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

FORM 10-Q

(Mark One)

☒

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

For the quarterly period ended September 30, 2004

OR

☐

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

For the Transition period from to

Commission file number 1-11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

22917 Pacific Coast Highway, Suite 350
Malibu, California 90265
(Address of principal executive offices)

(310) 455-6010
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Shares of Registrant's common stock, \$.01 par value, outstanding October 29, 2004 – 20,435,483

LTC PROPERTIES, INC.

FORM 10-Q

September 30, 2004

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

	September 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2004 - \$80,226; 2003 - \$70,895	\$ 357,843	\$ 352,461
Land	26,156	24,824
Properties held for sale, net of accumulated depreciation and amortization: 2004 - \$0; 2003 - \$2,481	—	5,340
Mortgage loans receivable, net of allowance for doubtful accounts: 2004 and 2003 - \$1,280	76,754	71,465
REMIC Certificates	43,879	61,662
Real estate investments, net	504,632	515,752
Other Assets:		
Cash and cash equivalents	44,897	17,919
Debt issue costs, net	1,276	1,496
Interest receivable	3,030	3,809
Prepaid expenses and other assets	4,844	4,495
Notes receivable	15,914	19,172
Marketable debt securities	—	12,281
Total Assets	\$ 574,593	\$ 574,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage loans payable	\$ 87,947	\$ 120,819
Bonds payable and capital lease obligations	14,064	14,686
Senior mortgage participation payable	17,618	18,250
Accrued interest	728	943
Accrued expenses and other liabilities	3,405	2,478
Accrued expenses and other liabilities related to properties held for sale	—	2,540
Liability for Series A 9.5% Preferred Stock redemption – 1,226 shares	—	30,642
Distributions payable	3,312	2,383
Total Liabilities	127,074	192,741
Minority interest	10,293	13,401
Stockholders' equity:		
Preferred stock \$0.01 par value: 15,000 shares authorized; shares issued and outstanding: 2004 – 9,674; 2003 – 8,026	230,358	189,163
Common stock: \$0.01 par value; 45,000 shares authorized; shares issued and outstanding: 2004 – 20,428; 2003 – 17,807	204	178
Capital in excess of par value	281,082	250,055
Cumulative net income	302,160	274,948
Other	1,324	(638)
Cumulative distributions	(377,902)	(344,924)
Total Stockholders' Equity	437,226	368,782
Total Liabilities and Stockholders' Equity	\$ 574,593	\$ 574,924

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Rental income	\$ 11,672	\$ 9,943	\$ 34,767	\$ 29,648
Interest income from mortgage loans and notes receivable	2,135	2,549	6,607	7,545
Interest income from REMIC Certificates	1,795	2,470	6,233	7,807
Interest and other income	1,541	928	2,984	2,441
Total revenues	17,143	15,890	50,591	47,441
Expenses:				
Interest expense	2,845	4,662	9,515	14,623
Depreciation and amortization	3,243	3,042	9,588	9,165
Impairment charge	—	—	—	1,260
Legal expenses	25	238	134	1,007
Operating and other expenses	1,453	1,397	4,186	4,408
Total expenses	7,566	9,339	23,423	30,463
Income before minority interest	9,577	6,551	27,168	16,978
Minority interest	(253)	(321)	(795)	(968)
Income from continuing operations	9,324	6,230	26,373	16,010
Discontinued operations:				

Income (loss) from discontinued operations	74	166	231	(29)
(Loss) gain on sale of assets, net	(110)	(343)	608	336
Net (loss) income from discontinued operations	(36)	(177)	839	307
Net income	9,288	6,053	27,212	16,317
Preferred stock redemption charge	—	—	(4,029)	—
Preferred stock dividends	(4,393)	(3,924)	(12,920)	(11,441)
Net income available to common stockholders	\$ 4,895	\$ 2,129	\$ 10,263	\$ 4,876
Net Income per Common Share from Continuing Operations net of Preferred Stock Dividends:				
Basic	\$ 0.25	\$ 0.13	\$ 0.50	\$ 0.25
Diluted	\$ 0.24	\$ 0.13	\$ 0.49	\$ 0.25
Net (Loss) Income per Common Share from Discontinued Operations:				
Basic	\$ —	\$ (0.01)	\$ 0.04	\$ 0.02
Diluted	\$ —	\$ (0.01)	\$ 0.04	\$ 0.02
Net Income per Common Share Available to Common Stockholders:				
Basic	\$ 0.25	\$ 0.12	\$ 0.54	\$ 0.27
Diluted	\$ 0.24	\$ 0.12	\$ 0.53	\$ 0.27
Basic weighted average shares outstanding	19,960	17,803	19,041	17,847
Comprehensive income				
Net income available to common stockholders	\$ 4,895	\$ 2,129	\$ 10,263	\$ 4,876
Unrealized loss on available-for-sale securities	(583)	—	(15)	(451)
Reclassification adjustment	—	—	—	1,303
Total comprehensive income	\$ 4,312	\$ 2,129	\$ 10,248	\$ 5,728

See accompanying notes.

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

	Nine Months Ended September 30,	
	2004	2003
OPERATING ACTIVITIES:		
Net income	\$ 27,212	\$ 16,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,699	9,713
Impairment charge	—	1,260
Straight-line rental income	(846)	—
Other non-cash charges	2,233	3,564
Gain on sale of real estate investments, net	(608)	(336)
Decrease in accrued interest	(224)	(225)
Net change in other assets and liabilities	771	(3,593)
Net cash provided by operating activities	38,237	26,700
INVESTING ACTIVITIES:		
Investment in real estate mortgages	(6,223)	(1,707)
Investment in REMIC Certificates	(3,898)	—
Investment in marketable debt securities	—	(1,744)
Investment in real estate properties and capital improvements, net	(3,882)	(1,654)
Proceeds from sale of real estate investments and other assets, net	4,735	4,368
Principal payments on mortgage loans receivable and REMIC Certificates	15,100	4,246
Advances under line of credit to CLC Healthcare, Inc.	—	(1,452)
Payments from CLC Healthcare, Inc. on line of credit	—	2,146
Redemption of investment in senior secured notes	12,281	—
Other	(491)	(1,530)
Net cash provided by investing activities	17,622	2,673
FINANCING ACTIVITIES:		
Borrowings under the line of credit	36,500	7,500
Repayments of bank borrowings under the line of credit	(36,500)	(55,921)
Mortgage principal payments on the senior mortgage participation	(632)	(650)
Net proceeds from issuance of preferred stock	159,583	52,497
Principal payments on mortgage loans payable and capital lease obligations	(36,601)	(9,939)
Redemption of preferred stock	(126,305)	—
Repurchase of common and preferred stock	—	(3,461)
Distributions paid	(27,742)	(18,375)
Other	2,816	2,451
Net cash used in financing activities	(28,881)	(25,898)
Increase in cash and cash equivalents	26,978	3,475

Cash and cash equivalents, beginning of period	17,919	8,001
Cash and cash equivalents, end of period	<u>\$ 44,897</u>	<u>\$ 11,476</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 9,360	\$ 13,065
Non-cash investing and financing transactions:		
Exchange of limited partnership units for common stock	\$ 3,193	\$ —
Exchange of mortgage loans for owned properties	9,277	—
Exchange of REMIC Certificates for mortgage loans receivable	12,025	—
Refinance of notes receivable into a mortgage loan receivable	3,751	—
Assumption of mortgage loans payable on acquisitions of real estate assets	2,098	—

See accompanying notes.

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

1. General

LTC Properties, Inc., a Maryland corporation, is a real estate investment trust (or REIT) that invests primarily in long term care properties through mortgage loans, property lease transactions and other investments.

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/or its subsidiaries.

We have prepared consolidated financial statements included herein without audit (except for the balance sheet at December 31, 2003 which is audited) and in the opinion of management have included all adjustments necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2004 and 2003 pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries and controlled partnerships. All significant intercompany accounts and transactions have been eliminated in consolidation. Control over those partnerships is based on the provisions of the partnership agreements that provide us with a controlling financial interest in the partnerships. Under the terms of the partnership agreements, our company, as general partner, is responsible for the management of the partnerships’ assets, business and affairs. Certain of our rights and duties in management of the partnerships include making all operating decisions, setting the capital budgets, executing all contracts, making all employment decisions, and the purchase and disposition of assets. The general partner is responsible for the ongoing, major, and central operations of the partnership and makes all management decisions. In addition, the general partner assumes the risk for all operating losses, capital losses, and is entitled to substantially all capital gains (appreciation).

The limited partners have virtually no rights and are precluded from taking part in the operation, management or control of the partnership. The limited partners are also precluded from transferring their partnership interests without the express permission of the general partner. However, we can transfer our interest without consultation or permission of the limited partners.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations; however, we believe that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation and as required by Statement of Financial Accounting Standards (or SFAS) No. 144 “*Accounting for the Impairment or Disposal of Long-Lived Assets*.” The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results for a full year.

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

2. Real Estate Investments

Owned Properties. At September 30, 2004, we owned properties in 23 states consisting of 53 skilled nursing properties with a total of 6,277 beds, 88 assisted living properties with 4,182 units and one school.

During the quarter ended September 30, 2004, we sold two skilled nursing properties in the state of Washington resulting in net proceeds of \$4,552,000 and a loss of \$110,000.

During the nine months ended September 30, 2004, we sold five skilled nursing properties, two of which were closed, resulting in a \$608,000 gain. We received \$4,735,000 in net proceeds after the payoff of \$1,486,000 in mortgage debt secured by two of the properties sold.

During the nine months ended September 30, 2004, we acquired a 165 bed skilled nursing property in Texas which had been foreclosed on by a REMIC Pool we originated. The acquisition amount of \$2,159,000 included the assumption of \$2,098,000 of mortgage debt payable to the REMIC Pool which we repaid subsequent to our acquisition. The property is leased to a third party operator under a two year lease with a two year option to extend. The annual lease payment is \$180,000 during the initial two year term and \$240,000 during the extended two year term. We also purchased a 120 bed skilled nursing property in Texas for a total of \$3,371,000 in cash. The property is leased to a third party operator under a 20 year lease beginning at an annual lease payment of \$363,000 and increasing 2% annually.

Also during the nine months ended September 30, 2004, we converted one mortgage loan, in the amount of \$3,661,000, on a 194 bed skilled nursing property in Arizona to an owned property through a deed in lieu of foreclosure transaction. We acquired this loan in the first quarter of 2004 from a REMIC Pool we originated. This property was added to a master lease with a third party operator, increasing the annual rent due under the master lease by \$372,000. Additionally, we converted one mortgage loan on two skilled nursing properties in Colorado with a total of 230 beds to owned properties through a deed in lieu of foreclosure transaction. The mortgage principal balance at the time of conversion was approximately \$5,616,000. We have agreed to lease these two properties together with a 55 bed skilled nursing property in Colorado to an operator for

approximately \$547,000 in the initial year and increasing 3% per year for the first 10 years, 2% per year for the next 10 years and 1% per year for the remaining 10 years of the lease.

In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" properties held for sale on the balance sheet at December 31, 2003 includes only those properties available for immediate sale in their present condition and for which management believes that it is probable that a sale of the property will be completed within one year. Properties held for sale are carried at the lower of cost or fair value less estimated selling costs. No depreciation expense is recognized on properties held for sale. In addition, the operating results of real estate assets designated as held for sale and all gains and losses from real estate sold are included in discontinued operations in the consolidated statement of income.

Set forth in the table below are the components of the net income (loss) from discontinued operations for the three and nine months ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended September 30,		Nine months Ended September 30,	
	2004	2003	2004	2003
Rental income	\$ 101	\$ 299	\$ 346	\$ 685
Interest and other income	—	47	—	149
Interest expense	—	(76)	—	(308)
Depreciation and amortization	(27)	(164)	(111)	(548)
Legal expenses	—	—	—	(7)
Operating and other expenses	—	60	(4)	—
Income (loss) from discontinued operations	\$ 74	\$ 166	\$ 231	\$ (29)

Mortgage Loans. At September 30, 2004, we had 39 mortgage loans secured by first mortgages on 35 skilled nursing properties with a total of 4,281 beds, eight assisted living properties with a total of 369 units and one school located in 20 states. At September 30, 2004, the mortgage loans had interest rates ranging from 6.0% to 12.7% and maturities ranging from 2004 to 2019. In addition, the loans contain certain guarantees, provide for certain facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

During the third quarter of 2004, we refinanced into one mortgage loan secured by one school in Minnesota, two notes receivable totaling \$3,751,000. The loan matures in 15 years and has an interest rate of 6.0% in the initial year and increases thirty-two basis points annually. During the nine months ended September 30, 2004, we acquired two mortgage loans on skilled nursing properties from a REMIC pool we originated. We paid \$4,355,000, which represented the outstanding loan balances. Additionally, we funded a new loan on a 156 bed skilled nursing property in Georgia in the amount of \$1,868,000. The loan matures in seven years and has an interest rate of 10.5% in the initial year and increases ten basis points annually thereafter.

