and officers' insurance and shall include Executive as an insured in any policy of such insurance it maintains.

9. Attorney Fees. In the event that any action or proceeding is brought to enforce the terms and provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys fees.

10. Notices. All notices and other communications provided to either party hereto under this Agreement shall be in writing and delivered by certified or registered mail to such party at its address set forth below its signature hereto, or at such other address as may be designated by such party in a notice to the other party. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received.

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11. Construction. In construing this Agreement, if any portion of this Agreement shall be found to be invalid or unenforceable, the remaining terms and provisions of this Agreement shall be given effect to the maximum extent permitted without considering the void, invalid or unenforceable provision. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning or effect shall be given to the captions of the sections in this Agreement, which are inserted for convenience of reference only.

12. Headings. The section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction or effect of this Agreement.

13. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the internal laws of the State of California as at the time in effect.

14. Entire Agreement. This Agreement constitutes the entire agreement and supersedes all other prior agreements and undertakings, both written and oral, among Executive and the Company, with respect to the subject matter hereof.

7

IN WITNESS WHEREOF, this Agreement has been executed on the date set forth below, to be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland Corporation

Address: _____

By: /s/ Andre C. Dimitriadis

Chairman and Chief Executive Officer

Date Signed: March 26 1999

By: /s/ Wendy L. Simpson

Chairman of Compensation Committee

Date Signed: March 26 1999

Address: _____

/s/ James J. Pieczynski

Executive

Date Signed: March 26 1999

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the "Agreement") is made as of March 26, 1999, by and between LTC Properties, Inc., a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and Christopher T. Ishikawa ("Executive") and amends and restates the Employment Agreement dated June 30, 1998, by and between LTC and Executive (the "Prior Employment Agreement") and is effective as of March 26, 1999.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Appointment, Title and Duties. LTC hereby employs Executive to serve as its Senior Vice President and Chief Investment Officer. In such capacity, Executive shall report to the Chief Executive Officer of the Company, and shall have such duties, powers and responsibilities as are customarily assigned to the Senior Vice President and Chief Investment Officer of a publicly held corporation, but shall also be responsible to the Board of Directors or to any committee thereof. In addition, Executive shall have such other duties and responsibilities as the Chief Executive Officer may assign him, with his consent, including serving with the consent or at the request of the Company on the board of directors of affiliated corporations.

2. Term of Agreement. The initial term of this Agreement shall be for a two (2) year period, ending March 26, 2001. Unless the employment hereunder shall have been terminated in accordance with the provisions hereof, the term of this Agreement shall be extended beyond March 26, 2001 such that at each and every moment of time hereafter the remaining term shall not be less than two (2) years.

3. Acceptance of Position. Executive accepts the position of Senior Vice President and Chief Investment Officer of LTC, and agrees that during the term of this Agreement he will faithfully perform his duties and, except as expressly approved by the Board of Directors of LTC, will devote substantially all of his business time to the business and affairs of LTC, and will not engage, for his own account or for the account of any other person or entity, in a business which competes with LTC. It is acknowledged and agreed that Executive may serve as an officer and/or director of companies in which LTC owns voting or non-voting stock. In addition, it is acknowledged and agreed that Executive may, from time to time, serve as a member of the board of directors of other companies, in which event the Board of Directors of LTC must expressly approve such service pursuant to a Board resolution maintained in the Company's minute books. Any compensation or remuneration which Executive receives in consideration of his service on the board of directors of other companies shall be the sole and exclusive property of Executive, and LTC shall have no right or entitlement at any time to any such compensation or remuneration.

4. Salary and Benefits. During the term of this Agreement:

a. LTC shall pay to Executive a base salary at an annual rate of not less than Two Hundred Twenty Five Thousand Dollars (\$225,000) per annum, paid in approximately equal installments at intervals based on any reasonable Company policy. LTC agrees from time to time to consider increases in such base salary in the discretion of the Board of Directors. Any increase,

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once granted, shall automatically amend this Agreement to provide that thereafter Executive's base salary shall not be less than the annual amount to which such base salary has been increased.

b. Executive shall participate in all health, retirement, Company-paid insurance, sick leave, disability, expense reimbursement and other benefit programs which LTC makes available to any of its senior executives, and shall be eligible for bonuses in the discretion of the Board of Directors.

c. Executive shall be entitled to reasonable vacation time, not less than four (4) weeks per year, provided that not more than two (2) weeks of such vacation time may be taken consecutively without prior notice to and non-objection by the Compensation Committee of the Board of Directors or, if there is no Compensation Committee, the Board of Directors.

5. Certain Terms Defined. For purposes of this Agreement:

a. Executive shall be deemed to be "disabled" if a physical or mental condition shall occur and persist which, in the written opinion of a licensed physician selected by the Board of Directors in good faith, has rendered Executive unable to perform the duties of Senior Vice President and Chief Investment Officer of LTC for a period of sixty (60) days or more and, in the written opinion of such physician, the condition will continue for an indefinite period of time, rendering Executive unable to return to his duties.

b. A termination of Executive's employment by LTC shall be deemed for "Cause" if, and only if, it is based upon (i) conviction of a felony; (ii) material disloyalty to the Company such as embezzlement, misappropriation of corporate assets or, except as permitted pursuant to Section 3 of this Agreement, breach of Executive's agreement not to engage in business for another enterprise of the type engaged in by the Company; or (iii) the engaging in unethical or illegal behavior which is of a public nature, brings LTC into disrepute, and results in material damage to the Company. The Company shall have the right to suspend Executive, with pay, for a reasonable period to investigate allegations of conduct which, if proven, would establish a right to terminate this Agreement for Cause, or to permit a felony charge to be tried. Immediately upon the conclusion of such temporary period, unless Cause to terminate this Agreement has been established, Executive shall be restored to all duties and responsibilities as if such suspension had never occurred.

