
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 March 31, 2013

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.)

2829 Townsgate Road, Suite 350
Westlake Village, California 91361
(Address of principal executive offices, including zip code)

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒
(Do not check if a
smaller reporting company)

Smaller reporting company ☐

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

The number of shares of common stock outstanding on April 23, 2013 was 30,712,510.

LTC PROPERTIES, INC.

FORM 10-Q

March 31, 2013

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LTC PROPERTIES, INC. CONSOLIDATED BALANCE SHEETS (Amounts in thousands)

	March 31, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Real estate investments:		
Land	\$ 75,407	\$ 75,407
Buildings and improvements	831,175	824,688
Accumulated depreciation and amortization	(204,646)	(198,548)
Net real estate property	701,936	701,547
Mortgage loans receivable, net of allowance for doubtful accounts: 2013 — \$401; 2012 — \$782	39,741	39,299
Real estate investments, net	741,677	740,846
Other assets:		
Cash and cash equivalents	9,621	7,191
Debt issue costs, net	2,854	3,040
Interest receivable	802	789
Straight-line rent receivable, ⁽¹⁾ net of allowance for doubtful accounts: 2013 — \$1,567; 2012 — \$1,557	27,925	26,998
Prepaid expenses and other assets	6,656	7,548
Notes receivable	3,129	3,180
Total assets	<u>\$792,664</u>	<u>\$789,592</u>
LIABILITIES		
Bank borrowings	\$117,500	\$115,500
Senior unsecured notes	185,800	185,800
Bonds payable	2,035	2,635
Accrued interest	2,285	3,279
Earn-out liabilities	6,854	6,744
Accrued expenses and other liabilities	11,379	12,526
Total liabilities	<u>325,853</u>	<u>326,484</u>
EQUITY		
Stockholders' equity:		
Preferred stock \$0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2013 — 2,000; 2012 — 2,000	38,500	38,500
Common stock: \$0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2013 — 30,713; 2012 — 30,544	307	305
Capital in excess of par value	516,011	510,236
Cumulative net income	737,009	724,033
Other	143	152
Cumulative distributions	(825,159)	(810,125)
Total LTC Properties, Inc. stockholders' equity	<u>466,811</u>	<u>463,101</u>
Non-controlling interests	<u>—</u>	<u>7</u>
Total equity	<u>466,811</u>	<u>463,108</u>
Total liabilities and equity	<u>\$792,664</u>	<u>\$789,592</u>

(1) On March 31, 2013 and December 31, 2012, we had \$3,203 and \$3,191 respectively, in straight-line rent receivable from a lessee that qualifies as a related party because the lessee's Chief Executive Officer is on our Board of Directors. See Note 9. Transactions with Related Party for further discussion.

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

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Rental income ⁽¹⁾	\$24,511	\$20,872
Interest income from mortgage loans	1,059	1,532
Interest and other income ⁽²⁾	93	236
Total revenues	25,663	22,640
Expenses:		
Interest expense	3,133	2,033
Depreciation and amortization	6,136	5,167
General and administrative expenses	3,418	2,524
Total expenses	12,687	9,724
Income from continuing operations	12,976	12,916
Discontinued operations:		
Gain on sale of assets, net	—	16
Net income from discontinued operations	—	16
Net income	12,976	12,932
Income allocated to non-controlling interests	—	(11)
Net income attributable to LTC Properties, Inc.	12,976	12,921
Income allocated to participating securities	(98)	(94)
Income allocated to preferred stockholders	(818)	(818)
Net income available to common stockholders	\$12,060	\$12,009
<u>Basic earnings per common share</u>		
Continuing operations	\$0.40	\$0.40
Discontinued operations	\$0.00	\$0.00
Net income available to common stockholders	\$0.40	\$0.40
<u>Diluted earnings per common share</u>		
Continuing operations	\$0.40	\$0.40
Discontinued operations	\$0.00	\$0.00
Net income available to common stockholders	\$0.40	\$0.40
<u>Weighted average shares used to calculate earnings per common share</u>		
Basic	30,365	30,189
Diluted	30,399	30,234

(1) During the three months ended March 31, 2013 and 2012, we received \$1,113 and \$1,086, respectively, in rental income and recorded \$12 and \$39, respectively, in straight-line rental income from a lessee that qualifies as a related party. The lessee's Chief Executive Officer is on our Board of Directors. See Note 9. *Transactions with Related Party* for further discussion.

