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

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# FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1999

OR

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

For the Transition period from ____ to ____

Commission file number 1-11314

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

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

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

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

Indicate by check mark whether Registrant (1) has filed all reports to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes  X  No
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Shares of Registrant's common stock, $.01 par value, outstanding at May 12, 1999 - 27,384,675

LTC PROPERTIES, INC.

FORM 10-Q

MARCH 31, 1999

INDEX

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

| | MARCH 31, 1999 (UNAUDITED) | DECEMBER 31, 1998 |
|---|---|---|
| ASSETS | | |
| Real Estate Investments: | | |
| Buildings and improvements, net of accumulated depreciation and amortization: 1999 - $30,142: 1998 - $26,972 | $ 385,124 | $ 366,891 |
| Land | 17,596 | 16,796 |
| Mortgage loans receivable held for sale, net of allowance for doubtful accounts: 1999 - $1,250; 1998 - $1,250 | 161,863 | 179,714 |
| REMIC Certificates, at estimated fair value | 99,852 | 100,595 |
| Real estate investments, net | 664,435 | 663,996 |
| Other Assets: | | |
| Cash and cash equivalents | 16,797 | 1,503 |
| Debt issue costs, net | 2,029 | 2,040 |
| Interest receivable | 3,980 | 3,350 |
| Prepaid expenses and other assets | 4,022 | 2,397 |
| Marketable debt securities | 12,495 | - |
| Note receivable from LTC Healthcare, Inc. | 17,672 | 16,528 |
| | 56,995 | 25,818 |
| Total assets | $ 721,430 | $ 689,814 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Convertible subordinated debentures due 1999-2001 | $ 56,367 | $ 56,667 |
| Bank borrowings | 141,500 | 100,000 |
| Mortgage loans | 55,327 | 55,432 |
| Bonds payable and capital lease obligations | 17,285 | 17,596 |
| Accrued interest | 1,914 | 3,135 |
| Accrued expenses and other liabilities | 3,061 | 4,085 |
| Distributions payable | 985 | 985 |
| Total liabilities | 276,439 | 237,900 |
| Minority interest | 9,675 | 10,514 |
| Commitments | | |
| Stockholders' equity: | | |
| Preferred stock $0.01 par value: 10,000,000 shares authorized; shares issued and outstanding: 1999-7,080,000, 1998-7,080,000 | 165,500 | 165,500 |
| Common stock: $0.01 par value; 40,000,000 shares authorized; shares issued and outstanding: 1999-27,407,096, 1998-27,660,712 | 274 | 277 |

| | | |
|---|---|---|
| Capital in excess of par value | 307,321 | 311,113 |
| Notes receivable from stockholders | (11,107) | (11,200) |
| Cumulative net income | 170,810 | 158,270 |
| Accumulated comprehensive income | (536) | - |
| Cumulative distributions | (196,946) | (182,560) |
| Total stockholders' equity | 435,316 | 441,400 |
| Total liabilities and stockholders' equity | $ 721,430 | $ 689,814 |

</TABLE>

SEE ACCOMPANYING NOTES

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

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| Revenues: | | |
| Rental income | $ 11,180 | $ 9,066 |
| Interest income from mortgage loans | 5,125 | 7,176 |
| Interest income from REMIC Certificates | 4,424 | 3,379 |
| Interest and other income | 1,475 | 1,598 |
| Total revenues | 22,204 | 21,219 |
| Expenses: | | |
| Interest expense | 5,166 | 5,642 |
| Depreciation and amortization | 3,201 | 2,666 |
| Minority interest | 287 | 320 |
| Operating and other expenses | 1,010 | 1,142 |
| Total expenses | 9,664 | 9,770 |
| Operating income | 12,540 | 11,449 |
| Unrealized gain on REMIC Certificates | - | 56 |
| Net income | 12,540 | 11,505 |
| Preferred dividends | (3,772) | (2,954) |
| Net income available to common stockholders | $ 8,768 | $ |

| | | |
|---|---|---|
| | | 8,551 |
| Net Income per Common Share: | | |
| Basic | $ 0.32 | $ 0.33 |
| Diluted | $ 0.32 | $ 0.33 |
| Comprehensive Income: | | |
| Net income available to common stockholders | $ 12,540 | $ 11,505 |
| Unrealized loss on available for sale securities | (536) | - |
| Total comprehensive income | $ 12,004 | $ 11,505 |