At September 30, 2004, we had a commitment to fund a \$5,950,000 mortgage loan secured by two assisted living properties in Texas. This mortgage loan, if funded, will have a three year term and bear interest at 11.0% annually. We also had a commitment to fund a \$6,750,000 mortgage loan secured by two skilled nursing properties and one assisted living property in Florida. This mortgage loan, if funded, will have a term of five years, have an initial annual interest rate of 10.75% and increase ten basis points annually.

Subsequent to September 30, 2004, we originated one new mortgage loan secured by a 62 unit assisted living property in South Carolina. The principal balance of the new loan is \$2,000,000 and the amount funded to the borrower after fees and tax impounds was \$1,914,000. The mortgage loan has a five year term and bears interest at 11.0% annually.

REMIC Certificates. As of September 30, 2004, we had \$43,879,000 of REMIC Certificates at net book value. Of the \$43,879,000, \$40,515,000 of our net book value represents face value certificated interests in the principal balances of the underlying mortgage pools which at September 30, 2004, had a total unpaid principal balance of \$128,666,000. There are \$82,400,000 of senior certificates outstanding that have priority over the \$40,515,000 of face value certificates we retained.

Our investment in the \$40,515,000 of face value certificates is backed by the difference between the \$128,666,000 in mortgage pool principal and the \$82,400,000 of senior certificates outstanding, or \$46,266,000, resulting in collateral in excess of our net book value of \$5,750,000.

The remaining \$3,364,000 of our REMIC Certificates are interest-only certificates that represent the present value of the expected cash flows resulting from the mortgage pools that result from the spread in interest that arises between what the underlying mortgage loans are paying in interest versus the interest being paid on the principal based certificates. These cash flows have been discounted at a rate of 35% to arrive at the estimated fair market value of the interest-only certificates.

During the nine months ended September 30, 2004, we acquired \$4,000,000 face value REMIC Certificates in a pool we originated from a third party for \$3,873,000 in cash, including accrued interest. Additionally, the 1994-1 REMIC Pool was fully retired. In exchange for our remaining interest in the 1994-1 REMIC Certificates we received four mortgage loans with an estimated fair value of \$11,819,000 and an unamortized principal balance of \$11,320,000. Accordingly, we recorded a \$499,000 premium on these loans which will be amortized as a yield adjustment over the remaining life of the loans. Subsequent to the retirement of the 1994-1 REMIC Pool, two of the loans we received in exchange for our remaining interest in the REMIC Certificates matured and we received the combined outstanding principal balance of \$4,144,000 in cash.

Interest only certificates and certificates with an investment rating of "BB" or higher are classified as available-for-sale and unrated certificates and certificates with an investment rating of "B" or lower are classified as held-to-maturity. As of September 30, 2004, available-for-sale certificates were recorded at their fair value of approximately \$9,519,000.

At September 30, 2004, held-to-maturity certificates had a book value of \$34,360,000 and an estimated fair value of \$23,913,000. As of September 30, 2004, 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 26.25% and 11.77%, respectively.

3. Notes Receivable

At September 30, 2004, we held a Promissory Note (or Note) issued by Healthcare Holdings, Inc. (or HHI), a wholly owned subsidiary of Centers for Long Term Care, Inc. (or CLC). The face value of the Note is \$9,150,000. The Note is for a term of five years and bears interest at 5.0%, compounded annually and accruing to the principal balance plus interest at 2.0% on the principal payable in cash annually. The Note is a full recourse obligation of HHI and is secured by all of the assets owned now or in the future by HHI and contains a provision for acceleration should there be a change of control of HHI or CLC. We agreed to waive this provision to allow CLC to enter into the Agreement and Plan of Merger. At September 30, 2004, HHI owned 1,452,794 shares of Assisted Living Concepts, Inc. (or ALC) common stock with a fair market value based on the closing price of ALC stock at September 30, 2004, of \$16,780,000. At September 30, 2004, our book value of the Note was \$5,245,000 which represented the fair market value of 1,238,076 ALC shares acquired by HHI on December 31, 2001, including a \$2,150,000 increase in the Note during 2003. In accordance with the terms of the Note, we received \$196,000 from HHI in March 2004 representing the 2.0% which is payable annually in cash in arrears. This amount was recognized as interest income in the first quarter of 2004. In addition, during the third quarter of 2004, we recognized \$177,000 of interest income for the period July 1 through

September 30, 2004. In the first quarter of 2003, we received \$140,000 from HHI representing the 2.0% interest which was applied to the line of credit CLC had outstanding with us at that time.

During 2004 ALC announced that they had engaged investment bankers to help them maximize shareholder value. ALC also announced that they had received several cash offers to purchase the stock of ALC.

At September 30, 2004, we held a Secured Term Note (or Secured Note) issued by CLC, a wholly owned subsidiary of Center Healthcare, Inc., a private company that purchased CLC according to an Agreement and Plan of Merger dated October 6, 2003 as discussed in *Note 8* of our Annual Report filed on Form 10-K for the year ended December 31, 2003. The face value of the Secured Note is \$8,867,000 which represents the balance due on a previous secured line of credit including unpaid interest and rents due and unpaid through April 30, 2003. The Secured Note is due October 1, 2008 and provides for interest of 8.0% compounded monthly and accruing to the principal balance from October 1, 2003 through September 30, 2004, and 8.0% compounded monthly payable in cash quarterly in arrears beginning October 2004. Our book value of the note was \$4,046,000 at September 30, 2004. During 2003 and through June 30, 2004, we accrued and reserved interest income on this note. During the third quarter of 2004, we recognized \$191,000 of interest income for the period July 1 through September 30, 2004. The Secured Note is secured by the ALC stock held by HHI.

Subsequent to September 30, 2004, we consolidated the Note with HHI and the Secured Note with CLC into one Amended, Restated and Consolidated Promissory Note (or Consolidated Note). The Consolidated Note has a principal balance of \$20,043,000 and interest rate of 8.0% per year compounded monthly and accruing to the balance of the note, matures on October 1, 2007 and is secured by all 1,452,794 shares of ALC common stock owned by HHI. Cash payments of principal and interest are due upon maturity. However, any proceeds from the sale of the collateral would result in a prepayment of the Consolidated Note. The Consolidated Note provides for up to \$1,000,000 in advances based upon certain terms and conditions of the note, \$658,000 of which we advanced to CLC during October 2004. At October 29, 2004, the book value of the Consolidated Note was \$10,141,000.

4. Debt Obligations

At September 30, 2004, we have no outstanding balances under our Unsecured Revolving Credit. During the nine months ended September 30, 2004, pricing under the Unsecured Revolving Credit ranged between LIBOR plus 2.75% and LIBOR plus 3.25%. Subsequent to September 30, 2004, we amended the Unsecured Revolving Credit to provide for an additional \$20,000,000 in the line of credit bringing the total line of credit under the Unsecured Revolving Credit to \$65,000,000.

As previously disclosed in *Note 11* of our Annual Report filed on Form 10-K for the year ended December 31, 2003, on October 2, 2002, we issued 1,500,000 book value units (or BVU), to the lenders under our old Secured Revolving Credit. The BVUs were disclosed as a contingent liability at December 31, 2003 and 2002. The number of BVUs issued represented 20,000 BVUs for each \$1,000,000 of outstanding commitment (\$75,000,000) as of October 2, 2002. For the BVUs to have value to the lenders our book value per common share at September 30, 2004, would have to be in excess of \$10.92. At September 30, 2004, our book value per common share was \$10.13 and as a result the BVUs have expired and we had no financial obligation and have no contingent liability related to them.

During the three and nine months ended September 30, 2004, we paid off \$27,824,000 and \$34,439,000, respectively, in mortgage notes payable to REMIC Pools we originated. Subsequent to September 30, 2004, we paid off \$12,243,000 in mortgage notes payable to REMIC Pools we originated.

5. Senior Mortgage Participation Payable

In 2002, we completed a loan participation transaction whereby we issued a \$30,000,000 senior participating interest in 22 of our first mortgage loans that had a total unpaid principal balance of \$58,627,000 (the "Participation Loan Pool") to a private bank. The Participation Loan Pool had a weighted average interest rate of 11.6% and a weighted average scheduled term to maturity of 77 months. The senior participation balance is secured by the entire Participation Loan Pool.

The senior participation receives interest at a rate of 9.25% per annum, payable monthly in arrears, on the then outstanding principal balance of the senior participation. In addition, the senior participation receives all mortgage principal collected on the Participation Loan Pool until the senior participation balance has been reduced to zero. We retain interest received on the Participation Loan Pool in excess of the 9.25% paid to the senior participation. The ultimate extinguishments of the senior participation are tied to the underlying maturities of loans in the Participation Loan Pool, which range from 6 to 167 months. We have accounted for the participation transaction as a secured borrowing under SFAS No. 140 "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*."

During the nine months ended September 30, 2004 and 2003, the senior participation received principal payments of \$632,000 and \$650,000, respectively. At September 30, 2004, \$17,618,000 was outstanding under the senior mortgage participation.

6. Stockholders' Equity

During the nine months ended September 30, 2004, we redeemed all 1,838,520 outstanding shares of Series A preferred stock and all 1,988,000 outstanding shares of Series B preferred stock. Accordingly we recognized the \$4,029,000 of original issue costs related to the Series A and Series B preferred stock as a preferred stock redemption charge in the nine months ended September 30, 2004. Also during the nine months ended September 30, 2004, we issued 4,000,000 shares of Series F Cumulative Preferred Stock (or Series F preferred stock) in a registered direct placement generating net cash proceeds of approximately \$98,454,000. The cash proceeds and cash on hand were used to redeem all of the outstanding shares of our Series A preferred stock and Series B preferred stock. The Series F preferred stock has a dividend rate of 8.0% and a liquidation value of \$25.00 per share. Dividends are cumulative from the date of original issue and are payable quarterly to stockholders of record on the first day of each quarter. The liquidation preference of the Series F preferred stock is *pari passu* with our other series of preferred stock. The Series F preferred stock has no voting rights, no stated maturity, nor is it subject to any sinking fund or mandatory redemption. On or after February 23, 2009, we may, at our option, redeem Series F preferred stock, in whole or from time to time in part, for \$25.00 per share in cash plus any accrued and unpaid dividends to the date of redemption. During the quarter ended September 30, 2004, we issued an additional

2,640,000 of Series F preferred stock in a registered direct placement. The additional Series F preferred stock was issued at \$23.53 per share plus accrued dividends and resulted in net proceeds of \$61,129,000 after expenses and fees. We have used approximately \$27,824,000 of cash since receipt of these funds to reduce our mortgage debt. The balance, as well as other operationally generated funds will be used for general corporate purposes which may include investments in and acquisitions of health care properties, the funding of mortgage loans secured by health care properties and payment of various mortgage debt.

During the three and nine months ended September 30, 2004, holders of 370,700 and 1,165,700 shares of our 8.5% Series E Cumulative Convertible Preferred Stock (Series E preferred stock), respectively, notified us of their election to convert such shares into 741,400 and 2,331,400 shares of our common stock, respectively, at the Series E preferred stock conversion rate of \$12.50 per share. Subsequent to September 30 2004, holders of 3,800 shares of our Series E preferred stock notified us of their election to convert such shares into 7,600 shares of our common stock. Subsequent to this most recent conversion, there are 1,030,500 shares of our Series E preferred stock outstanding and 20,435,483 shares of our common stock outstanding.

We declared and paid the following cash dividends (*in thousands*):

	Nine months ended September 30, 2004		Nine months ended September 30, 2003	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series A	\$ 1,019	\$ 1,860	\$ 5,461	\$ 5,461
Series B	1,118	1,491	3,358	3,358
Series C	2,454	2,454	2,455	2,455
Series E	2,465	3,084	167	—
Series F	5,864	2,822(1)	—	—
	12,920	11,711	11,441	11,274
Common Stock	16,030(2)	16,031(2)	7,103(3)	7,101(3)
Total	\$ 28,950	\$ 27,742	\$ 18,544	\$ 18,375

(1) Represents 113 days of accrued dividends.

(2) Represents \$0.25 per share in the first quarter of 2004, \$0.275 in the second quarter of 2004 and \$0.30 in the third quarter of 2004.