c. A resignation by Executive shall not be deemed to be voluntary and shall be deemed to be a resignation with "Good Reason" if it is based upon (i) a diminution in Executive's title, duties, or salary; (ii) a reduction in benefits which is not part of an across-the-board reduction in benefits of all senior executive personnel; (iii) a direction by the Board of Directors that Executive report to any person or group other than the Chief Executive Officer or the Board of Directors, or (iv) a geographic relocation of Executive's place of work a distance of more than seventy five (75) miles from LTC's offices located at 300 Esplanade Drive, Suite 1860, Oxnard, California.

d. "Affiliate" means with respect to any Person, a Person who, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under

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common control, with the Person specified.

e. "Base Salary" means, as of any date of termination of employment, the highest base salary of Executive in the then current fiscal year or in any of the last four fiscal years immediately preceding such date of termination of employment.

f. "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act;

g. A "Change in Control" occurs if:

i) any Person or related group of Persons (other than Executive and his Related Persons, the Company or a Person that directly or indirectly controls, is controlled by, or is under common control with, the Company) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66-2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 30% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control; or

iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

iv) a majority of the members of the Board of Directors of the Company cease to be Continuing Directors.

h. "Code" means the Internal Revenue Code of 1986, as amended.

i. "Continuing Directors" means, as of any date of determination, any member of the Board of Directors who (i) was a member of such Board of Directors on the date of the Agreement or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

j. "Exchange Act" means the Exchange Act of 1934, as amended.

k. "Person" means any individual, corporation, partnership, limited liability company, trust, association or other entity.

l. "Related Person" means any immediate family member (spouse, partner, parent, sibling or child whether by birth or adoption) of the Executive and any trust, estate or foundation, the beneficiary of which is the Executive and/or an immediate family member of the Executive.

6. Certain Benefits Upon Termination. Executive's employment shall be terminated upon the earlier of (i) the voluntary resignation of Executive with or without Good Reason; (ii) Executive's death or permanent disability, or (iii) upon the termination of Executive's employment by LTC for any reason at any time. In the event of such termination, the below provisions of this Section 6 shall apply.

a. If Executive's employment by LTC terminates for any reason other than as a result of (i) a termination for Cause, or (ii) a voluntary resignation by Executive without a Good Reason, or (iii) a Change in Control of the Company, then LTC shall pay Executive a lump sum severance payment equal to two times his Base Salary; provided that if employment terminates by reason of Executive's death or disability, then such salary shall be paid only to the extent the Company has available "key man" life, disability or similar insurance relating to the death or disability of Executive.

b. Upon a Change in Control of the Company whether or not Executive's employment is terminated, in lieu of the severance payment described in Section 6(a) above, LTC shall pay Executive a lump sum severance payment in cash equal to \$1.0 million;

c. If Executive's employment by LTC terminates for any reason, except for LTC's termination of Executive's employment for Cause or a voluntary resignation by Executive without a Good Reason, LTC shall offer to Executive the opportunity to participate in all Company-provided medical and dental plans to the extent Executive elects and remains eligible for coverage under COBRA and for a maximum period of eighteen (18) months at Company expense; provided, however, in the event Executive's employment by LTC terminates upon a Change in Control of the Company, then Executive shall not be given the opportunity to participate in any of such medical and dental plans except to the extent required by law.

d. In the event that Executive's employment terminates by reason of his death, all benefits provided in this Section 6 shall be paid to his estate or as his executor shall direct, but payment may be deferred until Executive's executor or personal representative has been appointed and qualified pursuant to the laws in effect in Executive's jurisdiction of residence at the time of his death.

e. LTC shall make all payments pursuant to the foregoing subsections (a) through (d) within seven (7) days following the date of termination of Executive's employment or consummation of a Change in Control of the Company, as applicable.

f. Notwithstanding the foregoing, LTC shall have no liability under this Section if Executive's employment pursuant to this Agreement is terminated by LTC for

Cause or by Executive without a Good Reason; provided, however, that if Executive's employment pursuant to this Agreement is terminated by LTC for Cause or by Executive without a Good Reason at any time after a Change of Control which did not result in Executive's employment being terminated, such post-Change of Control termination by LTC for Cause or by Executive without a Good Reason shall not affect in any way Executive's entitlement to the lump sum severance payment described in Section 6(b), above or any other rights, benefits or entitlements to which Executive may be entitled as a result of such Change of Control.

g. Gross-Up.

i) If it shall be determined that any payment, distribution or benefit received or to be received by Executive from the Company (whether payable pursuant to the terms of this Agreement or any other plan, arrangements or agreement with the Company or an Affiliate (as defined above) ("Payments") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive shall be entitled to receive an additional payment (the "Excise Tax Gross-Up Payment") in an amount such that the net amount retained by Executive, after the calculation and deduction of any Excise Tax on the Payments and any federal, state and local income taxes and excise tax on the Excise Tax Gross-Up Payment provided for in this Section 6(g), shall be equal to the Payments. In determining this amount, the amount of the Excise Tax Gross-Up Payment attributable to federal income taxes shall be reduced by the maximum reduction in federal income taxes that could be obtained

by the deduction of the portion of the Excise Tax Gross-Up Payment attributable to state and local income taxes. Finally, the Excise Tax Gross-Up Payment shall be reduced by income or excise tax withholding payments made by the Company or any Affiliate of either to any federal, state or local taxing authority with respect to the Excise Tax Gross-Up Payment that was not deducted from compensation payable to Executive.