</TABLE>

SEE ACCOMPANYING NOTES



LTC PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 12,540 | $ 11,505 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,201 | 2,666 |
| Other non-cash charges | 272 | 27 |
| Decrease in accrued interest | (1,221) | (2,092) |
| Net change in other assets and liabilities | (1,384) | (346) |
| Net cash provided by operating activities | 13,408 | 11,760 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings under the lines of credit | 71,000 | 37,000 |
| Repayments of bank borrowings | (29,500) | (3,500) |
| Principal payments on mortgage loans payable and capital lease obligations | (416) | (184) |
| Repurchase of common stock | (4,108) | - |
| Distributions paid | (14,386) | (12,407) |
| Other | (762) | (428) |
| Net cash provided by financing activities | 21,828 | |

| | | |
|---|---|---|
| | | 20,481 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Investment in real estate mortgages | (5,724) | (2,234) |
| Acquisitions of real estate properties, net | (1,157) | (30,872) |
| Investment in debt securities | (12,459) | - |
| Principal payments on mortgage loans receivable | 2,529 | 580 |
| Investment in LTC Healthcare, Inc. | - | (2,001) |
| Advances under note receivable from LTC Healthcare, Inc., net | (3,479) | - |
| Payments on note receivable from LTC Healthcare, Inc., net | 2,335 | - |
| Other | (1,987) | (2,435) |
| Net cash used in investing activities | (19,942) | (36,962) |
| Increase (decrease) in cash and cash equivalents | 15,294 | (4,721) |
| Cash and cash equivalents, beginning of period | 1,503 | 4,974 |
| Cash and cash equivalents, end of period | $ 16,797 | $ 253 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | $ 6,082 | $ 7,439 |
| Non-cash investing and financing transactions: | | |
| Conversion of debentures into common stock | $ 300 | $ 18,109 |
| Notes receivable relating to exercise of employee stock options | - | 2,088 |
| Assumption of mortgage loans payable for acquisitions of real estate properties | - | 7,018 |
| Conversion of mortgage loans into owned properties | 21,046 | 1,667 |
| Minority interest related to acquisitions of real estate properties | - | 3,432 |

</TABLE>

SEE ACCOMPANYING NOTES



LTC PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The condensed consolidated financial statements included herein have been prepared by LTC Properties, Inc. (the "Company") without audit and in the opinion of management include all adjustments necessary for a fair presentation of the results of operations for the three months ended March 31, 1999 and 1998 pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and controlled partnerships. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading. The results of operations for the three months ended March 31, 1999 and 1998 are not necessarily indicative of the results for a full year. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

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

## 2. REAL ESTATE INVESTMENTS

MORTGAGE LOANS. During the three months ended March 31, 1999, the Company invested $4,746,000 in mortgage loans secured by two assisted living facilities ("ALFs") with 78 units and advanced $978,000 for renovation and expansion under a mortgage loan previously provided on an educational facility.

OWNED PROPERTIES. During the three months ended March 31, 1999, the Company invested $1,157,000 in owned properties by completing the sale/leaseback of eight ALFs for $22,203,000 that it had previously financed with mortgage loans of $21,046,000.

REMIC CERTIFICATES. As of March 31, 1999 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was $298,035,000 and 7.29%. As of March 31, 1999, the carrying value of the subordinated REMIC certificates held by the Company was $99,852,000. The effective yield on the subordinated REMIC certificates held by the Company, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses was 17.51% at March 31, 1999.

On January 1, 1999, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 134, "ACCOUNTING FOR MORTGAGE-BACKED SECURITIES RETAINED AFTER THE SECURITIZATION OF MORTGAGE LOANS HELD FOR SALE BY A MORTGAGE BANKING ENTERPRISE" ("SFAS 134"). Upon adoption of SFAS 134, the Company, based on its ability and intent to hold its investments in REMIC certificates, transferred its REMIC certificates from the trading category to the available-for-sale and the held-to-maturity categories. The transfer was recorded at fair value on the date of the transfer.