(3) Represents \$0.10 per share in the first quarter of 2003 and \$0.15 in the second and third quarters of 2003.

Subsequent to September 30, 2004, we declared a cash dividend of \$0.30 per share on our common stock payable on December 31, 2004, to stockholders of record on December 17, 2004.

During the nine months ended September 30, 2004, a total of 99,171 stock options were exercised at a total option value of approximately \$547,000 and a total market value as of the dates of exercise of approximately \$1,591,000.

In January 2004, two of our limited partners exercised their conversion rights and exchanged their interests in five of our limited partnerships. In accordance with the partnership agreements, at our option, we issued 168,365 shares of our common stock to one limited partner and paid approximately \$109,000 for the redemption of 7,027 shares owned by another limited partner. Since the market value of the common stock issued and cash paid was greater than the book value of the partnership interests received, we recognized a \$295,000 increase in the basis of the properties underlying the limited partnership interests acquired. In September 2004, we allowed one of our limited partners to exchange his interest in one of our limited partnerships. In accordance with the partnership agreement, at our option, we issued 40,036 shares of our common stock to the limited partner. Since the market value of the common stock issued was greater than the book value of the partnership interests received, we recognized a \$207,000 increase in the basis of the properties underlying the limited partnership interests acquired.

Subsequent to September 30, 2004, we allowed seven of our limited partners to exchange their interests in five of our limited partnerships. In accordance with the partnership agreements, at our option, we paid approximately \$8,388,000 to the limited partners in exchange for their partnership interests. Since the cash paid was greater than the book value of the partnership interests received, we recognized a \$1,786,000 increase in the basis of the properties underlying the limited partnership interests acquired. After these recent conversions, we only have one limited partnership remaining. We pay the limited partners in the remaining partnership a preferred return of approximately \$86,000 per quarter.

Other equity consists of the following (*in thousands*):

	September 30, 2004	December 31, 2003 (audited)
Notes receivable from stockholders	\$ (564)	\$ (2,792)
Deferred compensation	(251)	—
Accumulated comprehensive income	2,139	2,154
Total Other Equity	\$ 1,324	\$ (638)

During the nine months ended September 30, 2004, five notes receivable from stockholders with a combined balance of \$1,722,000 were paid in full. In addition, we recorded \$506,000 in principal payments. Two of these notes were from current members of our board of directors. At September 30, 2004, only one note receivable from a stockholder (a former employee) with a principal balance of \$564,000 remains. This note matures in December 2006.

On March 23, 2004, we filed a Form S-3 “shelf” registration which became effective April 5, 2004 and provides us with the capacity to offer up to \$200,000,000 in our debt and/or equity securities. As a result of our additional Series F preferred stock offering in July 2004, approximately \$137,882,000 is available under the “shelf” registration.

During the three months ended September 30, 2004, 9,100 shares of restricted stock were issued at \$17.22 per share. These shares vest ratably over a three year period. During the nine months ended September 30, 2004, 12,100 shares of restricted stock were issued at a weighted average of \$16.70 per share. Additionally, during the nine months ended September 30, 2004, 30,240 shares of unvested restricted stock were canceled. During the three and nine months ended September 30, 2004, \$121,000 and \$293,000 of

compensation expense was recognized related to the vesting of restricted stock. During the three and nine months ended September 30, 2003, \$0 and \$155,000 of compensation expense was recognized related to the vesting of restricted stock.

Prior to January 1, 2003, we accounted for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" (or APB 25) and related Interpretations. Historically, we granted stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. Under APB 25, because the exercise price of our employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized. Effective January 1, 2003, we adopted SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," on a prospective basis for all employee awards granted, modified or settled on or after January 1, 2003. No stock options were issued during the third quarter of 2004. However, during the nine months ended September 30, 2004, 30,000 options to purchase common stock were issued at an exercise price of \$15.13 and vest ratably over a three year period. Accordingly, \$6,000 and \$10,000 of compensation expense related to the vesting of these options was recognized during

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the three and nine months ended September 30, 2004, respectively. No compensation expense was recognized in 2003 related to stock option vesting since no options were issued or modified in 2003.

The following table illustrates the effect on net income and earnings per share as if the fair value method had been applied to all outstanding and unvested awards in each period (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income available to common stockholders, as reported	\$ 4,895	\$ 2,129	\$ 10,263	\$ 4,876
Add: Stock-based compensation expense in the period	6	—	10	—
Deduct: Total stock-based compensation expense determined under fair value method for all awards	(20)	(12)	(34)	(72)
Pro forma net income available to common stockholders	\$ 4,881	\$ 2,117	\$ 10,239	\$ 4,804
Net income per common share available to common stockholders:				
Basic – as reported	\$ 0.25	\$ 0.12	\$ 0.54	\$ 0.27
Basic – pro forma	\$ 0.25	\$ 0.12	\$ 0.54	\$ 0.27
Diluted – as reported	\$ 0.24	\$ 0.12	\$ 0.53	\$ 0.27
Diluted – pro forma	\$ 0.24	\$ 0.12	\$ 0.53	\$ 0.27

Note: Adjustments to compensation expense related to restricted shares has been excluded from this table since expense for restricted shares is already reflected in net income and is the same under APB No. 25 and SFAS No. 123.

7. Major Operators

There are two companies that lease properties directly from us that each represent between 10% and 20% of our total assets. One of these companies, Assisted Living Concepts, Inc. (or ALC), is publicly traded and thus files quarterly financial information with the Securities and Exchange Commission and the other is privately owned and thus no public financial information is available. The following table summarizes ALC's assets, stockholders' equity, annual revenue and net income from continuing operations as of or for the three months ended June 30, 2004, per the lessee's public filings:

	Assisted Living Concepts, Inc. (in thousands)
Current assets	\$ 14,661
Non-current assets	187,537
Current liabilities	28,695
Non-current liabilities	138,900
Stockholders' equity	34,603
Gross revenue	86,257
Operating expenses	76,697
Income from continuing operations	4,106
Net income	4,106
Cash provided by operations	8,646
Cash used in investing activities	(2,453)
Cash used in financing activities	(7,950)

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ALC leases 37 assisted living properties with a total of 1,434 units we own representing approximately 12.3%, or \$70,838,000, of our total assets net of \$17,267,000 of accumulated depreciation (\$88,105,000 gross asset value) at September 30, 2004.

In January 2004, we received \$12,374,000 in cash, from ALC as full redemption, face value plus accrued interest, of ALC Senior and Junior Notes we held. The notes were redeemed at face value plus accrued and unpaid interest as of the redemption date. See Note 3. Notes Receivable for a discussion of a note we have with HHI which is secured by 1,452,794 shares of ALC's common stock owned by HHI.

Prior to and during second quarter 2004, Andre C. Dimitriadis, our Chairman and Chief Executive Officer, served as a Director on the Board of ALC. On September 10, 2004, Mr. Dimitriadis resigned as a Director of ALC.

Alterra Healthcare Corporation (or Alterra) leases 35 assisted living properties with a total of 1,416 units we own representing approximately 12.1%, or \$69,711,000, of our total assets net of \$14,483,000 of accumulated depreciation (\$84,194,000 gross asset value) at September 30, 2004. Alterra announced on January 22, 2003, that it had filed a

voluntary petition with the U.S. Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Alterra emerged from bankruptcy in December 2003 as a non-publicly traded company. All of our leases with Alterra were assumed, without change, by the reorganized Alterra. Alterra does not make consolidated financial information available to us.

Our financial position and our ability to make distributions may be adversely affected by financial difficulties experienced by ALC and Alterra or any of our other lessees and borrowers, including bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

8. Earnings per Share

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2004	2003	2004	2003
Net income	\$ 9,288	\$ 6,053	\$ 27,212	\$ 16,317
Preferred stock redemption charges	—	—	(4,029)	—
Preferred stock dividends	(4,393)	(3,924)	(12,920)	(11,441)
Net income for basic net income per share	4,895	2,129	10,263	4,876
Effect of dilutive securities:				
Other dilutive securities	537	—	—	—
Net income for diluted net income per share	\$ 5,432	\$ 2,129	\$ 10,263	\$ 4,876
Shares for basic net income per share	19,960	17,803	19,041	17,847
Effect of dilutive securities:				
Stock options	123	138	139	119
Other dilutive securities	2,527	—	—	—
Shares for diluted net income per share	22,610	17,941	19,180	17,966
Basic net income per share	\$ 0.25	\$ 0.12	\$ 0.54	\$ 0.27
Diluted net income per share	\$ 0.24	\$ 0.12	\$ 0.53	\$ 0.27

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

Operating Results

Three months ended September 30, 2004 compared to three months ended September 30, 2003

Revenues for the three months ended September 30, 2004, increased to \$17.1 million from \$15.9 million for the same period in 2003. Rental income for the three months ended September 30, 2004, increased \$1.7 million primarily as a result of the effect of receiving rent for the entire third quarter of 2004 on properties formerly leased to Sun Healthcare Group, Inc. (or Sun) as compared to receiving no rent from Sun in the third quarter of 2003 (\$0.4 million), receiving rent in 2004 on properties formerly leased to Centers for Long Term Care (or CLC) which were on non-accrual in the third quarter of 2003 (\$0.6 million), the receipt of rent from properties acquired in 2003 and 2004 (\$0.2 million), an increase due to straight-line rental income (\$0.3 million), new leases and rental increases provided for in existing lease agreements (\$0.2 million). Same store rental income, properties owned for the three months ended September 30, 2004, and the three months ended September 30, 2003, and excluding straight-line rental income, increased \$1.3 million due to the effect of receiving rent for the entire quarter of 2004 on properties formerly leased to Sun and CLC as noted above and rental increases provided for in existing lease agreements. Interest income from mortgage loans and notes receivable decreased \$0.4 million from the prior year due to the pay off loans and the conversion of one loan into an owned property, partially offset by the receipt of interest from new loans. Interest income from REMIC Certificates for the three months ended September 30, 2004 decreased \$0.7 million compared to the same period of 2003 due to the dissolution of the 1994-1 REMIC Pool, the amortization of our remaining REMIC Certificates and the early payoff of certain mortgage loans underlying our investment in REMIC Certificates. Interest and other income for the three months ended September 30, 2004, increased \$0.6 million due to the receipt of \$0.8 million of prepayment penalties associated with the early payoff of certain mortgages underlying our investment in REMIC Certificates, partially offset by the decrease in interest income from our investment in Assisted Living Concepts, Inc. Senior and Junior Notes that were redeemed in January 2004 as discussed in *Note 7* of the financial statements.

Interest expense decreased by \$1.8 million to \$2.8 million for the three months ended September 30, 2004, from \$4.6 million during the same period in 2003, due to the payoff of mortgage loans and a decrease in average borrowings outstanding during the period and a decrease in the amortization of debt issue costs on our Unsecured Revolving Credit compared to the amortization of debt issue costs on the Secured Revolving Credit we had in the third quarter of 2003.

Depreciation and amortization expense for the third quarter of 2004 increased \$0.2 million from the third quarter of 2003 due to acquisitions.

Legal expenses were \$0.2 million lower in the third quarter of 2004 due to lower legal costs for general litigation defense. Operating and other expenses were \$0.1 million higher in the third quarter of 2004 due to the reimbursement in 2003 of property taxes paid on behalf of certain operators.

During the three months ended September 30, 2004, our net loss from discontinued operations was \$0.04 million. During the third quarter of 2004, we sold two skilled nursing properties resulting in a loss on sale of \$0.1 million. During the third quarter of 2003, we reported a net loss from discontinued operations of \$0.2 million comprised of a \$0.3 million loss on sale of assets, partially offset by \$0.1 million income related to properties that were sold. This reclassification was made in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations."

Net income available to common stockholders increased to \$4.9 million for the three months ended September 30, 2004, from \$2.1 million for the same period in 2003 primarily due to the increases in revenue and lower interest expense in 2004 as discussed above.