ii) All determinations required to be made under this Section 6(g), including whether and when an Excise Tax Gross-Up Payment is required and the amount of such Excise Tax Gross-Up Payment and the assumptions to be utilized in arriving at such determination, except as specified in Section 6(g)(i) above, shall be made by the Company's independent auditors (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive within 15 business days after the Company makes any Payments to Executive. Such determination of tax liability made by the Accounting Firm shall be subject to review by Executive's tax advisor and, if Executive's tax advisor does not agree with such determination reached by the Accounting Firm, then the Accounting Firm and Executive's tax advisor shall jointly designate a nationally recognized public accounting firm, which shall make such determination. All reasonable fees and expenses of the accountants and tax advisors retained by either Executive or the Company shall be borne by the Company. Any Excise Tax Gross-Up Payment, as determined pursuant to this Section 6(g), shall be paid by the Company to Executive within five days after the receipt of such determination. Any determination by a jointly designated public accounting firm shall be binding upon the Company and Executive.

iii) As a result of the uncertainty in the application of Subsection 4999 of the Code at the time of the initial determination hereunder, it is possible that

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Excise Tax Gross-Up Payments will not have been made by the Company that should have been made consistent with the calculations required to be made hereunder ("Underpayment"). In the event that Executive thereafter is required to make a payment of any Excise Tax, any such Underpayment calculated in accordance with and in the same manner as the Excise Tax Gross-Up Payment in Section 6(g)(i) above shall be promptly paid by the Company to or for the benefit of Executive. In the event that the Excise Tax Gross-Up Payment exceeds the amount subsequently determined to be due, such excess shall constitute a loan from the Company to Executive payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

7. Tax Liability Loan. Upon a Change in Control of the Company, whether or not Executive's employment is terminated as a result thereof, the Company shall offer Executive an unsecured loan in the amount necessary to fund Executive's tax liability arising from the accelerated vesting of restricted shares held by Executive, if any. Such loan shall be due, in full, in ten (10) years from the date made and shall bear interest at the then-current Applicable Federal Rate (the minimum rate necessary to avoid "unstated interest" under Section 7872 of the Code) with interest payments to be paid to the Company annually. Such loan shall be evidenced by a promissory note signed by, and with full recourse to, Executive.

8. Indemnification. LTC shall indemnify Executive and hold him harmless from and against all claims, actions, losses, damages, expense or liabilities (including expenses of defense and settlement) ("Claim") based upon or in any way arising from or connected with his employment by LTC, to the maximum extent permitted by law. To the extent permitted by law, LTC shall advance to Executive any expenses necessary in connection with the defense of any Claim which is brought if indemnification cannot be determined to be available prior to the conclusion of, or the investigation of, such Claim. The parties hereto agree that each understands and has understood, at all times under all prior employment agreements between LTC and Executive, that notwithstanding the above-stated provisions, nothing herein shall require LTC to hold harmless or indemnify Executive with respect to any Claim which is brought or asserted against Executive by LTC. LTC shall investigate in good faith the availability and cost of directors' and officers' insurance and shall include Executive as an insured in any policy of such insurance it maintains.

9. Attorney Fees. In the event that any action or proceeding is brought to enforce the terms and provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys fees.

10. Notices. All notices and other communications provided to either party hereto under this Agreement shall be in writing and delivered by certified or registered mail to such party at its address set forth below its signature hereto, or at such other address as may be designated by such party in a notice to the other party. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received.

11. Construction. In construing this Agreement, if any portion of this Agreement shall be found to be invalid or unenforceable, the remaining

terms and provisions of this Agreement shall be given effect to the maximum extent permitted without considering the

6

void, invalid or unenforceable provision. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning or effect shall be given to the captions of the sections in this Agreement, which are inserted for convenience of reference only.

12. Headings. The section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction or effect of this Agreement.

13. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the internal laws of the State of California as at the time in effect.

14. Entire Agreement. This Agreement constitutes the entire agreement and supersedes all other prior agreements (including the Prior Employment Agreement) and undertakings, both written and oral, among Executive and the Company, with respect to the subject matter hereof.

7

IN WITNESS WHEREOF, this Agreement has been executed on the date set forth below, to be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland Corporation

Address: _____

By: /s/ Andre C. Dimitriadis

Chairman and Chief Executive Officer

Date Signed: March 26 1999

By: /s/ Wendy L. Simpson

Chairman of Compensation Committee

Date Signed: March 26 1999

Address: _____

/s/ Christopher T. Ishikawa

Executive

Date Signed: March 26 1999

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LTC PROPERTIES, INC.

EXHIBIT 21.1

LIST OF SUBSIDIARIES

| Company - - - - - | State of Organization ----- |
|---|--------------------------------|
| LTC REMIC Corporation | Delaware |
| LTC REMIC IV 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 |
| 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 |
| Kansas-LTC Corporation | Delaware |
| University Park Convalescent Center, Inc. | Florida |
| Florida-LTC, Inc. | Nevada |
| LTC-West, Inc. | Nevada |
| LTC-Tampa, Inc. | Nevada |
| Education Property Investors, Inc. | Nevada |
| Western Healthcare, Funding, Inc. | Nevada |
| LTC-Dearfield, Inc. | Nevada |
| Texas-LTC Limited Partnership | Texas |

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 19, 1999 with respect to the consolidated financial statements and schedules of LTC Properties, Inc., included in its Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 31, 1999

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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, 1998 FILED HERewith AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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1.39

</TABLE>

LTC PROPERTIES, INC.

EXHIBIT 99

RISK FACTORS

You should carefully consider the risks described below before making an investment decision in our company. The risks and uncertainties described below are not the only ones facing our company and there may be additional risks that we do not presently know of or that we currently consider immaterial. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. As a result, our ability to pay distributions on, and the market price of, our common stock may be adversely affected if any of such risks are realized.

In accordance with "plain English" guidelines provided by the Securities and Exchange Commission, whenever we refer to "our company" or to "us," or use the terms "we" or "our," we are referring to LTC Properties, Inc. and its subsidiaries.