(2) During the three months ended March 31, 2013 and 2012, we recognized \$0 and \$180 of interest income from an entity that qualifies as a related party because the entity's Chief Executive Officer is on our Board of Directors. See Note 9. *Transactions with Related Party* for further discussion.

NOTE: Computations of per share amounts from continuing operations, discontinued operations and net income are made independently. Therefore, the sum of per share amounts from continuing operations and discontinued operations may not agree with the per share amounts from net income available to common stockholders.

See accompanying notes.

LTC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands, unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$12,976	\$12,932
Reclassification adjustment	(9)	(13)
Comprehensive income	\$12,967	\$12,919
Comprehensive income allocated to non-controlling interests	—	(11)
Comprehensive income attributed to LTC Properties, Inc.	\$12,967	\$12,908

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

	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES:		
Net income	\$12,976	\$12,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,136	5,167
Stock-based compensation expense	985	452
Gain on sale of assets, net	—	(16)
Straight-line rental income ⁽¹⁾	(937)	(647)
Provision for doubtful accounts	15	1
Non-cash interest related to earn-out liabilities	110	110
Other non-cash items, net	178	325
(Decrease) increase in accrued interest payable	(994)	23
(Increase) decrease in interest receivable	(24)	172
Net change in other assets and liabilities	(1,061)	(1,681)
Net cash provided by operating activities	17,384	16,838
INVESTING ACTIVITIES:		
Investment in real estate properties, net	—	(18,600)
Investment in real estate properties under development	(3,952)	—
Investment in real estate capital improvements	(2,358)	(202)
Proceeds from sale of real estate investments, net	—	1,248
Advances under mortgage loans receivable	(910)	—
Principal payments received on mortgage loans receivable	462	718
Advances under notes receivable	(63)	(1,034)
Principal payments received on notes receivable	114	191
Net cash used in investing activities	(6,707)	(17,679)
FINANCING ACTIVITIES:		
Bank borrowings	2,000	17,000
Principal payments on bonds payable	(600)	(565)
Proceeds from common stock offering	4,895	—
Stock option exercises	523	151
Distributions paid to stockholders	(15,035)	(14,044)
Redemption of non-controlling interests	—	(2,764)
Distributions paid to non-controlling interests	(7)	(48)
Other	(23)	—
Net cash used in financing activities	(8,247)	(270)
Increase (decrease) in cash and cash equivalents	2,430	(1,111)
Cash and cash equivalents, beginning of period	7,191	4,408
Cash and cash equivalents, end of period	\$ 9,621	\$ 3,297
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 4,118	\$ 1,855

(1) During the three months ended March 31, 2013 and 2012, we recorded \$12 and \$39, respectively, in straight-line rental income from a lessee that qualifies as a related party. The lessee's Chief Executive Officer is on our Board of Directors. See Note 9. *Transactions with Related Party* for further discussion.

See accompanying notes.

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

1. General

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in senior housing and long term care properties through acquisitions, development, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. Our primary senior housing and long term care property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF),

memory care properties (or MC) and combinations thereof. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator, property type and form of investment.

We have prepared consolidated financial statements included herein without audit and in the opinion of management have included all adjustments necessary for a fair presentation of the results of operations for the three months ended March 31, 2013 and 2012 pursuant to the rules and regulations of the Securities and Exchange Commission (or SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (or GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results for a full year.

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation, including changes as a result of the application of accounting guidance for properties disposed or classified as held-for-sale. During the three months ended March 31, 2012, we sold a 140-bed skilled nursing property located in Texas for \$1,248,000. See *Note 2. Real Estate Investments* for further discussion. Additionally, we reclassified a 140-unit independent living property located in Texas from held-for-sale to held-for-use. The expenses, which were not recognized during the held-for-sale period, were recognized at the date of reclassification during the third quarter of 2012. This resulted in an increase of depreciation expense of \$285,000. Due to the market conditions, the timing of the ultimate disposal of this property was uncertain. These adjustments are normal and recurring in nature.