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Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

Revenues for the nine months ended September 30, 2004, increased to \$50.6 million from \$47.4 million for the same period in 2003. Rental income for the nine months ended September 30, 2004, increased \$5.1 million primarily as a result of the effect of receiving rent for the entire nine months of 2004 on properties formerly leased to Sun Healthcare Group, Inc. (or Sun) as compared to receiving one month of rent from Sun in 2003 (\$1.0 million), receiving rent in 2004 on properties formerly leased to Centers for Long Term Care (or CLC) which were on non-accrual in the first eight months of 2003 (\$2.8 million), the receipt of rent from properties acquired in 2003 and 2004 (\$0.4 million), an increase due to straight-line rental income (\$0.8 million), new leases and rental increases provided for in existing lease agreements (\$0.6 million) partially offset by the one time receipt in 2003 of past due rents on non-accrual (\$0.5 million). Same store rental income, properties owned for the nine months ended September 30, 2004, and the nine months ended September 30, 2003, and excluding straight-line rental income, increased \$3.8 million due to the effect of receiving rent in 2004 on properties formerly leased to Sun and CLC as noted above and rental increases provided for in existing lease agreements. Interest income from mortgage loans and notes receivable decreased \$0.9 million from prior year due to the pay off of loans and the conversion of loans into owned properties partially offset by the receipt of interest from new loans. Interest income from REMIC Certificates for the nine months ended September 30, 2004, decreased \$1.6 million compared to the same period of 2003 due to dissolution of the 1994-1 REMIC Pool, the amortization of our remaining REMIC Certificates and the early payoff of certain mortgage loans underlying our investment in REMIC Certificates. Interest and other income for the nine months ended September 30, 2004, increased \$0.5 million due to the receipt of \$0.8 million of prepayment penalties associated with the early payoff of certain mortgages underlying our investment in REMIC Certificates partially offset by the redemption of Assisted Living Concepts, Inc. Senior and Junior Notes as discussed in *Note 7* of the financial statements.

Interest expense decreased by \$5.1 million to \$9.5 million for the nine months ended September 30, 2004, from \$14.6 million during the same period in 2003, due to payoffs of mortgage loans and a decrease in average borrowings outstanding during the period and a decrease in amortization of debt issue costs on our Unsecured Revolving Credit compared to the amortization of debt issue costs on the Secured Revolving Credit we had in the nine months of 2003.

Depreciation and amortization expense for the nine months ended September 30, 2004, increased \$0.4 million from the same period in of 2003 due to acquisitions.

We recorded a \$1.3 million impairment charge during the nine months ended September 30, 2003, related to a mortgage loan on one skilled nursing property that was closed in 2002 and not reopened or sold and the reclassification of the fair market value adjustment on available-for-sale interest-only REMIC Certificates from comprehensive income to realized loss. No impairment charge was taken in the same period of 2004.

Legal expenses were \$0.9 million lower in the nine months ended September 30, 2004, due to lower legal costs for general litigation defense. Operating and other expenses decreased \$0.2 million due to lower payments made in 2003 on behalf of certain operators and for closed and unsold properties.

During the nine months ended September 30, 2004, net income from discontinued operations was \$0.8 million. During 2004, we sold five skilled nursing properties resulting in a gain on sale of \$0.6 million. During the same period in 2003, we reported net income from discontinued operations of \$0.3 million related to properties that were sold. This reclassification was made in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations."

During the nine months ended September 30, 2004, we redeemed all of our outstanding Series A and Series B preferred stock. Accordingly, we recognized a \$4.0 million preferred stock redemption charge related to the original issue costs of the preferred stock redeemed. In addition, preferred stock dividends were \$1.5 million

higher in the nine months ended September 30, 2004, as compared to the prior year due to the issuance of Series E and Series F preferred stock and the timing of the Series A and Series B preferred stock redemption.

Net income available to common stockholders increased to \$10.3 million for the nine months ended September 30, 2004 from \$4.9 million for the same period in 2003 primarily due to the increases in revenue, no impairment charge in 2004, and lower interest expense in 2004 partially offset by a \$4.0 million preferred stock redemption charge and a \$1.5 million increase in preferred stock dividends as discussed above.

Liquidity and Capital Resources

At September 30, 2004, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$464.2 million invested primarily in owned long-term care properties, mortgage loans of approximately \$76.8 million (net of a \$1.3 million reserve) and subordinated REMIC Certificates of approximately \$43.9 million with a weighted average effective yield of 15.0%. At September 30, 2004 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was \$82.4 million and 7.1%. Our portfolio, excluding our subordinated REMIC Certificates, consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 88 skilled nursing properties, 96 assisted living properties and two schools in 31 states.

For the nine months ended September 30, 2004, we had net cash provided by operating activities of \$38.2 million. During the nine months ended 2004 we acquired two mortgage loans from a REMIC pool we originated for \$4.3 million, which represented the outstanding loan balances. Additionally, we originated one new mortgage loan for \$1.9 million secured by a 156 bed skilled nursing property in Georgia and purchased \$4.0 million face value REMIC Certificates in a pool we originated from a third party for \$3.9 million in cash including accrued interest. During the nine months ended September 30, 2004, we acquired a 120 bed skilled nursing property in Texas for a total of \$3.4 million in cash. The property is leased to a third party operator under a 20 year lease with annual lease revenue of \$0.4 million in the first year and increasing 2% annually. We also purchased a 165 bed skilled nursing property in Texas for a total cost basis of \$2.2 million including the assumption of a \$2.1 million mortgage loan payable to a REMIC Pool we originated. Subsequent to the acquisition we paid off the loan in its entirety. The property is leased to a third party operator under a two year lease with annual revenue of \$0.2 million. The lease contains one two year option to extend the lease at a 33.3% increase in rent. Additionally, we invested \$0.5 million in building improvements. During the nine months ended September 30, 2004, we sold five skilled nursing properties for \$6.4 million resulting in a gain on sale of \$0.6 million and net proceeds of \$4.7 million after a \$1.5 million principal payment on mortgage loans secured by the properties sold. We also received \$7.4 million in principal payments on mortgage loans receivable, \$7.7 million in principal payments on REMIC Certificates and \$12.3 million from Assisted Living Concepts, Inc. (or ALC) as full redemption of the ALC Senior and Junior Notes we held as investments. The notes were redeemed at face value plus accrued and unpaid interest as of the redemption date and the proceeds were used to reduce amounts outstanding under our Unsecured Revolving Credit.

During the nine months ended September 30, 2004, we borrowed \$36.5 million and repaid \$36.5 million under our Unsecured Revolving Credit. In January 2004, we issued 4.0 million shares of 8.0% Series F Cumulative Preferred Stock (or Series F preferred stock) (see *Note 6* of the financial statements) which generated net cash proceeds of approximately \$98.5 million. The cash proceeds plus cash on hand and borrowings under our Unsecured Revolving Credit were used to redeem all of the outstanding shares of our Series A and Series B preferred stock for \$126.3 million which represented the \$25.00 liquidation price per share plus all accrued and unpaid dividends through the redemption date. In July 2004 we issued an additional 2.6 million shares of Series F preferred stock in a registered direct placement. The additional Series F preferred stock was issued at \$23.53 per share plus accrued dividends and resulted in net proceeds of \$61.1 million after expenses and fees. We have used approximately \$27.8 million of cash since receipt of these funds to reduce our mortgage debt. The balance, as well as other operationally generated funds will be used for general corporate purposes which may include investments in and

acquisitions of health care properties, the funding of mortgage loans secured by health care properties and payment of various mortgage debt.

During the nine months ended September 30, 2004, \$0.6 million in principal was received by the non-recourse senior mortgage participation holder and we paid \$36.6 million in principal payments on mortgage loans and capital lease obligations including \$34.4 million of mortgage debt repaid prior to maturity. The mortgages repaid were held in a REMIC Pool we originated.

During the nine months ended September 30, 2004, we paid cash dividends on our Series A, Series B, Series C, Series E, and Series F preferred stocks totaling \$1.9 million, \$1.5 million, \$2.4 million, \$3.1 million and \$2.8 million respectively. Additionally, we declared and paid cash dividends on our common stock totaling \$16.0 million. Subsequent to September 30, 2004, we declared a \$0.30 dividend per share on our common stock payable on December 31, 2004.

During the nine months ended September 30, 2004, we received \$2.2 million in principal payments on notes receivable from stockholders including \$1.7 million in repayments prior to maturity. At September 30, 2004, we only have one note receivable from a stockholder with a principal balance of \$0.6 million outstanding. This note matures in December 2006.

In January 2004 two of our limited partners exercised their conversion rights and exchanged their interests in five of our limited partnerships. In accordance with the partnership agreements, at our option, we issued 168,365 shares of our common stock to one limited partner and paid approximately \$0.1 million for the redemption of 7,027 shares owned by another limited partner. Since the market value of the common stock issued and cash paid was greater than the book value of the partnership interests received, we recognized a \$0.3 million increase in the basis of the properties underlying the limited partnership interests acquired. In September 2004, we allowed one of our limited partners to exchange his interest in one of our limited partnerships. At our option, we issued 40,036 shares of our common stock to the limited partner. Since the market value of the common stock issued was greater than the book value of the partnership interests received, we recognized a \$0.2 million increase in the basis of the properties underlying the limited partnership interests acquired. Subsequent to September 30, 2004, we allowed seven of our limited partners to exchange their interests in five of our limited partnerships. At our option, we paid approximately \$8.4 million to the limited partners in exchange for their partnership interests. Since the cash paid was greater than the book value of the partnership interests received, we recognized a \$1.8 million increase in the basis of the properties underlying the limited partnership interests acquired. After these recent conversions, we only have one limited partnership remaining. We pay the limited partners in the remaining partnership a preferred return of approximately \$0.1 million quarterly.

During the nine months ended September 30, 2004, holders of 1,165,700 shares of our 8.5% Series E Cumulative Convertible Preferred Stock (or Series E preferred stock) notified us of their election to convert such shares into 2,331,400 shares of our common stock at the Series E preferred stock conversion rate of \$12.50 per share. Subsequent to September 30, 2004, holders of 3,800 shares of our Series E preferred stock notified us of their election to convert such shares into 7,600 shares of our common stock. Subsequent to this most recent conversion, there are 1,030,500 shares of our Series E preferred stock outstanding and 20,435,483 shares of our common stock outstanding.

On March 23, 2004, we filed a Form S-3 "shelf" registration statement which became effective April 5, 2004, and provides us with the capacity to offer up to \$200.0 million in our debt and/or equity securities. As a result of our additional Series F preferred stock offering in July 2004, approximately \$137.9 million is available under the "shelf" registration.

Subsequent to September 30, 2004, we originated one new mortgage loan secured by a 62 unit assisted living property in South Carolina. The principal balance of the new loan is \$2.0 million and the amount funded to the borrower after fees and tax impounds was \$1.9 million. This mortgage loan has a five year term and bears interest at 11.0% annually. At September 30, 2004, we had a commitment to fund a \$6.0 million mortgage loan secured by two assisted living properties in Texas. The loan, if funded, will have a three year terms and bear interest at 11.0% annually. We

also had a commitment to fund a \$6.8 million mortgage loan secured by two skilled nursing properties and one assisted living property in Florida. This mortgage loan, if funded, will have a term of five years, have an initial annual interest rate of 10.75% and increase ten basis points annually.

Subsequent to September 30, 2004, we consolidated two notes receivable with Centers for Long Term Care, Inc. (or CLC) and Healthcare Holdings, Inc. (or HHI) into one Amended, Restated and Consolidated Promissory Note (or Consolidated Note), see *Note 3* of the financial statements. The Consolidated Note has a principal balance of \$20.0 million, an interest rate of 8.0% per year compounded monthly and accruing to the balance of the note, matures on October 1, 2007 and is secured by all 1,452,794 shares of Assisted Living Concepts, Inc. (or ALC) stock owned by HHI. Cash payments of principal and interest are due upon the sale of the collateral or maturity. The Consolidated Note provides for up to \$1.0 million in advances based upon certain terms and conditions of the note. During October 2004 we advanced \$0.7 million to CLC under the terms of the Consolidated Note. At October 29, 2004, the book value of the Consolidated Note was \$10.1 million

Subsequent to September 30, 2004, we paid off \$12.2 million in mortgage notes payable to REMIC Pools we originated.

As previously disclosed in *Note 11* of our Annual Report filed on Form 10-K for the year ended December 31, 2003, on October 2, 2002, we issued 1,500,000 book value units (or BVU), to the lenders under our old Secured Revolving Credit. The BVUs were disclosed as a contingent liability at December 31, 2003 and 2002. The number of BVUs issued represented 20,000 BVUs for each \$1.0 million of outstanding commitment (\$75.0 million) as of October 2, 2002. For the BVUs to have value to the lenders our book value per common share at September 30, 2004, would have to be in excess of \$10.92. At September 30, 2004, our book value per common share was \$10.13 and as a result the BVUs have expired and we had no financial obligation and have no contingent liability related to them.