Our Performance is Subject to Risks Associated with Health Care Real Estate Investment

There are Factors Outside of our Control that Affect the Performance and Value of our 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. We cannot assure that the value of any property acquired by us will appreciate or that the value of property securing any of our mortgage loans or any property acquired by us will not depreciate. Certain significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) generally do not decline when circumstances cause a reduction in income from the property.

Income and Returns from Health Care Facilities Can be Volatile. The possibility that the health care facilities in which we invest 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.

Real Estate Investments are Illiquid. Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. All of our 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 our 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 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. If any of these events occur, our income and funds available for distribution would be adversely affected.

Some Potential Losses are not Covered by Insurance. We currently require, and we intend to continue to require, all borrowers of funds from us and lessees of any of our properties to secure adequate comprehensive property and liability insurance that covers us as well as the borrower and/or lessee. Certain risks may, however, be uninsurable or not economically insurable and there can be no assurance we or a lessee will have adequate funds to cover all contingencies itself. Certain losses such as losses due to floods or seismic activity may be insured subject to certain limitations including large deductibles or co-payments and policy limits. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could lose the capital we invested in the properties, as well as the anticipated future revenue from the properties and, in the case of debt which is with

recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties.

We Depend on Lease Income and Mortgage Payments from Real Property. Since a substantial portion of our income is derived from mortgage payments and lease income from real property, our income would be adversely affected if a significant number of our borrowers were unable to meet their obligations to us or if we were unable to lease our 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, we could lease the property to others on favorable terms.

Our Borrowers and Lessees Face Competition in the Healthcare Industry.

The long-term care industry is highly competitive and we expect that it may become more competitive in the future. Our borrowers and lessees are competing with numerous other companies providing similar long-term care services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. There can be no assurance that our borrowers and lessees will not encounter increased competition in the future which could limit their ability to attract residents or expand their businesses and therefore affect their ability to make their debt or lease payments to us.

The Healthcare Industry is Heavily Regulated by the Government.

Our borrowers and lessees who operate health care facilities are subject to heavy regulation by federal, state and local governments. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower or lessee of any of our properties to comply with such laws, requirements and regulations could affect its ability to operate its facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to us.

Our Borrowers and Lessees Rely on Government and Third Party Reimbursement. The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that facility to us. Revenues of our borrowers and lessees are generally derived from payments for patient care. Sources of such payments include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans, health maintenance organizations, preferred provider arrangements, self-insured employers, as well as the patients themselves.

A significant portion of the revenue of our borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant health care costs paid by such government programs, both federal and state governments have adopted and continue to consider various health care reform proposals to control health care costs. In recent years, there have been fundamental changes in the Medicare program which resulted in reduced levels of payment for a substantial portion of health care services. In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. Moreover, health care facilities have experienced increasing pressures from private payors attempting to control health care costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors.

Moreover, health care facilities have experienced increasing pressures from private payors attempting to control health care costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors.

Governmental and public 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 payors 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 our borrowers and lessees and thereby adversely affect those borrowers' and lessees' abilities to make their debt or lease payments to us. Failure of the borrowers or lessees to make their debt or lease payments would have a direct and material adverse impact on us.

Regulations Have Been Adopted to Eliminate Fraud and Abuse. There are various federal and state laws prohibiting fraud by health care providers, including criminal provisions which prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or

failing to refund overpayments or improper payments. Violation of these federal provisions is a felony punishable by up to five years imprisonment and/or \$25,000 fines. Civil provisions prohibit the knowing filing of a false claim or the knowing use of false statements to obtain payment. The penalties for such a violation are fines of not less than \$5,000 nor more than \$10,000, plus treble damages, for each claim filed.

There are also laws which govern referrals and financial relationships. The federal Anti-Kickback Law prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare and Medicaid patients. A wide array of relationships and arrangements, including ownership interests in a company by persons who refer or who are in a position to refer patients, as well as personal services agreements, have under certain circumstances, been alleged or been found to violate these provisions. In addition to the Anti-Kickback Statute, the federal government restricts certain financial relationships between physicians and other providers of health care services.

State and federal governments are devoting increasing attention and resources to anti-fraud initiatives against health care providers. The Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997 expand the penalties for health care fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Further, under

Operation Restore Trust, a major anti-fraud demonstration project, the Office of Inspector General of the U.S. Department of Health and Human Services, in cooperation with other federal and state agencies, has focused on the activities of skilled nursing facilities, home health agencies, hospices and durable medical equipment suppliers in certain states, including states, in which we have properties.

Based upon information we have periodically received from our operators over the terms of their respective leases and loans, we believe that the nursing facilities in which we have 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 remain in compliance in the future.

Congress Has Enacted Health Care Reform Measures. The health care industry is facing various challenges, including increased government and private payor pressure on health care providers to control costs. The pressure to control health care costs intensified during 1994 and 1995 as a result of the national health care reform debate and continues into 1999 as Congress attempted to slow the rate of growth of federal health care expenditures as part of its effort to balance the federal budget.

The Balanced Budget 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 established the prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system. Skilled nursing facilities may need to restructure their operations to accommodate the new Medicare prospective payment system reimbursement. In part because of the uncertainty as to the effect of the prospective payment system on skilled nursing facilities, in November 1998, Standard and Poor's, an international rating agency that provides credit analysis and information through the rating of financial instruments, placed many skilled nursing facility companies on a "credit watch" because of the potential negative impact of the implementation of the prospective payment system on the financial condition of skilled nursing facilities, including the ability to make interest and principal payments on outstanding borrowings. In early March 1999, Standard & Poor's lowered the ratings of several skilled nursing facility companies, including companies that operate skilled nursing facilities in which we invest, because of the impact of the implementation of the prospective payment system, particularly those companies with substantial debt.