Interest only certificates and certificates with an investment rating of "B" or higher are now classified as available-for-sale and unrated certificates and certificates with an investment rating lower than "B" are now classified as held-to-maturity. Unrealized holding gains and losses are no longer recorded in current period earnings. Available-for-sale certificates are recorded at fair value with unrealized holding gains and losses recorded as a component of comprehensive income and held-to-maturity certificates are





recorded at amortized cost. As of March 31, 1999, available-for-sale certificates were recorded at their fair value of approximately $48,359,000. Unrealized holding losses on available-for-sale certificates of $368,000 were included in comprehensive income for the three months ended March 31, 1999. At March 31, 1999, held-to-maturity certificates had a book value of $51,493,000 and a fair value of $50,034,000. As of March 31, 1999, the effective yield on the available-for-sale certificates and the held-to-maturity certificates, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses, was 23.2% and 11.9%, respectively.

## 3. INVESTMENT IN DEBT SECURITIES

During the three months ended March 31, 1999, the Company purchased $3,695,000 face amount of Assisted Living Concepts, Inc. ("ALC") 5.625% convertible subordinated debentures and $15,025,000 face amount of ALC 6.0% convertible subordinated debentures for an aggregate purchase price of $12,459,000. The ALC convertible subordinated debentures have a weighted average effective yield of 18.9%. The Company accounts for its investment in ALC convertible subordinated debentures at amortized cost as held-to-maturity securities. At March 31, 1999, the ALC convertible subordinated debentures had and amortized cost of $12,495,000 and a fair value of $11,153,000.

## 4. DEBT OBLIGATIONS

As of March 31, 1999, $116,500,000 was outstanding under the Company's $170,000,000 Senior Unsecured Revolving Line of Credit (the "Revolving Credit Facility") which expires on October 3, 2000. The Revolving Credit Facility pricing varies between LIBOR plus 1.25% and LIBOR plus 1.5% depending on the Company's leverage ratio. Currently the pricing is LIBOR plus 1.25%. The Company has effectively fixed the interest rate on $50,000,000 notional amount of LIBOR based variable rate debt by entering into an interest rate swap agreement whereby the Company will be credited interest at three month LIBOR and will incur interest at a fixed rate of 4.74%. 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. The interest rate swap expires in November 2000.

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 March 31, 1999, $25,000,000 was outstanding under the term loan.

During the three months ended March 31, 1999, $300,000 in principal amount of convertible subordinated debentures converted into 16,963 shares of the Company's common stock at prices ranging from $15.50 to $17.25 per share.

5. STOCKHOLDERS EQUITY

During the three months ended March 31, 1999, the Company repurchased and retired 316,800 shares of common stock for an aggregate purchase price of approximately $4,108,000.

During the three months ended March 31, 1999, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling $1,829,000, $1,125,000, $818,000, respectively. During the three months ended March 31, 1999, the Company declared and paid cash dividends of $.39 per share on its common stock totaling $10,614,000.





6. LTC HEALTHCARE, INC.

During the three months ended March 31, 1999, the Company recorded interest income of $425,000 on the average outstanding principal balance under the unsecured line of credit it provided to LTC Healthcare, Inc. ("Healthcare") and Healthcare reimbursed the Company $173,000 for administrative and management advisory services.

At March 31, 1999, the Company held 264,900 shares of Healthcare common stock which is accounted for at fair value as available-for-sale securities. As of March 31, 1999, the Healthcare common stock was recorded at its fair value of approximately $546,000. An unrealized holding loss of $168,000 was included in comprehensive income for the three months ended March 31, 1999.

7. EARNINGS PER SHARE

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

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED MARCH 31, 1999 | THREE MONTHS ENDED MARCH 31, 1998 |
|---|---|---|
| <S> | <C> | <C> |
| Net income | $ 12.540 | $ 11,505 |
| Preferred dividends | (3,772) | (2,954) |
| Net income for basic net income per share | 8,768 | 8,551 |
| Effect of dilutive securities: | | |
| 9.75% convertible debentures due 2004 | - | 13 |
| Net income for diluted net income per share | $ 8,768 | $ 8,564 |
| Shares for basic net income per share | 27,522 | 26,023 |
| Effect of dilutive securities: | | |
| Stock options | - | 39 |
| 9.75% convertible debentures due 2004 | - | 55 |
| Shares for diluted net income per share | 27,522 | 26,117 |
| Basic net income per share | $ 0.32 | $ 0.33 |
| Diluted net income per share | $ 0.32 | $ 0.33 |