We expect our future income and ability to make distributions from cash flows from operations to depend on the collectibility of our 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 properties and assisted living properties we own or are pledged to us and the school we own. The operating results of the facilities will be impacted by various factors over which the operators/owners may have no control. Those factors include, without limitation, the status of the economy, changes in supply of or demand for competing long-term care facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term care industry. In addition, our 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. We cannot presently predict what impact these proposals may have, if any. We believe that an adequate provision has been made for the possibility of loans proving uncollectible but we will continually evaluate the status of the operations of the skilled nursing facilities, assisted living facilities and the school. In addition, we will monitor our borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

Our investments, principally our 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 our costs of financing our operations and the fair market value of our financial assets. Generally our loans have predetermined increases in interest rates and our leases have agreed upon annual increases. Inasmuch as we may initially fund some of our investments with variable interest rate debt, we are at risk of net interest margin deterioration if medium and long-term rates were to increase.

All but \$4.0 million face value of the REMIC Certificates we hold are subordinate in rank and right of payment to the certificates sold to third-party investors and as such would, in most cases, bear the first risk of loss in the event of impairment to any of the underlying mortgages. The returns on our investment in REMIC Certificates are subject to 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).

We believe that our current cash flow from operations available for distribution or reinvestment, our current borrowing capacity and (based on market conditions) our ability to issue debt and equity securities are sufficient to provide for payment of our current operating costs, meet debt obligations, provide funds for distribution to the holders of our preferred stock and pay common dividends at least sufficient to maintain our REIT status and repay borrowings at, or prior to, their maturity.

Critical Accounting Policies

Effective January 1, 2003, we adopted Statement of Financial Accounting Standard (or SFAS) No. 148 "*Accounting for Stock-Based Compensation – Transition and Disclosure*." SFAS No. 148 amends SFAS No. 123 "*Accounting for Stock-Based Compensation*" to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28 "*Interim Financial Reporting*" to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy for stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 provides three transition methods for entities that adopt the fair value recognition provisions of SFAS No. 123 for stock-based employee compensation. In addition to the prospective method originally provided under SFAS No. 123, SFAS No. 148 provides for a modified prospective method and a retroactive restatement method. We have adopted the prospective method and therefore will recognize compensation expense related to all employee stock-based awards granted, modified or settled after January 1, 2003.

We use the Black-Scholes model for calculating stock option expense. This model requires management to make certain estimates including stock volatility, discount rate and the termination discount factor. If management incorrectly estimates these variables, the results from operations could be affected. Prior to January 1, 2003, we accounted for stock option grants in accordance with APB Opinion No. 25, "*Accounting for Stock Issued to Employees*" (APB 25) and related Interpretations. Historically, we granted stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. Under APB 25, because the exercise price of our employee stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

As of September 30, 2004, there were 200,300 options outstanding subject to the disclosure requirements of SFAS No. 148. 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 prior years, the weighted average expected life assumption was five years, the weighted average volatility was 0.49 and the weighted average risk free interest rate was 3.80%. For options granted in 2004, the weighted average expected life assumption was three years, the weighted average volatility was 0.39 and the weighted average risk free interest rate was 3.18%. At September 30, 2004, the weighted average fair value of the options outstanding was estimated to be \$1.13 per share, the weighted average exercise price of the options was \$7.1 per share and the weighted average remaining vesting life was 1.5 years. See Note 6 of the financial statements for further discussion.

For further discussion of our critical accounting policies, see our Annual Report filed on Form 10-K for the year ended December 31, 2003.

Statement Regarding Forward Looking Disclosure

Certain information contained in this report includes forward looking statements, which can be identified by the use of forward looking terminology such as "may," "will," "expect," "should" or comparable terms or negatives thereof. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include (without limitation) the following: the effect of economic and market conditions and changes in interest rates, government policy changes relating to the health care industry including changes in reimbursement levels under the Medicare and Medicaid programs, changes in reimbursement by other third party payors, the financial strength of the operators of our properties as it affects the continuing ability of such operators to meet their obligations to us under the terms of our agreements with our borrowers and operators, the amount and the timing of additional investments, access to capital markets and changes in tax laws and regulations. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2003, including factors identified under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, we assume no obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Item 3. 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.

We do not utilize interest rate swaps, forward or option contracts or foreign currencies or commodities, or other types of derivative financial instruments. The purpose of the following disclosure is to provide a framework to understand our sensitivity to hypothetical changes in interest rates as of September 30, 2004.

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 investments in REMIC Certificates and fixed rate debt. For variable rate debt, such as our Unsecured Revolving Credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows.

At September 30, 2004, based on the prevailing interest rates for comparable loans and estimates made by management, the fair value of our mortgage loans receivable was approximately \$72.5 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately \$3.2 million while a 1% decrease in

such rates would increase their estimated fair value by approximately \$3.5 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.

The estimated impact of changes in interest rates discussed above are determined by considering the impact of the hypothetical interest rates on our borrowing costs, lending rates and current U.S. Treasury rates from which our financial instruments may be priced. We currently 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 4. CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2004 (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, these officers have concluded that as of September 30, 2004, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms.

During the period covered by this report, there have been no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed as exhibits to this report:

- 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 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)
- 3.3 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)
- 3.4 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)
- 3.5 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)
- 3.6 Articles Supplementary Classifying 40,000 shares of Series D Junior Participating Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 4.7 to LTC Properties, Inc.'s Registration Statement on Form 8-A filed on May 9, 2000)
- 3.7 Articles Supplementary, reclassifying 5,000,000 shares of common stock into preferred stock (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Registration Statement on Form S-3 filed on June 27, 2003)
- 3.8 Articles Supplementary Classifying 2,200,000 shares of 8.5% Series E Cumulative Convertible Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 3.2 to LTC Properties, Inc.'s Current Report on Form 8-K filed on September 17, 2003)
- 3.9 Articles Supplementary Classifying 4,000,000 shares of 8.0% Series F Cumulative Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 4.1 to LTC Properties, Inc.'s Current Report on Form 8-K filed on February 19, 2004)
- 3.10 Articles Supplementary, reclassifying and designating 40,000 shares of Series D Junior Participating Preferred Stock of LTC Properties, Inc. to authorized but unissued preferred stock (incorporated by reference to Exhibit 4.2 to LTC Properties, Inc.'s Current Report on Form 8-K filed on March 19, 2004)

- 3.11 Articles Supplementary Reclassifying 3,080,000 Shares of 9.5% Series A Cumulative Preferred Stock and 2,000,000 Shares of 9% Series B Cumulative Preferred Stock filed April 1, 2004 (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004)
- 3.12 Articles of Amendment replacing Section 7.1 regarding shares of stock authorized for issue is 60,000,000; made up of 45,000,000 common and 15,000,000 preferred shares filed June 24, 2004 (incorporated by reference to Exhibit 3.12 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q

for the quarter ended June 30, 2004).

- 3.13 Articles Supplementary Classifying an additional 2,640,000 Shares of 8.0% Series F Cumulative Preferred Stock filed July 16, 2004 (incorporated by reference to Exhibit 3.13 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
- 3.14 Certificate of Correction to Articles of Amendment filed on June 24, 2004. Changes par value of authorized shares of stock from \$650,000 to \$600,000.
- 10.1 Employment Agreement of Pamela Shelley-Kessler dated August 9, 2004.
- 10.2 Employment Agreement of Peter Lyew dated August 9, 2004.
- 10.3 Employment Agreement of Clint Malin dated August 9, 2004.
- 10.4 First Amendment to Credit Agreement dated September 17, 2004.
- 10.5 Second Amendment to Credit Agreement dated October 5, 2004.
- 10.6 Amended Restated and Consolidated Promissory Note dated October 1, 2004 with CLC Healthcare, Inc. and Healthcare Holdings, Inc. as Payee and LTC Properties, Inc. as Maker.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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.

* Certification will not be deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934

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(b) Reports on Form 8-K

On July 20, 2004, we filed a Current Report on Form 8-K dated July 20, 2004 announcing the issuance and sale of 2,640,000 shares of the 8% Series F Cumulative Preferred Stock.

On July 21, 2004, we filed a Current Report on Form 8-K dated July 21, 2004 reporting our press release announcing the operating results for the six months ended June 30, 2004.

On September 14, 2004 we filed a Current Report on Form 8-K dated September 13, 2004 reporting our engagement of Cohen & Steers, Capital Advisors, LLC to identify and distribute to a select list of potential lessees an Information Memorandum regarding 37 properties currently under lease to Assisted Living Concepts, Inc.

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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: November 3, 2004

By: /s/ WENDY L. SIMPSON
Wendy L. Simpson
Vice Chairman and Chief Financial Officer

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LTC PROPERTIES, INC.

CERTIFICATE OF CORRECTION

LTC PROPERTIES, INC., a Maryland corporation (the "Corporation") hereby certifies to the State Department of Assessments and Taxation of Maryland (the "Department") that:

FIRST: On June 24, 2004, Articles of Amendment of the Corporation (the "Articles of Amendment") were filed with the Department. The Corporation is the only party to the Articles of Amendment.

SECOND: The Articles of Amendment contained a typographical error, error of transcription or other error and the Corporation desires to correct such error by filing this Certificate of Correction.

THIRD: The error appears in Article FOURTH of the Articles of Amendment which reads:

FOURTH: Immediately following the amendment contained in these Articles of Amendment, the total number of shares of stock of all classes which the Corporation has authority to issue is Sixty-Five Million (65,000,000), consisting of Forty-Five Million (45,000,000) shares of Common Stock and Fifteen Million (15,000,000) shares of Preferred Stock, and the aggregate par value of all such authorized shares of stock having par value is Six Hundred Fifty Thousand Dollars (\$650,000).

FOURTH: Article FOURTH of the Articles of Amendment, as corrected, reads as follows:

FOURTH: Immediately following the amendment contained in these Articles of Amendment, the total number of shares of stock of all classes which the Corporation has authority to issue is Sixty Million (60,000,000), consisting of Forty-Five Million (45,000,000) shares of Common Stock and Fifteen Million (15,000,000) shares of Preferred Stock, and the aggregate par value of all such authorized shares of stock having par value is Six Hundred Thousand Dollars (\$600,000).

FIFTH: The undersigned Vice-Chairman of the Board of Directors of the Corporation acknowledges this Certificate of Correction to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Vice-Chairman of the Board of Directors of the Corporation acknowledges that, to the best of her knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties of perjury.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Correction to be signed in its name and on its behalf by the Vice Chairman of the Board of Directors of the Corporation and attested to by its Secretary on this 2nd day of August, 2004.

ATTEST:

LTC PROPERTIES, INC.

/s/ Alex Chavez
 Alex Chavez
 Secretary

By: /s/ Wendy L. Simpson (SEAL)
 Wendy L. Simpson
 Vice Chairman of the Board of Directors

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), effective as of August 9, 2004, is by and between **LTC Properties, Inc.**, a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and **Pamela Shelley-Kessler** ("Executive").

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 Vice President and Controller. In such capacity, Executive shall report to the Chief Financial Officer of the Company, and shall have such duties, powers and responsibilities as are customarily assigned to a Vice President and Controller 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 Financial Officer may assign her, with her consent, including serving with the consent or at the request of the Chief Executive Officer as an officer or on the board of directors of affiliated corporations.

2. Term of Agreement. The term of this Agreement shall commence as of the date hereof and shall extend such that at each and every moment of time hereafter the remaining term shall be one year.

3. Acceptance of Position. Executive accepts the position of Vice President and Controller of LTC, and agrees that during the term of this Agreement she will faithfully perform her duties and, except as expressly approved by the Board of Directors of LTC, will devote substantially all of her business time to the business and affairs of LTC, and will not engage, for her 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 her 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 One Hundred Sixty Thousand Dollars (\$160,000) per annum ("Base Salary"), 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 set forth in Section 1 hereof 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 her 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 executive personnel; (iii) a direction by the Board of Directors that Executive report to any person or group other than the Chief Executive Officer and/or Chief Financial Officer or the Board of Directors, or (iv) a geographic relocation of Executive's place of work a distance for more than seventy-five (75) miles from LTC's offices located at 22917 Pacific Coast Hwy, Suite 350, Malibu, 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 common control, with the Person specified;

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(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 her 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 30% or more 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, and in the event of a Change in Control, whether or not Executive's employment is terminated thereby, Section 6(b) 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 her 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 her Base Salary, and all stock options and/or restricted stock shall automatically vest concurrently upon a Change in Control, notwithstanding any prior existing vesting schedule;
- (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 terminated 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 her death, all benefits provided in this Section 6 shall be paid to her estate or as her 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 her 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;

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 her 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 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 directors and officers insurance 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 attorney 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/his address set forth below its/his signature hereto, or at such other address as may be designated with postage prepaid, shall be deemed given when received.