In addition, there are numerous initiatives at the federal and state levels for comprehensive reforms affecting the payment for and availability of health care services. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodology may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

In light of forthcoming regulations and continuing state Medicaid program reform, no assurance can be given that the implementation of such regulations and reform will not have a material adverse effect on our financial condition or results of operations.

Our Facilities are Subject to Licensing, Certification and Accreditation. In addition to the requirements to be met by skilled nursing facilities for participation in the Medicare and Medicaid programs, skilled nursing facilities

are subject to regulatory and licensing requirements of federal, state and local authorities. The operator of each skilled nursing 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 the Medicare and Medicaid 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.

Failure to obtain licensure or loss of licensure would prevent a facility from operating. Failure to maintain certification in the Medicare and Medicaid programs would result in a loss of funding from those programs. Although accreditation is generally voluntary, loss of accreditation could result in a facility not meeting eligibility requirements to participate in various reimbursement programs. These events could adversely affect the facility operator's ability to make rent and debt payments.

In addition to licensing requirements, state and local laws may regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and occasionally the contraction of health care facilities by requiring certificate of need or other similar approval programs. States vary in their utilization of these programs. In addition, health care facilities are subject to the Americans with Disabilities Act and building and safety codes which govern access, physical design requirements for facilities, and building standards.

Skilled Nursing Facilities. Skilled nursing facilities are regulated primarily through the licensing of such facilities against a common background established by federal law enacted as part of the Omnibus Budget Reconciliation Act of 1987. Regulatory authorities and licensing standards vary from state to state, and in some instances from locality to locality. These standards are constantly reviewed and revised. Agencies periodically inspect facilities, at which time deficiencies may be identified. The facilities must correct these deficiencies as a condition to continued licensing or certification and participation in government reimbursement programs. Depending on the nature of such deficiencies, remedies can be routine or costly. Similarly, compliance with regulations which cover a broad range of areas such as patients' rights, staff training, quality of life and quality of resident care may increase facility start-up and operating costs.

Assisted Living Facilities. We have increased our investments in assisted living facilities in recent years. Assisted living facilities are subject to certain state regulations and licensing requirements. To qualify as a state licensed facility, assisted living facilities must comply with regulations which address, among other things, staffing, physical design, required services and resident characteristics. Assisted living facilities 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. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, suspension or decertification from the Medicare and Medicaid program, and in extreme cases, the revocation of a facility's license or closure of a facility. Such actions may have an effect on the revenues of the borrowers and lessees of properties owned by us and therefore adversely impact our revenues.

Currently, assisted living facilities are not regulated as such by the federal government. State standards required for assisted living facility 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 assisted living facilities 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.

Environmental Problems Are Possible and Can Be Costly. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender (such as our company) may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as 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 or secured lender knew of, or was responsible for, the presence or disposal of such substances and may be imposed on the owner or secured lender 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 or secured lender's liability therefore could exceed the value of the property, and/or the assets of the owner or secured lender. 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 our revenues.

Although the mortgage loans that we provide and leases covering our properties require the borrower and the lessee to indemnify us for certain environmental liabilities, the scope of such obligations may be limited and we cannot assure that any such borrower or lessee would be able to fulfill its indemnification obligations.

We Rely on a Few Major Operators

As of December 31, 1998, Sun Healthcare Group, Inc. operated 70 facilities representing 19% (\$174.3 million) of our adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the investment in REMIC certificates). Other than Sun Healthcare, no long-term care provider operated over 10% of our adjusted gross real estate investment portfolio. Sun Healthcare is a publicly traded company, and as such is subject to the filing requirements of the Securities and Exchange Commission. Our financial position and our ability to make distributions may be adversely affected by financial difficulties experienced by Sun Healthcare, or any of our other major operators, including bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or its borrowers as it expires.

We Invest in Mortgage Loans

Borrowers May be Unable to Make Debt Service Payments. We invest in mortgages. In general, investments in mortgages include the risks that borrowers may not be able to make debt service payments or pay principal when due, that the value of the mortgaged property may be less than the principal amount of the mortgage note secured by the property and that interest rates payable on the mortgages may be lower than our cost of funds to acquire these mortgages. In any of these events, our ability to make distributions on, and the market price of, our common stock could be adversely affected.

Our Remedies May Be Limited When Mortgage Loans Default. To the extent we invest in mortgage loans, such mortgage loans may or may not be recourse obligations of the borrower and generally will not be insured or guaranteed by governmental agencies or otherwise. In the event of a default under

such obligations, we may have to foreclose the mortgage or protect our interest by acquiring title to a property and thereafter making substantial improvements or repairs in order to maximize the property's investment potential. Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Relatively high "loan to value" ratios and declines in the value of the property may prevent us from realizing an amount equal to our mortgage loan upon foreclosure.

There are Disadvantages to Investments in Commercial Mortgage Backed Securities

Investments in Commercial Mortgage Backed Securities are Subject to Real Estate Risks Relating to the Underlying Properties. We retain subordinated portions of the REMIC certificates issued in our securitizations. These REMIC certificates are a form of mortgage backed securities and as such, we are subject to the same risks associated with investing directly in the underlying mortgage loans. This is especially true in our case due to the nature of the collateral properties securing the underlying mortgages in our securitizations. All of these properties are special purpose facilities used for the delivery of long-term care services. Any risks associated with investing in these types of properties could impact the value of our investment in the REMIC certificates we retain.