</TABLE>



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

OPERATING RESULTS

THREE MONTHS ENDED MARCH 31, 1999 COMPARED TO THREE MONTHS ENDED MARCH 31, 1998

Revenues for the three months ended March 31, 1999 increased to $22,204,000 from $21,219,000 for the same period in 1998. The increase in revenues resulted from increased rental income of $2,114,000 and increased interest income from REMIC certificates of $1,045,000 which was somewhat offset by a decrease in interest from mortgage loans and notes receivable of $2,051,000 and a decrease in interest and other income of $123,000.

Rental income increased $2,814,000 as a result of property acquisitions. "Same-store" rents increased $218,000 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 were decreases of $704,000 related to the contribution of properties to LTC Healthcare, Inc. ("Healthcare") in September 1998 and $214,000 resulting from the disposition of properties. Interest income from mortgage loans decreased due to the sale of mortgage loans in connection with a REMIC securitization that was completed in May 1998. The decrease was partially mitigated by an increase in interest income from REMIC certificates from the retention of certificates originated in the May 1998 securitization.

Total expenses as a percent of total revenues decreased to 44% in 1999 from 46% in 1998. The decrease as a percent of revenues is largely due to a reduction in interest expense resulting from the conversion of subordinated debentures. Depreciation and amortization increased as a result of a larger investment base in owned properties in 1999 as compared to 1998.

On January 1, 1999, in accordance with recently issued accounting standards, the Company reclassified its investment in REMIC certificates from trading securities to available-for-sale and held-to-maturity securities. As a result of the change in accounting for REMIC certificates, the Company no longer recognizes unrealized gains or losses on changes in their fair value in current period earnings.

Preferred dividends increased as a result of dividends on the Series C Convertible Preferred Stock which was issued in September 1998.

As a result of the changes in revenues and expenses discussed above, net income available to common shareholders increased to $8,768,000 for the three months ended March 31, 1999 from $8,551,000 for the same period in 1998.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1999, the Company's real estate investment portfolio (before accumulated depreciation and allowance for doubtful accounts) consisted of $432,862,000 invested primarily in owned long-term care facilities, mortgage loans of approximately $163,113,000 and subordinated REMIC certificates with a weighted average effective yield of 17.51% of approximately $99,852,000. At March 31, 1999, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was $298,035,000 and 7.29%. The Company's portfolio consists of 273 skilled nursing facilities, 92 assisted living facilities and six schools in 36 states.

During the three months ended March 31, 1999, the Company had net cash provided by operations of $13,408,000. In addition, the Company obtained a $25,000,000 term loan and had net borrowings of $16,500,000 under its unsecured revolving credit facility. Borrowings under the term loan and the revolving credit facility mature in October 2000 and currently bear interest at LIBOR plus 1.25%.



In 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.

During the three months ended March 31, 1999, the Company invested $4,746,000 in mortgage loans secured by a two assisted living facilities ("ALFs"), advanced $978,000 for renovation and expansion under a mortgage loan previously provided on an educational facility and invested $1,157,000 in owned properties by completing the sale/leaseback of eight ALFs that it had previously financed with mortgage loans. The Company also purchased $3,695,000 face amount of Assisted Living Concepts, Inc. ("ALC") 5.625% convertible subordinated debentures and $15,025,000 face amount of ALC 6.0% convertible subordinated debentures for an aggregate purchase price of $12,459,000. The ALC convertible subordinated debentures have a weighted average effective yield of 18.9%.

During the three months ended March 31, 1999, the Company repurchased and retired 316,800 shares of common stock for an aggregate purchase price of approximately $4,108,000. During the three months ended March 31, 1999, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling $1,829,000, $1,125,000, $818,000, respectively. In addition, the Company declared and paid cash dividends of $.39 per share on its common stock totaling $10,614,000.