11. Construction. In constructing 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 provisions. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning in effect shall be given to the captions of the sections in this Agreement, which are inserted for convenience of reference only.

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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.

IN WITNESS WHEREOF, this Agreement shall be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland corporation

Address: 22917 Pacific Coast Hwy
Suite 350
Malibu, California 90265

/s/ Andre C. Dimitriadis
Andre C. Dimitriadis
Chairman and Chief Executive Officer

By: /s/ Edmund C. King
Compensation Committee Representative

Address: 2138 Bridgegate Court
Westlake Village, CA 91361

/s/ Pamela Shelley-Kessler
Pamela Shelley-Kessler

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EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), effective as of August 9, 2004, is by and between **LTC Properties, Inc.**, a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and **Peter Lyew ("Executive")**.

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 Vice President and Director of Taxes. In such capacity, Executive shall report to the Chief Financial Officer of the Company, and shall have such duties, powers and responsibilities as are customarily assigned to a Vice President and Director of Taxes 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 Financial Officer may assign him, with his consent, including serving with the consent or at the request of the Chief Executive Officer as an officer or on the board of directors of affiliated corporations.

2. Term of Agreement. The term of this Agreement shall commence as of the date hereof and shall extend such that at each and every moment of time hereafter the remaining term shall be one year.

3. Acceptance of Position. Executive accepts the position of Vice President and Director of Taxes 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 One Hundred Twenty Eight Thousand Dollars (\$128,000) per annum ("Base Salary"), 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

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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 set forth in Section 1 hereof 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 executive personnel; (iii) a direction by the Board of Directors that Executive report to any person or group other than the Chief Executive Officer and/or Chief Financial Officer or the Board of Directors, or (iv) a geographic relocation of Executive's place of work a distance for more than seventy-five (75) miles from LTC's offices located at 22917 Pacific Coast Hwy, Suite 350, Malibu, California;

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(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 30% or more 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.

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(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, and in the event of a Change in Control, whether or not Executive's employment is terminated thereby, Section 6(b) 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 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 his Base Salary, and all stock options and/or restricted stock shall automatically vest concurrently upon a Change in Control, notwithstanding any prior existing vesting schedule;

(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 terminated 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;

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(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;

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 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 directors and officers insurance 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 attorney 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/his address set forth below its/his signature hereto, or at such other address as may be designated with postage prepaid, shall be deemed given when received.

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11. Construction. In constructing 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 provisions. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning in 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.

IN WITNESS WHEREOF, this Agreement shall be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland corporation

Address: 22917 Pacific Coast Hwy
Suite 350
Malibu, California 90265

/s/ Andre C. Dimitriadis
Andre C. Dimitriadis
Chairman and Chief Executive Officer

By: /s/ Edmund C. King
Compensation Committee Representative

Address: 12049 Jeanette Place
Granada Hills, CA 91344

/s/ Peter Lyew
Peter Lyew

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EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), effective as of August 9, 2004, is by and between **LTC Properties, Inc.**, a corporation organized under the laws of the State of Maryland ("LTC" or the "Company"), and **Clint Malin ("Executive")**.

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 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 a Vice President and Chief Investment 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 Chief Executive Officer as an officer or on the board of directors of affiliated corporations.

2. Term of Agreement. The term of this Agreement shall commence as of the date hereof and shall extend such that at each and every moment of time hereafter the remaining term shall be one year.

3. Acceptance of Position. Executive accepts the position of 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 One Hundred Fifty Thousand Dollars (\$150,000) per annum ("Base Salary"), 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 two (2) weeks per year.

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 set forth in Section 1 hereof 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 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 for more than seventy-five (75) miles from LTC's offices located at 22917 Pacific Coast Hwy, Suite 350, Malibu, 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 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 30% or more 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, and in the event of a Change in Control, whether or not Executive's employment is terminated thereby, Section 6(b) 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 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 his Base Salary, and all stock options and/or restricted stock shall automatically vest concurrently upon a Change in Control, notwithstanding any prior existing vesting schedule;

(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 terminated 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;

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 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 directors and officers insurance 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 attorney 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/his address set forth below its/his signature hereto, or at such other address as may be designated with postage prepaid, shall be deemed given when received.

11. Construction. In constructing 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 provisions. In construing this Agreement, the singular shall include the plural, the masculine shall include the feminine and neuter genders as appropriate, and no meaning in 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.

IN WITNESS WHEREOF, this Agreement shall be effective as of the date specified in the first paragraph of this Agreement.

LTC PROPERTIES, INC.,
a Maryland corporation

Address: 22917 Pacific Coast Hwy
Suite 350
Malibu, California 90265

/s/ Andre C. Dimitriadis
Andre C. Dimitriadis
Chairman and Chief Executive Officer

By: /s/ Edmund C. King
Compensation Committee Representative

Address: 1010 Pacific Street, Unit A
Santa Monica, CA 90405

/s/ Clint Malin
Clint Malin

FIRST AMENDMENT TO CREDIT AGREEMENT

To each of the Lenders
signatory hereto

Ladies and Gentlemen:

Reference is hereby made to that certain Credit Agreement dated as of December 26, 2003 (as amended hereby, the "*Credit Agreement*"), between the undersigned, LTC Properties, Inc., the Guarantors party thereto, the Lenders party thereto, Bank of Montreal, as Administrative Agent, Harris Nesbitt Corp., as Co-Lead Arranger and Book Manager and Key Bank National Association, as successor in interest to Key Corporate Capital Inc., as Co-Lead Arranger and Syndication Agent. All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

The Company has requested that Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services, Inc. be approved as an Eligible Assignee with a Commitment of \$20,000,000 pursuant to Section 1.14 of the Credit Agreement, that the Lenders consent to an increase of the limitation on Secured Recourse Debt, that the definition of Required Lenders be amended, and that certain other amendments be made to the Credit Agreement, and the Lenders are willing to do so under the terms and conditions set forth in this agreement (herein, the "*Amendment*").

1. *AMENDMENTS.*

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement shall be and hereby is amended as follows:

1.1. Section 1.14 of the Credit Agreement shall be amended by (i) deleting the amount "\$14,000,000" appearing therein and inserting in its place the amount "\$20,000,000", (ii) deleting the amount "\$59,000,000" appearing therein and inserting in its place the amount "\$65,000,000", and (iii) adding the following sentence to the end of Section 1.14: "The Lenders approve Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services, Inc., as an Eligible Assignee with a Commitment of \$20,000,000 provided that Merrill Lynch Capital shall not become a Lender hereunder until the documents required by Section 1.14(c) have been executed and delivered."

1.2. The defined term "*Borrowing Base*" appearing in Section 5.1 of the Credit Agreement shall be amended and restated in its entirety to read as follows:

"*Borrowing Base*" means, at any date of its determination, an amount equal to 50% of the Borrowing Base Value on such date minus the outstanding principal amount of all Unsecured Debt of

the Borrower on such date that is pari passu in rank to the indebtedness under the Credit Agreement other than the Obligations.

1.3. The defined term "*Required Lenders*" appearing in Section 5.1 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"*Required Lenders*" means, as of the date of determination thereof, Lenders whose outstanding Loans and interests in Letters of Credit and Unused Commitments constitute more than 66-2/3% of the sum of the total outstanding Loans, interests in Letters of Credit, and Unused Commitments of the Lenders.

1.4. Subsection (e) of Section 8.21 of the Credit Agreement is hereby amended by deleting the amount "\$15,000,000" and replacing it with the amount "\$30,000,000".

1.5. Subsection (c) of Section 8.22 of the Credit Agreement is hereby amended in its entirety to read as follows:

"(c) *Minimum Eligible Property NOI to Debt Service Ratio.* As of the last day of each Fiscal Quarter of the Borrower, the Borrower shall not permit the ratio of Eligible Property NOI to the sum of (i) Unsecured Debt Service with respect to indebtedness that is pari passu in rank to the indebtedness under the Credit Agreement, plus (ii) Credit Facility Debt Service, to be less than 2.25 to 1.0."

1.6. Exhibit E to the Credit Agreement is hereby amended and restated in its entirety in the form attached hereto as Exhibit E.

1.7. Schedule I to Exhibit F to the Credit Agreement is hereby amended and restated in its entirety in the form attached as Schedule 1(F) hereto.

2. *CONDITIONS PRECEDENT.*

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Borrower, the Administrative Agent and the Lenders shall each have executed and delivered this Amendment.

2.2. All legal matters incident to the execution and delivery of this Amendment and the instruments and documents contemplated hereby shall be satisfactory to the Lenders and their counsel; and the Administrative Agent shall have received (with a signed copy for each Lender) (i) the favorable written opinion of counsel for the Borrower in form and substance satisfactory to the Administrative Agent and (ii) the signed Certificate of the Secretary or an Assistant Secretary of the Borrower, dated the date hereof, certifying (x) a true and correct copy of resolutions adopted by the Board of

Directors of the Borrower authorizing or ratifying the execution, delivery and performance of the Credit Agreement as amended by this Amendment and the other instruments and documents called for above, including the Note to be issued to the New Lender and (y) the incumbency and specimen signatures of officers of the Borrower executing the documents referred to in clause (x) above and any other documents delivered to the Administrative Agent in connection with this Amendment.

2.3. The Guarantors shall have executed and delivered their consent to this Amendment in the space provided for that purpose below.

3. *REPRESENTATIONS.*

In order to induce the Lenders to execute and deliver this Amendment, the Borrower hereby represents to the Administrative Agent and the Lenders that as of the date hereof the representations and warranties set forth in Section 6 of the Credit Agreement are and shall be and remain true and correct (except to the extent the same expressly relate to an earlier date) and the Borrower is in compliance with all of the terms and conditions of the Credit Agreement and the other Loan Documents and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

4. *MISCELLANEOUS.*

4.1. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

4.2. The Borrower agrees to pay on demand all reasonable costs and expenses of or incurred by the Administrative Agent in connection with the negotiation, preparation, execution and delivery of this Amendment and the other instruments and documents contemplated hereby, including the reasonable fees and expenses of counsel for the Administrative Agent.

4.3. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of New York.

[SIGNATURES PAGES TO FOLLOW]

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This First Amendment to Credit Agreement is dated as of September 17, 2004.

LTC PROPERTIES, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

4

Accepted and agreed to as of the date and year last above written.

BANK OF MONTREAL, Chicago Branch, in its
individual capacity as a Lender, as L/C Issuer, and as
Administrative Agent

By

Name /s/ Thomas A. Batterham
Title Managing Director

KEY BANK NATIONAL ASSOCIATION, successor
in interest to KEY CORPORATE
CAPITAL INC., in its individual capacity as a
Lender

By

Name /s/ Florentina Djulvezan
Title Vice President

BANK LEUMI USA, in its individual capacity as
a Lender

By

Name /s/ Joung Hee Hong
Title Vice President

5

GUARANTORS' ACKNOWLEDGMENT

The undersigned each hereby consent to the First Amendment to Credit Agreement as set forth above and confirm all of the undersigned's obligations thereunder remain in full force and effect. The undersigned each further agree that the consents of the undersigned to any further amendments to the Credit Agreement shall not be required as a result of this consent having been obtained.

Dated as of September 17, 2004.

LTC-WEST, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

FLORIDA-LTC, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

LTC GP I, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

6

LTC GP VI, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

NORTH CAROLINA REAL ESTATE INVESTMENTS LLC

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

EDUCATION PROPERTIES INVESTORS, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

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BORROWING BASE CERTIFICATE

To: Bank of Montreal, Chicago Branch, as
Administrative Agent under, and the
Lenders party to, the Credit Agreement
described below.

Pursuant to the terms of the Credit Agreement dated as of December 26, 2003, among us (the "*Credit Agreement*"), we submit this Borrowing Base Certificate to you and certify that the information set forth below and on any attachments to this Certificate is true, correct and complete as of the date of this Certificate.

1.	Borrowing Base Value	\$
2.	Line 1 multiplied by 50%	\$
3.	Unsecured Debt (other than Obligations)	\$ ()
4.	Borrowing Base (Line 2 minus by Line 3 above)	\$

The Borrower represents and warrants that the aggregate principal amount of Loans and L/C Obligations on the date hereof, including any Loans to be made or Letters of Credit to be issued on the date hereof, do not exceed the Borrowing Base set forth above.

The foregoing certifications, together with the computations set forth in Schedule I hereto are made and delivered this day of 20 .

LTC PROPERTIES, INC.