Investments in Commercial Mortgage-Backed Securities are Subject to Risks Associated with Prepayment of the Underlying Mortgages. As with many interest bearing mortgage-backed instruments, prepayments of the underlying mortgages may expose us to the risk that an equivalent rate of return is not available in the current market and that new investment of equivalent risk will have lower rates of return. Certain types of investments in commercial mortgage-backed securities may be interest-only securities which expose the holder to the risk that the underlying mortgages may prepay at a faster rate than anticipated at acquisition. Faster than anticipated prepayments may cause the investment in interest-only commercial mortgage-backed securities to have a lower than anticipated rate of return and could result in a loss of the initial investment under extreme prepayment scenarios.

Subordinated Securities may not be Repaid Upon Default. We invest in

subordinated tranches of commercial mortgage backed securities. In general, subordinated tranches of commercial mortgage backed securities are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other mortgage backed securities. Accordingly, such subordinated commercial mortgage backed securities may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

Third Parties That Operate Our Properties May Become Bankrupt

If third parties that operate properties we invest in become bankrupt, any investments we make in assets operating in workout modes or under Chapter 11 of the Bankruptcy Code could be subordinated or disallowed, and we could be liable to third parties. Furthermore, if we receive any distributions relating to such investments, they could be recovered from us if the distribution is regarded as a fraudulent conveyance or preferential payment. Bankruptcy laws, including the automatic stay imposed upon the filing of a bankruptcy petition, may delay our ability to realize on collateral securing loans made by us or may adversely affect the priority of our loans through doctrines such as "equitable subordination" or may result in a restructure of the debt through principles such as the "cramdown" provisions of the bankruptcy laws.

We may be Unable to Consummate Acquisitions, Leasings and Financings on Advantageous Terms Due in Part to Competition

We intend to continue to acquire, lease and finance health care facilities. These types of investments in health care facilities entail the risk that they will fail to perform in accordance with our expectations. Estimates of the costs of improvements necessary for us to bring an acquired property up to market standards may prove inaccurate. Further, we anticipate significant competition for attractive investment opportunities from other major health care facility investors with significant capital including other REITs, real estate partnerships, health care providers and other investors, including banks and insurance companies. We expect that future investments will be financed through a combination of borrowings and proceeds from equity or debt offerings by us, which could have an adverse effect on our cash flow. We may not be able to invest in additional facilities. Our inability to finance any future investments on favorable terms or the failure of investments to conform with our expectations or investment criteria could have a direct and adverse impact on us.

We are Subject to Risks and Liabilities in Connection with Properties Owned Through Joint Ventures, Limited Liability Companies and Partnerships

We have ownership interests in joint ventures, limited liability companies and/or partnerships. We may make additional investments through these ventures in the future. Partnership, limited liability company or joint venture investments may involve risks such as the following:

- o our partners, co-members or joint venturers might become bankrupt (in which event we and any other remaining general partners, members or joint venturers would generally remain liable for the liabilities of the partnership, limited liability company or joint venture);

- o our partners, co-members or joint venturers might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals;

- o our partners, co-members or joint venturers may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT; and

- o agreements governing joint ventures, limited liability companies and partnerships often contain restrictions on the transfer of a joint venturer's, member's or partner's interest or "buy-sell" or other provisions which may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms.

We will, however, generally seek to maintain sufficient control of our partnerships, limited liability companies and joint ventures to permit us to achieve our business objectives. Our organizational documents do not limit the amount of available funds that we may invest in partnerships, limited liability companies or joint ventures. The occurrence of one or more of the events described above could have a direct and adverse impact on us.

We Could Incur More Debt

We operate with a policy of incurring debt when, in the opinion of our directors, it is advisable. Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders,

including affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

Debt Financing, Financial Covenants, Degree of Leverage and Increases in Interest Rates Could Adversely Affect Our Economic Performance

Scheduled Debt Payments Could Adversely Affect Our Financial Condition. We are subject to risks normally associated with debt financing, including the risks that our cash flow will be insufficient to make distributions to our stockholders, that we will be unable to refinance existing indebtedness on our properties (which in all cases will not have been fully amortized at maturity) and that the terms of refinancing will not be as favorable as the terms of existing indebtedness.

As of December 31, 1998, we had total debt outstanding of approximately \$229,695,000 including:

- o approximately \$100,000,000 outstanding under our senior unsecured \$170 million revolving line of credit with a maturity date of October 3, 2000 and a current interest rate of LIBOR plus 1.25%;
- o \$56,667,000 aggregate principal amount of convertible subordinated debentures with maturities in 1999, 2001 and 2002 and a weighted average interest rate of 8.3%;
- o \$17,596,000 aggregate principal amount of capital leases and tax exempt revenue bonds with various maturities through 2025 and a weighted average interest rate of 7.2%;
- o \$55,432,000 aggregate principal amount of mortgage loans with various maturities ranging from 2002 through 2006 and a weighted average interest rate of 10.6%;

If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions, we expect that our cash flow will not be sufficient in all years to pay distributions to our stockholders and to repay all such maturing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing (such as the reluctance of lenders to make commercial real estate loans) result in higher interest rates upon refinancing, the interest expense relating to that refinanced indebtedness would increase. This increased interest expense would adversely affect our financial condition and results of operations.

Rising Interest Rates Could Adversely Affect Our Cash Flow. As of December 31, 1998, we had \$100,000,000 outstanding under a variable rate line of credit. In addition, we may incur other variable rate indebtedness in the future. Increases in interest rates on this indebtedness could increase our interest expense, which would adversely affect our financial condition and results of operations. Accordingly, we have entered into an interest rate swap agreement, which expires in November 2000, to effectively fix our interest rate exposure on our line of credit. We may in the future engage in further transactions to limit our exposure to rising interest rates.