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 generally are not taxed on income that is distributed to our stockholders.

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

2. Real Estate Investments

Assisted living properties, independent living properties, memory care properties, and combinations thereof are included in the assisted living property type. Range of care properties (or ROC) property type consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services.

Any reference to the number of properties, number of schools, number of units, number of beds, and yield on investments in real estate are unaudited and outside the scope of our independent registered public accounting firm's review of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

Owned Properties. The following table summarizes our investments in owned properties at March 31, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Properties ⁽¹⁾	Number of		Investment per Bed/Unit
				SNF Beds	ALF Units	
Skilled Nursing	\$448,010	49.4%	73	8,435	—	\$53.11
Assisted Living	379,874	41.9%	96	—	4,502	\$84.38
Range of Care	43,907	4.8%	8	634	274	\$48.36
Under Development ⁽²⁾	22,347	2.5%	—	—	—	—
Schools	12,444	1.4%	2	—	—	—
Totals	\$906,582	100.0%	179	9,069	4,776	

(1) We have investments in 26 states leased to 35 different operators.

(2) Includes a MC development with 60 units and two combination ALF and MC developments with a total of 158 units, a 143-bed SNF development and a 120-bed SNF redevelopment project.

All of our owned properties are leased to our operators pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease covering one or more properties which requires the operator/lessee to pay all costs necessary in the operations of the facilities. Many of the leases contain renewal options. The leases provide for fixed minimum base rent during the initial and renewal periods. The majority of our leases contain provisions for specified annual increases over the rents of the prior year that are generally computed in one of four ways depending on specific provisions of each lease:

- (i) a specified percentage increase over the prior year's rent, generally between 2.0% and 3.0%;
- (ii) a calculation based on the Consumer Price Index;
- (iii) as a percentage of facility net patient revenues in excess of base amounts; or
- (iv) specific dollar increases.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(Unaudited)

As of March 31, 2013, we have a commitment to provide, under certain conditions, up to \$5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. The estimated yield of this commitment is 9.5% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the five days prior to funding, minus 420 basis points. In addition, the following table summarizes our investment commitments as of March 31, 2013, excluding the \$5,000,000 per year commitment, and year to date funding on our development, redevelopment, renovation and expansion projects (*excludes capitalized interest, dollar amounts in thousands*):

Type of Property	Investment Commitment	2013 Funding ⁽²⁾	Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing	\$36,644	\$2,313	\$11,418	\$25,226	6	785
Assisted Living ⁽¹⁾	40,927	3,880	12,122	28,805	7	494
Totals	<u>\$77,571</u>	<u>\$6,193 ⁽³⁾</u>	<u>\$23,540</u>	<u>\$54,031</u>	<u>13</u>	<u>1,279</u>

(1) Includes the development of a 60-unit memory care property for \$9,817 and two assisted living and memory care combination properties for a total of \$16,385, the expansion of three assisted living properties for a total \$14,600 and the renovation of a 140-unit independent living property for \$125.

(2) Excludes \$117 of capital improvement on a completed project with no remaining commitments.

(3) In April of 2013, we funded \$1,398 under investment commitments.

During the three months ended March 31, 2012, we purchased a 144-bed skilled nursing property located in Texas for an aggregate purchase price of \$18,600,000. Additionally, we sold a 140-bed skilled nursing property located in Texas for \$1,248,000 and recognized a gain, net of selling expenses, of \$16,000. This property was leased under a master lease and the economic terms of this master lease did not change as a result of this sale.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at March 31, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties ⁽¹⁾	Number of		Investment per Bed/Unit
					SNF Beds	ALF Units	
Skilled Nursing ⁽²⁾	\$25,097	62.5%	15	17	1,861	—	\$13.49
Assisted Living	12,245	30.5%	3	8	—	211	\$58.03
Range of Care	2,800	7.0%	1	1	99	74	\$16.18
Totals	<u>\$40,142</u>	<u>100.0%</u>	<u>19</u>	<u>26</u>	<u>1,960</u>	<u>285</u>	

(1) We have investments in 8 states that include mortgages to 11 different operators.