By
Name _____
Title _____

By
Name _____
Title _____

SCHEDULE I CALCULATIONS

SCHEDULE I(F) TO COMPLIANCE CERTIFICATE COMPLIANCE CALCULATIONS FOR CREDIT AGREEMENT DATED AS OF DECEMBER 26, 2003

CALCULATIONS AS OF ,

A. Maximum Total Indebtedness to Total Asset Value (Section 8.21(a))

1.	Total Indebtedness	\$
2.	Total Asset Value	
3.	Ratio of Line A1 to A2	:1.0
4.	Line A3 ratio must not exceed	:1.0
5.	The Borrower is in compliance (circle yes or no)	yes/no

B. Maximum Secured Debt to Total Asset Value (Section 8.21(b))

1.	Secured Debt	\$
2.	Total Asset Value	
3.	Ratio of Line B1 to B2	:1.0
4.	Line B3 ratio must not exceed	:1.0
5.	The Borrower is in compliance (circle yes or no)	yes/no

C. Minimum EBITDA to Interest Expense Ratio (Section 8.21(c))

1.	Net Income for the last 4 quarters	\$
2.	Depreciation and Amortization Expense for last 4 quarters	

3.	Interest Expense for last 4 quarters	
4.	Income Tax Expense for last 4 quarters	
5.	Extraordinary, unrealized or non-recurring losses, including impairment charges and reserves for the last 4 quarters	
6.	Sum of Lines C1 through C5	

7.	The funds received by the Borrower's Subsidiaries rent by which are reserved for capital expenses for the last 4 quarters	
8.	Unrealized gains of the sale of assets for the last 4 quarters	
9.	Income tax benefits of the last 4 quarters	
10.	Sum of Lines C6 through C8	
11.	Line 6 minus Line 10 ("EBITDA")	
12.	Interest Expense	
13.	Ratio of Line C12 to C11	:1.0
14.	Line C13 ratio shall not be less than	:1.0
15.	The Borrower is in compliance (circle yes or no)	yes/no

D. Minimum EBITDA to Fixed Charges Ratio (Section 8.21(d)).

1.	EBITDA	\$
2.	Fixed Charges	
3.	Ratio of Line D1 to D2	:1.0
4.	Line D3 ratio shall not be less than	:1.0
5.	The Borrower is in compliance (circle yes or no)	yes/no

E. Secured Debt (Section 8.21(e)).

1.	Secured Debt	\$
2.	Line E1 shall not exceed	
3.	The Borrower is in compliance (circle yes or no)	yes/no

F. Net Worth (Section 8.21(f)).

1.	Net Worth	\$
2.	Line F1 shall not be less than	\$
3.	The Borrower is in compliance (circle yes or no)	yes/no

G. Floating Rate Debt (Section 8.21(g)).

1.	Total Asset Value	\$
2.	Percentage of Total Asset Value consisting of outstanding unhedged floating rate debt	%

3.	Line G1 shall not exceed	
4.	The Borrower is in compliance (circle yes or no)	yes/no

H. Minimum Borrowing Base Value (Section 8.22(b)).

1.	Borrowing Base Value	\$
2.	Line H1 shall not be less than	

	3.	The Borrower is in compliance (circle yes or no)	yes/no
I.		<u>Minimum Eligible Property NOI to Debt Service Ratio (Section 8.22(c))</u>	
	1.	Eligible Property NOI	
	2.	pari passu Unsecured Debt Service plus Credit Facility Debt Service	\$
	3.	Ratio of Line I1 to I2	:1.0
	4.	Line I3 ratio shall not be less than	2.25:1.0
	5.	The Borrower is in compliance (circle yes or no)	yes/no

SECOND AMENDMENT TO CREDIT AGREEMENT

To each of the Lenders
signatory hereto

Ladies and Gentlemen:

Reference is hereby made to that certain Credit Agreement dated as of December 26, 2003 (as amended hereby and heretofore amended, the "*Credit Agreement*"), between the undersigned, LTC Properties, Inc., the Guarantors party thereto, the Lenders party thereto, Bank of Montreal, as Administrative Agent, Harris Nesbitt Corp., as Co-Lead Arranger and Book Manager and Key Bank National Association, as successor in interest to Key Corporate Capital Inc., as Co-Lead Arranger and Syndication Agent. All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

The Company has requested that Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc., a Delaware corporation ("*Merrill Lynch*") be added as a Lender with a Commitment of \$20,000,000 pursuant to Section 1.14 of the Credit Agreement and the Lenders are willing to amend the Credit Agreement to do so under the terms and conditions set forth in this agreement (herein, the "*Amendment*").

1. ADDITION OF NEW LENDER.

Upon satisfaction of the conditions precedent set forth in Section 3 below, the Credit Agreement shall be and hereby is amended as follows:

1.1 Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc., a Delaware corporation (the "*New Lender*") shall be deemed a Lender signatory to the Credit Agreement and shall have all the rights, benefits, duties and obligations of a Lender under the Credit Agreement and the Loan Documents. Accordingly, all references in the Credit Agreement and the Loan Documents to the terms "*Lender*" and "*Lenders*" shall be deemed to include, and be a reference to, the New Lender. The New Lender agrees that it will perform all of the duties and obligations which by the terms of the Credit Agreement and the Loan Documents are required to be performed by it as a Lender with a Commitment of \$20,000,000.

1.2 The following address shall be deemed to appear on the New Lender's signature page in the Credit Agreement as so amended for the New Lender:

Merrill Lynch Capital,
a Division of Merrill Lynch Business Financial Services Inc.
222 N. LaSalle Street, 16th Floor
Chicago, IL 60601

Attention: John H. Ferguson, V
Assistant Vice President, Operations
Telephone: (312) 499-3361
Telecopy: (312) 750-6240

2. AMENDMENTS.

Subject to the satisfaction of the conditions precedent set forth in Section 3 below, the Credit Agreement shall be and hereby is amended as follows:

2.1. Section 1.5(b) of the Credit Agreement shall be amended in its entirety to read as follows:

(b) *Notice to the Lenders.* The Administrative Agent shall (i) give prompt telephonic or facsimile notice of each Borrowing notice received from Borrower pursuant to Section 1.5(a) above, (ii) send a facsimile copy to each Lender within five (5) Business Days of the date of receipt of each notice from the Borrower received pursuant to Section 1.5(a) above and (iii) if such notice requests the Lenders to make Eurodollar Loans, the Administrative Agent shall give notice to the Borrower and each Lender by like means of the interest rate applicable thereto promptly after the Administrative Agent has made such determination.

2.2 The defined term "*Commitment*" appearing in Section 5.1 of the Credit Agreement is hereby amended by deleting the last sentence thereof and replacing it with the following:

The Borrower and the Lenders acknowledge and agree that the Commitments of the Lenders aggregate \$65,000,000 as of October 5, 2004.

2.3. Schedule I to the Credit Agreement is hereby amended and restated in its entirety in the form attached hereto as Schedule I.

3. CONDITIONS PRECEDENT.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

3.1. The Borrower, the Administrative Agent and the Lenders shall each have executed and delivered this Amendment.

3.2. The Borrower shall have executed and delivered a Note to Merrill Lynch in the amount of its Commitment, such new Note to constitute a "*Note*" for all purposes of the Credit Agreement and the other Loan Documents upon the Administrative Agent's receipt of the same for the New Lender.

3.3 All legal matters incident to the execution and delivery of this Amendment and the instruments and documents contemplated hereby shall be satisfactory to the Lenders and their counsel; and the Administrative Agent shall have received (with a signed copy for each Lender) (i) the favorable written opinion of counsel for the Borrower in form and substance satisfactory to the Administrative Agent and (ii) the signed Certificate of the Secretary or an Assistant Secretary of the Borrower, dated the date hereof, certifying (x) a true and correct copy of resolutions adopted by the Board of Directors of the Borrower authorizing or ratifying the

execution, delivery and performance of the Credit Agreement as amended by this Amendment and the other instruments and documents called for above, including the Note to be issued to the New Lender and (y) the incumbency and specimen signatures of officers of the Borrower executing the documents referred to in clause (x) above and any other documents delivered to the Administrative Agent in connection with this Amendment.

3.4. The Guarantors shall have executed and delivered their consent to this Amendment in the space provided for that purpose below.

4. *EQUALIZATION OF OUTSTANDING LOANS.*

Anything contained in the Credit Agreement to the contrary notwithstanding, upon satisfactory completion of the conditions precedent to the effectiveness of this Amendment set forth above, Merrill Lynch shall advance to the Administrative Agent an amount equal to its ratable share of all outstanding Loans and the Administrative Agent shall allocate such amount to each of the other Lenders so that after giving effect thereto each Lender holds its ratable share of the total of the Loans then outstanding. On such date, the Lender's respective interests in outstanding Letters of Credit shall also be adjusted to reflect Merrill Lynch's pro rata interest therein.

5. *REPRESENTATIONS.*

In order to induce the Lenders to execute and deliver this Amendment, the Borrower hereby represents to the Administrative Agent and the Lenders that as of the date hereof the representations and warranties set forth in Section 6 of the Credit Agreement are and shall be and

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remain true and correct (except to the extent the same expressly relate to an earlier date) and the Borrower is in compliance with all of the terms and conditions of the Credit Agreement and the other Loan Documents and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

6. *MISCELLANEOUS.*

6.1 By signing below, the New Lender hereby (i) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered to the Lenders pursuant to Section 8.5 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Amendment; (ii) agrees that it will, independently and without reliance upon the Administrative 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 the Credit Agreement; (iii) appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement and the other Loan Documents are required to be performed by it as a Lender.

6.2. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

6.3. The Borrower agrees to pay on demand all reasonable costs and expenses of or incurred by the Administrative Agent in connection with the negotiation, preparation, execution and delivery of this Amendment and the other instruments and documents contemplated hereby, including the reasonable fees and expenses of counsel for the Administrative Agent.

6.4. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of New York.

[SIGNATURES PAGES TO FOLLOW]

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This Second Amendment to Credit Agreement is dated as of October 5, 2004.

LTC PROPERTIES, INC.

By

Name /s/ Andre Dimitriadis
Title Chairman & CEO

By

Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

5

Accepted and agreed to as of the date and year last above written.

BANK OF MONTREAL, Chicago Branch, in
its individual capacity as a Lender, as
L/C Issuer, and as Administrative Agent

By
Name /s/ Thomas A. Batterham
Title Managing Director

KEY BANK NATIONAL ASSOCIATION, as
successor in interest to KEY CORPORATE
CAPITAL INC., in its individual capacity as a
Lender

By
Name /s/ Florentina Djulvezan
Title Vice President

BANK LEUMI USA, in its individual capacity as a Lender

By
Name /s/ Joung Hee Hong
Title Vice President

Merrill Lynch Capital, a Division of Merrill
Lynch Business Financial Services Inc., in its
individual capacity as a Lender

By
Name /s/ Brett Robinson
Title Vice President

6

GUARANTORS' ACKNOWLEDGMENT

The undersigned each hereby consent to the Second Amendment to Credit Agreement as set forth above and confirm all of the undersigneds' obligations thereunder remain in full force and effect. The undersigned each further agree that the consents of the undersigned to any further amendments to the Credit Agreement shall not be required as a result of this consent having been obtained.

Dated as of October 5, 2004.

LTC-WEST, INC.

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

FLORIDA-LTC, INC.

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

LTC GP I, INC.

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

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LTC GP VI, INC.

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

NORTH CAROLINA REAL ESTATE
INVESTMENTS LLC

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

EDUCATION PROPERTIES INVESTORS, INC.