We Are Dependent on External Sources of Capital. In order to qualify as a REIT under the Internal Revenue Code, we are required each year to distribute to our stockholders at least 95% of our REIT taxable income (determined without regard to the dividends-paid deduction and by excluding any net

capital gain). Because of this distribution requirement, we may not be able to fund all future capital needs, including capital needs in connection with acquisitions, from cash retained from operations. As a result, to fund capital needs, we rely on third-party sources of capital, which we may not be able to obtain on favorable terms or at all. Our access to third-party sources of capital depends upon a number of factors, including general market conditions and the market's perception of our growth potential and our current and potential future earnings and cash distributions and the market price of the shares of our capital stock. Additional debt financing may substantially increase our leverage.

Financial Covenants Could Adversely Affect our Financial Condition. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose on the property, resulting in loss of income and asset value. The mortgages on our properties contain customary negative covenants which, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property, to enter into new leases or materially modify existing leases, and to discontinue insurance coverage. In addition, our line of credit contains customary restrictions, requirements and other limitations on our ability to incur indebtedness, including maximum leverage ratios, minimum debt-service coverage ratios, cash flow coverage ratios and minimum consolidated tangible net worth. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on our financial condition and

results of operations.

We Could Default on Cross-Defaulted Debt. Our line of credit and convertible subordinated debenture indenture contain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us to repay or restructure the line of credit and the convertible subordinated debentures in addition to any mortgage or other debt which is in default, which could adversely affect our financial condition and results of operations.

Our Hedging Policies Involve Risks of Unanticipated Movements in Interest Rates

In connection with our line of credit, we have employed hedging techniques designed to protect us against adverse movements in interest rates. While we may benefit from the use of these hedging mechanisms generally, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for us than if it had not entered into such hedging transactions.

In connection with the financing of real estate investments, we may use derivative financial instruments primarily to reduce exposure to adverse fluctuations in interest rates and foreign exchange rates. We do not intend to enter into derivative financial instruments for trading purposes. We would use any derivative position we maintain to reduce risk by hedging an underlying economic exposure. We intend to invest in derivatives having straightforward instruments with liquid markets. In order to reduce counter-party credit or legal enforcement risk, we will have all counter-parties be major investment or commercial banks and we will execute all transactions with documentation consistent with accepted industry practice.

Conflicts of Interest

Some of our Executive Officers and Board Members are also Executive Officers and Board Members of a Real Estate and Healthcare Investment Company.

- o Andre C. Dimitriadis, who is currently our Chairman and Chief Executive Officer serves in the same positions with LTC Healthcare, Inc., a Nevada corporation ("LTC Healthcare");

- o James J. Pieczynski, who is currently our President and Chief Financial Officer serves in the same positions with LTC Healthcare; and

- o Christopher T. Ishikawa, who is currently our Senior Vice President and Chief Investment Officer serves in the same positions with LTC Healthcare.

LTC Healthcare engages in the following activities: (1) ownership of leveraged properties leased to third parties; (2) ownership of secured high yield mortgage loans; (3) operation of long-term care facilities; (4) development of long-term care properties, and (5) ownership of equity investments in long-term care companies. Although none of the members of our management is committed to spending a particular amount of time on LTC Healthcare's affairs, each of the members of management of LTC Healthcare spend approximately 25% of his or her time on LTC Healthcare's affairs. The continued involvement in LTC Healthcare by some of our executive officers and directors could divert management's attention from our day-to-day operations.

Conflicts of Interest May Arise in Interpretations of Intercompany Agreements Between our Company and LTC Healthcare. Because our management is largely the same as LTC Healthcare's management, conflicts may arise with respect to the operation and effect of our intercompany agreements and relationships which could have an adverse effect on us if not properly resolved. More specifically, overlapping members of the board of directors and senior management of both companies may be presented with conflicts of interest with respect to matters affecting us and LTC Healthcare, such as the determination of which company may take advantage of potential business opportunities, decisions concerning the business focus of each company (including decisions concerning the types of properties and geographic locations in which such companies make investments), potential competition between the business activities conducted, or sought to be conducted, by such companies (including competition for properties and tenants), possible corporate transactions (such as acquisitions), and other strategic decisions affecting the future of such companies. Conflicts also may arise with respect to the restriction on LTC Healthcare's right to engage in activities or make investments that involve real estate unless we were first offered the opportunity and declined to pursue such activities or investments.

If We Issue Additional Equity Securities, the Investment of Existing Stockholders Will be Diluted

We may from time to time raise additional capital from the issuance and sale of equity securities. Any such issuances may significantly dilute the interests of the existing holders of our securities, including our common stock.

Limitations in Our Charter and Bylaws Could Prevent a Change in Control

Our Charter and Bylaws contain provisions that may delay, defer or prevent a change in control or other transaction that could provide the holders of our common stock with the opportunity to realize a

premium over the then-prevailing market price for our common stock. To maintain our qualification as a REIT for federal income tax purposes:

- o Not more than 50% in value of our outstanding stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year after the first taxable year for which a REIT election is made.
- o After the first taxable year for which a REIT election is made, our common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year (or a proportionate part of a taxable year of less than 12 months).
- o If we, or an owner of 10% or more of our stock, actually or constructively owns 10% or more of one of our tenants (or a tenant of any partnership in which we are a partner), the rent received by us (either directly or through any such partnership) from that tenant will not be qualifying income for purposes of the REIT gross income tests of the Internal Revenue Code.

In order to protect us against the risk of losing our REIT status for federal income tax purposes, we prohibit the ownership (actually or by virtue of application of certain constructive ownership provisions of the Internal Revenue Code) by any single person of more than 9.8% (by value or number of shares, whichever is more restrictive) of the issued and outstanding shares of our common stock and more than 9.8% (by value or number of shares, whichever is more restrictive) of the issued and outstanding shares of each class of our preferred stock by any single person so that no such person, taking into account all of our stock so owned by such person, may own in excess of 9.8% of our issued and outstanding capital stock. We refer to this limitation as the "ownership limit." We will redeem shares acquired or held in excess of the ownership limit. In addition, any acquisition of our common stock or preferred stock that would result in our disqualification as a REIT is null and void. The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect our stockholders' ability to realize a premium over the then-prevailing market price for the shares of our common stock in connection with such transaction. The Board of Directors of has waived the ownership limit applicable to our common stock with respect to National Health Investors, Inc., allowing it to own greater than 9.8% of our outstanding shares of Series C Preferred Stock.