(2) Includes a mortgage and construction loan secured by a currently operating skilled nursing property and parcel of land upon which a 106-bed replacement facility will be constructed. The agreement gives us the right to purchase the replacement facility for \$13,500 during an 18 month period beginning on the first anniversary of the issuance of the certificate of occupancy.

At March 31, 2013, the mortgage loans had interest rates ranging from 7.0% to 13.5% and maturities ranging from 2014 to 2022. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 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 three months ended March 31, 2013 and 2012, we received \$462,000 and \$718,000, respectively, in regularly scheduled principal payments. During the three months ended March 31, 2013, we funded \$910,000 under a \$10,600,000 mortgage and construction loan and we have a remaining commitment of \$7,070,000.

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

3. Notes Receivable

Notes receivables consist of various loans and line of credit agreements with certain operators. During the three months ended March 31, 2013 and 2012, we received \$114,000 and \$191,000, respectively, in principal payments and we funded \$63,000 and \$1,034,000, respectively, under these notes. At March 31, 2013, we had two term loans outstanding with a carrying value of \$2,920,000 at a weighted average interest of 8.6%. Also at March 31, 2013, we committed to provide \$1,525,000 under six loans and line of credit agreements to certain operators. As of March 31, 2013, we funded \$209,000 under these commitments and have a remaining commitment of \$1,316,000. In April 2013, we funded \$60,000 under these commitments. Accordingly, we have a remaining commitment of \$1,256,000. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2014.

4. Marketable Securities

During 2012, Skilled Healthcare Group, Inc. (or SHG) redeemed all of their outstanding Senior Subordinated Notes at par value plus accrued and unpaid interest up to the redemption date. The SHG Senior Subordinated Notes had a face rate of 11.0% and an effective yield of 11.1%. During the three months ended March 31, 2012, we recognized \$180,000 of interest income from our \$6,500,000 investment in SHG Senior Subordinated Notes. One of our board members is the chief executive officer of SHG. See *Note 9. Transactions with Related Party* for further discussion.

5. Debt Obligations

Bank Borrowings. During 2012, we amended our Unsecured Credit Agreement increasing the commitment to \$240,000,000 with the opportunity to increase the credit amount up to a total of \$350,000,000. Additionally, the drawn pricing was decreased by 25 basis points, the undrawn pricing was decreased by 10 basis points and the maturity of the facility was extended for one additional year to May 25, 2016. The amendment also provides for a one-year extension

option at our discretion, subject to customary conditions. Based on our leverage at March 31, 2013, the amended facility provides for interest annually at LIBOR plus 150 basis points and the unused commitment fee was 30 basis points.

During the three months ended March 31, 2013, we borrowed \$2,000,000 under our Unsecured Credit Agreement. At March 31, 2013, we had \$117,500,000 outstanding and \$122,500,000 available for borrowing. At March 31, 2013, we were in compliance with all our covenants.

Senior Unsecured Notes. At March 31, 2013 and December 31, 2012, we had \$185,800,000 outstanding under our Senior Unsecured Notes with a weighted average interest rate of 5.2% and \$100,000,000 available under an Amended and Restated Note Purchase and Private Shelf agreement which provides for the possible issuance of senior unsecured fixed-rate term notes through October 19, 2014.

Bonds Payable. At March 31, 2013 and December 31, 2012, we had outstanding principal of \$2,035,000 and \$2,635,000 respectively, on multifamily tax-exempt revenue bonds that are secured by five assisted living properties in Washington. These bonds bear interest at a variable rate that is reset weekly and mature during 2015. For the three months ended March 31, 2013, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 2.9%. During the three months ended March 31, 2013 and 2012, we paid \$600,000 and \$565,000, respectively, in regularly scheduled principal payments. As of March 31, 2013 and December 31, 2012, the aggregate carrying value of real estate properties securing our bonds payable was \$6,584,000 and \$6,650,000, respectively.