By
Name /s/ Alex J. Chavez
Title Sr. Vice President and Treasurer

By
Name /s/ Andre Dimitriadis
Title Chairman & CEO

SCHEDULE I

COMMITMENTS

<u>NAME OF LENDER</u>	<u>CREDIT COMMITMENT</u>
Bank of Montreal, Chicago Branch	\$ 20,000,000
Key Bank National Association, as successor in interest to Key Corporate Capital Inc.	\$ 20,000,000
Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc.	\$ 20,000,000
Bank Leumi USA	\$ 5,000,000
TOTAL	<u>\$ 65,000,000</u>

**AMENDED RESTATED AND CONSOLIDATED
PROMISSORY NOTE**

DATE: October 1, 2004

Malibu, California

THIS AMENDED RESTATED AND CONSOLIDATED PROMISSORY NOTE (THIS "NOTE"), AMENDS, RESTATES, CONSOLIDATES AND REPLACES (BUT DOES NOT SATISFY) THAT CERTAIN: (A) PROMISSORY NOTE DATED MARCH 30, 1998 IN THE PRINCIPAL AMOUNT OF \$8,000,000.00, AS AMENDED AND RESTATED BY THAT AMENDED AND RESTATED PROMISSORY NOTE DATED MAY 19, 1998 IN THE PRINCIPAL AMOUNT OF \$20,000,000.00, AS AMENDED BY A SECOND AMENDED AND RESTATED PROMISSORY NOTE DATED JUNE 8, 2001 IN THE PRINCIPAL AMOUNT OF \$20,000,000.00, AS AMENDED BY A FIRST AMENDMENT TO SECOND AMENDED AND RESTATED PROMISSORY NOTE DATED OCTOBER 10, 2002, AND AS AMENDED BY A SECOND AMENDMENT TO SECOND AMENDED AND RESTATED PROMISSORY NOTE DATED OCTOBER 19, 2003, ALL PAYABLE TO LTC PROPERTIES, INC. AS PAYEE AND CLC HEALTHCARE, INC. (FORMERLY KNOWN AS LTC EQUITY HOLDING COMPANY, INC., FORMERLY KNOWN AS LTC HEALTHCARE, INC.) AS MAKER (COLLECTIVELY, THE "CLC NOTES") AND (B) PROMISSORY NOTE DATED DECEMBER 31, 2001 IN THE PRINCIPAL AMOUNT OF \$7,000,000.00 AS AMENDED BY AN AMENDED AND RESTATED PROMISSORY NOTE DATED JULY 29, 2003, BOTH PAYABLE TO LTC PROPERTIES, INC. AS PAYEE AND HEALTHCARE HOLDINGS, INC. AS MAKER AND EXECUTED BY CLC HEALTHCARE, INC. (COLLECTIVELY, THE "HHI NOTES").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged, CLC Healthcare, Inc. and Healthcare Holdings, Inc. (jointly, severally and separately the "Maker" and LTC Properties, Inc. ("Payee") agree as follows:

RECITALS

A. As of the date hereof, Maker certifies and agrees the outstanding principal balance of the CLC Notes and HHI Notes plus accrued interest as of October 1, 2004 is \$20,042,590.69 prior to any additional amounts borrowed under Paragraph B below (the "Loan").

B. Subject to the limitations described herein, Maker requests or may request additional sums to be advanced by Payee as follows: (a) up to \$250,000.00 to CLC Healthcare, Inc. for capital improvements to property known as Mara Villa Care Center located at 4825 South 7th Street, Phoenix, Arizona 85042; (b) up to \$250,000.00 for general capital improvements to properties occupied by Maker and owned by Payee; and (c) up to \$500,000.00 for settlement of litigation concerning Kindred Rehab Services v. Centers of Long Term Care of Texas, Inc. pending in the U.S. District Court, Northern District of Texas, Dallas Division. It is agreed and understood that any advances requested by Maker under this Paragraph B shall be subject to the sole and absolute discretion of Payee. Maker will, at Payee's request, provide all documentation as Payee deems necessary with respect to any of the aforementioned advances, including but not limited to, invoices, contracts, work orders, settlement agreements and the like relative to the particular requested advance.

C. At Maturity Date, as hereinafter defined, for value received, Maker hereby promises to pay to the order of Payee, at Payee's principal place of business in Malibu, California, or such other place as Payee may from time to time designate, the principal sum then outstanding plus all accrued and outstanding interest as may be recorded on the grid attached hereto and made a part hereof. Absent manifest error, all amounts recorded by Payee will be deemed conclusively binding on the Maker. Principal amounts outstanding will accrue interest at the rate of 8%, compounded monthly, ("Compounded Interest") and accrues to the balance of the Note. Interest accrued to the Note balance shall not reduce amounts eligible to be advanced under Section B of this Note. All principal and accrued Compounded Interest shall be due on or before October 1, 2007 (the "Maturity Date"). Principal and interest due

hereunder shall be payable in lawful money of the United States. Amounts borrowed and repaid hereunder may not be reborrowed.

1. Payments on Maturity Date. Assuming no acceleration by Payee and no prepayment in full of the Loan by Maker, on the Maturity Date, Maker shall pay to Payee the entire outstanding principal, Compounded Interest and accrued interest owing to Payee by Maker under this Note. Provided however, certain mandatory prepayments of the Loan shall be required as set forth in the Security Agreement (as hereinafter defined).

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

3. Security Documents. This Note is a full recourse obligation of the Maker and is secured by all of the assets of Maker, whether heretofore or hereafter, including, but not limited to certain of the Assisted Living Concepts, Inc. ("ALC") common shares currently held by Healthcare Holdings, Inc. and subject to a Control Agreement dated March 7, 2002 ("Control Agreement") among Healthcare Holdings, Inc., the Payee and Solomon Smith Barney Inc. Reference is made to the Amended, Restated and Consolidated Security Agreement among the Maker and Payee of even date herewith ("Security Agreement", the Control Agreement and Security Agreement hereinafter the "Security Documents") for a description of the Collateral provided for therein and the rights of Payee with respect to such Collateral. All obligations under this Note are secured by the Collateral set forth in the Security Documents.

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

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

(b) Maker will not, and will not permit any subsidiary to pay a dividend, provide any loan guaranty, lend money or borrow any additional sums beyond this Note without prior approval of Payee.

(c) Maker will not, and will not permit any subsidiary to (i) lease, assign or sell all or substantially all of its property or business to any other Person (as hereinafter defined), (ii) merge or consolidate with or into any other Person, (iii) purchase or lease or otherwise acquire all or substantially all of the assets of any other Person, (iv) sell, transfer, pledge or otherwise dispose of capital stock of Maker or any of its subsidiaries, (v) liquidate, suspend or dissolve its business operations, (vi) change its name, identity or corporate, partnership or other structure, or (vii) change the current principal place of business or chief executive office, in each case without the prior written consent of Payee.

5. Change of Control. Notwithstanding anything to the contrary contained herein, upon a Change of Control (as hereinafter defined) Payee may, in its sole discretion, declare the entire balance of principal and interest hereon immediately due and payable, together with all applicable charges and payments due hereunder, all costs of collection, including reasonable attorneys' fees and all other costs and expenses incurred, and shall have all remedies available under the Security Documents, at law or in

equity. For purposes of this Note, a “Change of Control” shall mean and include (i) the sale by Healthcare Holdings, Inc. or CLC Healthcare, Inc. (each hereinafter referred to as “Party”) and/or any subsidiary of either Party of all or substantially all of the assets of either Party and its subsidiaries taken as a whole, (ii) any Acquisition by any person or any persons acting together which would constitute a “group” for purposes of Section 13(d) of the Exchange Act (a “Group”) of 30% or more of the total voting power of all classes of capital stock of either Party entitled to vote generally in the election of the Board of Directors of either Party, (iii) any Acquisition by any person or Group of the power to elect, appoint or cause the election or appointment of at least a majority of the members of the Board of Directors of either party, through beneficial ownership of the capital stock or otherwise, or, (iv) a majority of the members of the Boards of Directors of either Party cease to be Continuing Directors (as hereinafter defined). As used herein, “Continuing Directors” means, as of any date of determination, any member of the Board of Directors of either party, who (i) was a member

of the Boards of Directors of either Party on the date of this Note, or (ii) was nominated for election or elected to such Board with the approval of a majority of the Continuing Directors who were members of such Boards at the time of such nomination or election. For the purposes of this definition, “Acquisition” of the power or properties and assets stated in the preceding sentence means the earlier of (a) the actual possession thereof and (b) the consummation of any transaction or series of related transactions which, with the passage of time, will give such Person or Persons that actual possession thereof. As used herein, “Person” shall mean an individual, corporation, trust, partnership, joint venture, unincorporated organization, government agency or any agency or political subdivision thereof, or other entity.

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

INITIAL: /s/ gt & jh
Maker

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

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

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

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

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

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

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

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

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

(a) If any acceleration of the Maturity Date of this Note or any payment by maker or any other person or entity results in the amount of interest contracted for, charged, taken, reserved, received by or paid by Maker or such other person or entity on the principal amount outstanding, from time to time, on the Note being

deemed to have been in excess of the Maximum Amount (as hereinafter defined) or if any transaction contemplated hereby would otherwise be usurious under any Applicable Usury Laws, then, in that event, notwithstanding anything to the contrary in this Note, it is agreed as follows: (i) the provisions of this Section 17 shall govern and control; (ii) the aggregate of all interest under Applicable Usury Laws that is contracted for, charged, taken, reserved or received under this Note, or under any of the other aforesaid agreements or instruments or otherwise shall under no circumstances exceed the Maximum Amount, and any excess shall either be refunded to Maker or applied in reduction of principal, if permitted by California law, in the sole discretion of Payee; (iii) neither Maker nor any other person or entity shall be obligated to apply the amount of such interest to the extent it is in excess of the Maximum Amount; (iv) any interest contracted for, charge, reserved, taken or received in excess of the Maximum Amount shall be deemed an accidental or bona fide error and canceled automatically to the extent of such excess; and (v) the effective rate of interest on the Loan shall be ipso facto reduced to the Highest Lawful Rate (as hereinafter defined), and the provision of this Note shall be deemed reformed, without the necessity of the execution of any new document, so as to comply with all Applicable Usury Laws. All sums paid, or agreed to be paid, to Payee for the use, forbearance, or the detention of the indebtedness of Maker to payee evidenced by this Note shall, to the fullest extent permitted by the Applicable Usury Laws, be amortized, pro-rated, allocated and spread throughout the full term of the indebtedness evidenced by this Note so that the actual rate of interest does not exceed the Highest Lawful Rate in effect at any particular time during the full term thereof. As used herein, the term "Maximum Amount" means the maximum non-usurious amount of interest which may be lawfully contracted for, charged, reserved, taken or received by Payee in connection with the indebtedness evidenced by this Note under all applicable Usury Laws.

(b) If at any time interest on the Loan, together with any fees and additional amounts payable hereunder or under any other agreements or instruments that are deemed to constitute interest under Applicable Usury Laws (the "Additional Interest"), exceeds the Highest Lawful Rate, then the amount of interest to accrue

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pursuant to this Note shall be limited, notwithstanding anything to the contrary in this Note, or any other agreement or instrument, to the amount of interest that would accrue at the Highest Lawful Rate; provided, however, that to the fullest extent permitted by Applicable Usury Laws, any subsequent reductions in the interest rate shall not reduce the interest to accrue pursuant to this Note below the Highest Lawful Rate until the aggregate amount of interest actually accrued pursuant to this Note, together with all Additional Interest, equals the amount of Interest which would have accrued if the Highest Lawful Rate had at all times been in effect and such Additional Interest, if any, had been paid in full.

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

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

If to Maker: Healthcare Holdings, Inc.
7610 N. Stemmons Fwy, Suite 500
Dallas, Texas 75247
Attention: Chief Financial Officer

with a copy to: Healthcare Holdings, Inc.
7610 N. Stemmons Fwy, Suite 500
Dallas, Texas 75247
Attention: Legal Department

and: CLC Healthcare, Inc.
7610 N. Stemmons Fwy, Suite 500
Dallas, Texas 75247
Attention: Chief Financial Officer

If to Payee: LTC Properties, Inc.
22917 Pacific Coast Hwy, Suite 350
Malibu, California 90265
Attention: Chief Financial Officer

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

[SIGNATURE PAGE FOLLOWS]

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

MAKER:

HEALTHCARE HOLDINGS, INC.,
a Nevada corporation

By: /s/ Gary Trebert
Name: Gary Trebert
Its: Chief Executive Officer

MAKER:

CLC HEALTHCARE, INC.,
a Nevada corporation

By: /s/ Jeff Head
Name: Jeff Head
Its: Chief Financial Officer

SCHEDULE OF ADVANCES AND PAYMENT OF PRINCIPAL

<u>Date</u>	<u>Amount of Advance</u>	<u>Amount of Principal Paid or Repaid</u>	<u>Unpaid Principal Balance</u>	<u>Notation Made by</u>
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CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andre C. Dimitriadis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDRE C. DIMITRIADIS

Andre C. Dimitriadis

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

November 3, 2004

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wendy L. Simpson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ WENDY L. SIMPSON

Wendy L. Simpson

Vice Chairman and Chief Financial Officer

(Principal Financial Officer)

November 3, 2004

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), each of the undersigned officers of LTC Properties, Inc. (the "Company") hereby certifies with respect to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2004 as filed with the Securities and Exchange Commission (the "Report") that to his or her knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ANDRE C. DIMITRIADIS
Andre C. Dimitriadis
Chairman, President and Chief Executive Officer
November 3, 2004

/s/ WENDY L. SIMPSON
Wendy L. Simpson
Vice Chairman and Chief Financial Officer
November 3, 2004

NOTE: A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to LTC Properties, Inc. and will be retained by LTC Properties, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