Our Charter authorizes us to issue additional shares of common stock and one or more series of preferred stock and to establish the preferences, rights and other terms of any series of preferred stock that we issue. Although our Board of Directors has no intention to do so at the present time, it could establish a series of preferred stock that could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Our Charter, our Bylaws and Maryland law also contain other provisions that may delay, defer or prevent a transaction, including a change in control, that might involve payment of a premium price for our common stock or otherwise be in the best interests of our stockholders. Those provisions include the following:

- o the provision in our Bylaws requiring a two-thirds vote of stockholders for any amendment of our Bylaws;
- o the requirement in the Bylaws that the request of the holders of 25% or more of our common stock is necessary for stockholders to call a special meeting;
- o the requirement of Maryland law that stockholders may only take action by written consent with the unanimous approval of all stockholders entitled to vote on the matter in question; and
- o the requirement in the Bylaws of advance notice by stockholders for the nomination of directors or proposal of business to be considered at a meeting of stockholders.

These provisions may impede various actions by stockholders without approval of our Board of Directors, which in turn may delay, defer or prevent a transaction involving a change of control.

We Could Change Our Investment and Financing Policies without a Vote of Stockholders

Subject to our fundamental investment policy to maintain our qualification as a REIT (unless a change is approved by the Board of Directors under certain

circumstances), the Board of Directors will determine our investment and financing policies, our growth strategy and our debt, capitalization, distribution and operating policies. Although the Board of Directors has no present intention to revise or amend these strategies and policies, the Board of Directors may do so at any time without a vote of stockholders. Accordingly, stockholders will have no control over changes in our strategies and policies (other than through the election of directors), and any such changes may not serve the interests of all stockholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to stockholders.

Various Market Conditions Affect the Price of Our Common Stock

As with other publicly-traded equity securities, the market price of our common stock will depend upon various market conditions, which may change from time to time. Among the market conditions that may affect the market price of our common stock are the following:

- o the extent of investor interest in us;
- o the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies);
- o our financial performance and that of our operators;
- o the contents of analyst reports regarding us and the REIT industry; and
- o general stock and bond market conditions, including changes in interest rates on fixed income securities which may lead prospective purchasers of our common stock to demand a higher annual yield from future distributions. Such an increase in the required yield from distributions may adversely affect the market price of our common stock.

Other factors such as governmental regulatory action and changes in tax laws could also have a significant impact on the future market price of our common stock.

Earnings and Cash Distributions, Asset Value and Market Interest Rates Affect the Price of Our Common Stock

The market value of the equity securities of a REIT generally is based primarily upon the market's perception of the REIT's growth potential and its current and potential future earnings and cash distributions, and is based secondarily upon the real estate market value of the underlying assets. For that reason, shares of our common stock may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market's expectation with regard to future earnings and cash distributions likely would adversely affect the market price of our common stock. Another factor that may influence the price of our common stock will be the distribution yield on our common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates might lead prospective purchasers of our common stock to expect a higher distribution yield, which would adversely affect the market price of our common stock. If the market price of our common stock declines significantly, we might breach covenants with respect to debt obligations, which might adversely affect our liquidity and our ability to make future acquisitions and pay distributions to our stockholders.

There are Federal Income Tax Risks Associated with a REIT

Our Failure to Qualify as a REIT Would Have Serious Adverse Consequences to Our Stockholders. We intend to operate so as to qualify as a REIT under the Internal Revenue Code. We believe that we have been organized and have operated in a manner which would allow us to qualify as a REIT under the Internal Revenue Code beginning with our taxable year ended December 31, 1992. However, it is possible that we have been organized or have operated in a manner which would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify. Qualification as a REIT requires us to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must pay dividends to stockholders aggregating annually at least 95% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding capital gains). Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. However, we are not aware of any pending tax legislation that would adversely affect our ability

to operate as a REIT.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification. If we lose our REIT status, our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved. In addition, we would no longer be required to make distributions to stockholders.

We Pay Some Taxes. Even if we qualify as a REIT, we are subject to certain federal, state and local taxes on our income and property.

We May Experience Risks Associated With Year 2000 Problems

We believe our internal accounting and information systems will be Year 2000 compliant by mid- 1999. However, we cannot guarantee that we will achieve these results. In addition, we cannot be assured that other third parties whose systems and operations impact us will be compliant nor can we and our lessees be assured that the federal and state governments, upon which our lessees rely for Medicare and Medicaid revenue, will be in compliance in a timely manner. If we, our third-party tenants or other third-parties, including the federal and state governments, with which we and our lessees do business, are not year 2000 compliant, we could experience disruptions to our business and operations that could have a material impact on our financial position, results of operations or liquidity.

We will also have year 2000 exposure in non-information technology areas as it relates to owned properties. There is a risk that embedded chips in elevators, security systems, electrical systems and similar technology-driven devices may stop functioning on January 1, 2000. All of our owned properties are leased under triple-net leases and as such, the cost to repair any of these items will be paid by the lessee.

We are Dependent on our Key Personnel

We depend on the efforts of our executive officers, particularly Messrs. Dimitriadis and Pieczynski. While we believe that we could find suitable replacements for these key personnel, the loss of their services or the limitation of their availability could have an adverse impact on our operations. Although we have entered into employment agreements with our executive officers, these employment agreements may not assure their continued service.