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

6. Equity

Equity is allocated between controlling and non-controlling interests as follows *(in thousands)*:

	LTC Properties, Inc. Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2012	\$463,101	\$7	\$463,108
Net income	12,976	—	12,976
Issue common stock	4,293	—	4,293
Vested restricted common stock	985	—	985
Stock option exercise	523	—	523
Reclassification adjustment	(9)	—	(9)
Non-controlling interest preferred return	—	(7)	(7)
Preferred stock dividends	(818)	—	(818)
Common stock dividends	(14,217)	—	(14,217)
Other	(23)	—	(23)
Balance at March 31, 2013	<u>\$466,811</u>	<u>\$—</u>	<u>\$466,811</u>

Preferred Stock. At March 31, 2013, we had 2,000,000 shares of our 8.5% Series C Cumulative Convertible Preferred Stock (or Series C preferred stock) outstanding. Our Series C preferred stock is convertible into 2,000,000 shares of our common stock at \$19.25 per share. Total shares reserved for issuance of common stock related to the conversion of Series C preferred stock were 2,000,000 shares at March 31, 2013.

Common Stock. During the three months ended March 31, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. We have an equity distribution agreement which allows us to issue and sell, from time to time, up to \$85,686,000 in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the three months ended March 31, 2012, we did not sell shares of our common stock under our equity distribution agreement. During the three months ended March 31, 2013, we sold 126,742 shares of common stock for \$4,895,000 in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we reclassified \$602,000 of accumulated costs associated with the equity distribution agreement to additional paid in capital. At March 31, 2013, we had \$59,578,000 available under this amended equity distribution agreement. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our unsecured line of credit.

Available Shelf Registrations. Our shelf registration statement provides us with the capacity to offer up to \$400,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering. At March 31, 2013, we had availability of \$167,614,000 under our effective shelf registration.

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

Non-controlling Interests. We currently have no limited partners. During 2012, we had one limited partnership. The limited partnership agreement allowed the limited partners to convert, on a one-for-one basis, their limited partnership units into shares of common stock or the cash equivalent, at our option. Since we exercised control, we consolidated the limited partnership and we carried the non-controlling interests at cost.

During 2012, two of our limited partners exercised their conversion rights to exchange all of their 112,588 partnership units. At our discretion, we converted 23,294 partnership units into an equal number of our common shares. The partnership conversion price was \$17.00 per partnership unit. At our discretion, we elected to satisfy the conversion of 89,294 limited partnership units with cash. We paid the limited partners \$2,764,000, which represents the closing price of our common stock on the redemption date plus \$0.05 per share multiplied by the number of limited partnership units redeemed. The amount we paid upon redemption exceeded the book value of the limited partnership interest redeemed by \$1,246,000. Accordingly, the \$1,246,000 excess book value of the limited partners' interest in the partnership was reclassified to stockholders' equity. We accounted for these conversions as an equity transaction because there was no change in control requiring consolidation or deconsolidation and remeasurement. Subsequent to these partnership conversions, the assets held by the limited partnership were transferred to other subsidiaries of the Company and the limited partnership was terminated.

The following table represents the change from net income attributable to us and transfers from non-controlling interest (*in thousands*):

	Three months ended March 31,	
	2013	2012
Net income attributable to LTC Properties, Inc.	\$12,976	\$12,921
Transfers from the non-controlling interest		
Decrease in paid-in capital for limited partners conversion	—	(1,246)
Change from net income attributable to LTC Properties, Inc. and transfers from non-controlling interest	<u>\$12,976</u>	<u>\$11,675</u>

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

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series C	\$ 818	\$ 818	\$ 818	\$ 818
Total Preferred	<u>818</u>	<u>818</u>	<u>818</u>	<u>818</u>
Common Stock ⁽¹⁾	<u>14,217</u>	<u>14,217</u>	<u>13,226</u>	<u>13,226</u>
Total	<u>\$15,035</u>	<u>\$15,035</u>	<u>\$14,044</u>	<u>\$14,044</u>

(1) Represents \$0.155 per share per month and \$0.145 per share per month for the three months ended March 31, 2013 and 2012, respectively.