As of March 31, 1999, borrowing capacity of $53,500,000 was available under the Company's $170,000,000 unsecured revolving credit facility. The revolving credit facility had pricing of LIBOR plus 1.25% at March 31, 1999. In addition, at March 31, 1999 the Company had cash on hand of $16,797,000 and, after giving effect to borrowing base requirements for outstanding bank borrowings, $368,453,000 of available unencumbered real estate investments. Available unencumbered real estate investments consisted of $213,492,000 in owned properties (before accumulated depreciation), $55,109,000 of mortgage loans (before allowance for doubtful accounts) and $99,852,000 of 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.

OTHER DEVELOPMENTS

At December 31, 1998, Sun Healthcare Group, Inc. ("Sun") operated 70 facilities representing 19% ($174.3 million) of the Company's gross real estate investment portfolio (adjusted to include mortgage loans to third parties securing the investment in REMIC certificates). During the three months ended March 31, 1999, Sun was replaced as the operator at seven facilities which resulted in a $15.3 million reduction in the Company's total investment in facilities operated by Sun to 17% ($159 million) of the Company's gross real estate investment portfolio. The facilities operated by Sun as of March 31, 1999 consisted of approximately $78 million of direct investments and $81 million of investments in facilities owned by independent parties that lease the property to Sun or contract with Sun to manage the property.

At March 31, 1999, the Company had mortgage loans to Retirement Group, L.L.C. ("Retirement Group") secured by three skilled nursing facilities. In addition, the mortgage loans securing the 1998-1 REMIC pool included one mortgage loan to Retirement Group secured by two skilled nursing facilities. At March 31, 1999, the aggregate outstanding principal on the direct loans to Retirement Group was $8.5



million and the outstanding principal on the loan made to Retirement Group securing the 1998- REMIC pool was $8.6 million. Retirement Group has leased the properties securing the loans to Sun. The Company has been informed by Sun that there is a dispute between Sun and Retirement Group and consequently Sun is currently offsetting the lease payments due to Retirement Group on these properties against certain alleged obligations of Retirement Group to Sun. Retirement Group has informed the Company that because they have not received the lease payments from Sun, Retirement Group is unable to make the mortgage payments due to the Company. Consequently, the debt service payments due to the Company and the 1998-1 REMIC pool from Retirement Group were 30 to 60 days past due as of March 31, 1999. Sun has provided the Company with a guarantee of $1.7 million on the direct loans to Retirement Group and a guarantee of $2.1 million on the loan securing the 1998-1 REMIC pool.

The Company initiated foreclosure proceedings against Retirement Group; however, in May 1999, Retirement Group filed for Chapter 11 bankruptcy (reorganization) and the bankruptcy court placed a temporary stay on the foreclosure proceedings. Until Retirement Group emerges from bankruptcy protection and resumes making mortgage payments, the direct loans to Retirement Group will be placed on non-accrual status which will result in a decrease in interest income from mortgage loans of approximately $235,000 per quarter. Based on the current fair value of the properties securing the loans to Retirement Care and the value of the loan guarantees by Sun, the Company anticipates that the impact, if any, of foreclosure of the Retirement Group loans on the Company's financial position or results of operations would be immaterial.

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.

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

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED MARCH 31, 1999 | THREE MONTHS ENDED MARCH 31, 1998 |
|---|---|---|
| <S> | <C> | <C> |
| Net income available to common stockholders | $ 8,768 | $ 8,551 |
| Real estate depreciation | 3,201 | 2,666 |
| Unrealized gain on REMIC Certificates | - | (56) |
| FFO available to common stockholders | $ 11,969 | $11,161 |
| Basic FFO per share | $ 0.43 | $ 0.43 |
| Diluted FFO per share | $ 0.43 | $ 0.42 |

</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, 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:

- --   our tenants and borrowers for rents and cash flows;

- -- our financial institutions for availability of working capital and capital markets financing; and

- -- 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 the 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 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 our Annual Report on Form 10-K contains a more comprehensive discussion of risks and uncertainties associated with our business.



PART II

LTC PROPERTIES, INC.

OTHER INFORMATION

MARCH 31, 1999

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

27 Financial Data Schedule

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

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the Company during the three months ended March 31, 1999.



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: May 14, 1999 By: /s/ JAMES J. PIECZYNSKI

James J. Pieczynski
President and Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LTC PROPERTIES, INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1999 FILED HEREWITH AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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