In April 2013, we declared a monthly cash dividend of \$0.155 per share on our common stock for the months of April, May and June 2013, payable on April 30, May 31 and June 28, 2013, respectively, to stockholders of record on April 22, May 23 and June 20, 2013, respectively.

LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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Other Equity. At March 31, 2013 and December 31, 2012, other equity consisted of accumulated comprehensive income of \$143,000 and \$152,000, respectively. This balance represents the net unrealized holding gains on available-for-sale REMIC Certificates recorded in 2005 when we repurchased the loans in the underlying loan pool. This amount is being amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC Pool.

Stock-Based Compensation. During the three months ended March 31, 2013, a total of 22,000 stock options were exercised at a total option value of \$523,000 and a total market value on the date of exercise of \$865,000. During the three months ended March 31, 2012, a total of 10,000 stock options were exercised at a total option value of \$151,000 and a total market value on the date of exercise of \$305,000. No stock options were issued during the three months ended March 31, 2013 and 2012. At March 31, 2013, we had 73,334 stock options outstanding and all stock options are exercisable. Compensation expense related to the vesting of stock options for the three months ended March 31, 2012 was \$4,000.

During the three months ended March 31, 2013, we granted 20,000 shares of restricted common stock at \$36.26 per share. These shares all vest on June 1, 2016. Also during the three months ended March 31, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$457,000 of compensation expense related to the accelerated vesting. During the three months ended March 31, 2012, we granted 56,200 shares of restricted common stock at \$31.77 per share. The vesting of these shares are as follows: 14,000 shares vest ratably over a five-year period from the grant date, 30,000 shares all vest on June 15, 2015, and 12,200 shares all vest on January 10, 2016. During the three months ended March 31, 2013 and 2012, we recognized \$985,000 and \$448,000, respectively, of compensation expense related to the vesting of restricted common stock.

7. Commitments and Contingencies

As part of an acquisition in 2011, we committed to provide a contingent payment if certain operational thresholds are met. The contingent payment was recorded at fair value, which was estimated using a discounted cash flow analysis, and we are accreting the contingent liability to the estimated settlement amount as of the payment date. The fair value of such contingent liability is re-evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates. Any changes in estimated fair value are recognized in our results of operations. During the three months ended

March 31, 2013 and 2012, we recorded non-cash interest expense of \$110,000 related to the contingent liability. At March 31, 2013 and December 31, 2012, the contingent liability had a carrying value of \$6,854,000 and \$6,744,000, respectively.

At March 31, 2013, we had outstanding commitments totaling \$77,571,000 to develop, re-develop, renovate or expand six skilled nursing properties with a total of 785 beds, a memory care property with 60 units, an independent living property with 140 units, two assisted living and memory care combination properties with a total of 158 units, and three assisted living properties with a total of 136 units. We also have a commitment to provide, under certain conditions, up to \$5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. See *Note 2. Real Estate Investments* for further discussion of these commitments. Additionally at March 31, 2013, we had a \$10,600,000 mortgage and construction commitment. As of March 31, 2013, we funded \$3,530,000 under this commitment and have a remaining commitment of \$7,070,000. See *Note 2. Real Estate Investments* for further discussion of this mortgage and construction loan. We also committed to provide \$1,525,000 in loan and line of credit agreements to certain operators. As of March 31, 2013, we had funded \$209,000 under these commitments and have a remaining commitment of \$1,316,000. See *Note 3. Notes Receivables* for further discussion of these commitments.

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

8. Major Operators

We have three operators from each of which we derive over 10% of our rental revenue and interest income from mortgage loans.

In 2006, Extencicare Services, Inc. (or EHSI), one of our major operators, effected a reorganization whereby it completed a spin-off of Assisted Living Concepts, Inc. (or ALC). ALC is currently a NYSE traded public company operating assisted living centers. The remaining EHSI assets and operations were converted into a Canadian REIT (Extencicare REIT) listed on the Toronto Stock Exchange (or TSX). During 2012, Extencicare REIT converted from an income trust structure to a corporate structure under a corporation named Extencicare, Inc. (or Extencicare). Both Extencicare and ALC continue to be parties to the leases with us.

On February 25, 2013, ALC entered into an Agreement and Plan of Merger (or the Merger Agreement) with Aid Holdings, LLC, a Delaware limited liability company (or Aid Holdings), and Aid Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Aid Holdings (or Aid Merger Sub), providing for the merger of Aid Merger Sub with and into ALC (or the Merger), with ALC surviving the Merger as a wholly-owned subsidiary of Aid Holdings. Aid Holdings and Aid Merger Sub are affiliates of TPG Capital, L.P. Documents publicly available contemplate the merger being completed in summer of 2013.

Extencicare REIT and ALC collectively lease 37 assisted living properties with a total of 1,430 units owned by us representing approximately 6.7%, or \$52,877,000, of our total assets at March 31, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of March 31, 2013.

Brookdale Senior Living Communities, Inc. (or Brookdale Communities) is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. (or Brookdale). Brookdale Communities leases 35 assisted living properties with a total of 1,414 units owned by us representing approximately 6.7%, or \$53,038,000, of our total assets at March 31, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of March 31, 2013.

Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 27 skilled nursing properties and two range of care properties that we own or on which we hold mortgages secured by first trust deeds. These properties consist of a total of 3,354 skilled nursing beds and 49 assisted living units. This represents approximately 6.6%, or \$51,945,000, of our total assets at March 31, 2013 and 10.5% of rental revenue and interest income from mortgage loans recognized as of March 31, 2013. They also operate one skilled nursing property under a sub-lease with another lessee we have which is not included in the Preferred Care rental revenue and interest income from mortgage loans.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by Brookdale Communities, Extencicare, ALC, Preferred Care, or any of our lessees and borrowers, including any 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.

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

9. Transactions with Related Party

We have entered into transactions with Skilled Healthcare Group, Inc. (or SHG). One of our directors, Boyd W. Hendrickson, serves as Chief Executive Officer of SHG.

In December 2005, we purchased, on the open market, \$10,000,000 face value of SHG Senior Subordinated Notes with a face rate of 11.0% and an effective yield of 11.1%. Our Board of Directors, with Mr. Hendrickson abstaining, ratified the purchase of SHG Senior Subordinated Notes. As a result of an early redemption by SHG in 2007, we had a remaining investment in \$6,500,000 face value of SHG Senior Subordinated Notes. During 2012, SHG redeemed

all of their outstanding Senior Subordinated Notes at par value plus accrued and unpaid interest up to the redemption date. During the three months ended March 31, 2012, we recognized \$180,000 of interest income related to the SHG Senior Subordinated Notes.

In addition, during September 2007 SHG purchased the assets of Laurel Healthcare (or Laurel). We were not a direct party to this transaction. One of the assets SHG purchased was Laurel's leasehold interests in the skilled nursing properties in New Mexico Laurel leased from us under a 15-year master lease agreement dated in February 2006. Our Board of Directors, with Mr. Hendrickson abstaining, ratified our consent to the assignment of Laurel's master lease to subsidiaries of SHG. The economic terms of the master lease agreement did not change as a result of our assignment of the master lease to subsidiaries of SHG. During the three months ended March 31, 2013 and 2012, we received \$1,113,000 and \$1,086,000, respectively, in rental income and recorded \$12,000 and \$39,000, respectively, in straight-line rental income from subsidiaries of SHG. At March 31, 2013 and December 31, 2012, the straight-line rent receivable from subsidiaries of SHG was \$3,203,000 and \$3,191,000, respectively.

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

10. 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 March 31,	
	2013	2012
Income from continuing operations	\$12,976	\$12,916
Less net income allocated to non-controlling interests	—	(11)
Less net income allocated to participating securities:		
Nonforfeitable dividends on participating securities	(98)	(94)
Total net income allocated to participating securities	(98)	(94)
Less net income allocated to preferred stockholders:		
Preferred stock dividends	(818)	(818)
Total net income allocated to preferred stockholders	(818)	(818)
Income from continuing operations available to common stockholders	12,060	11,993
Discontinued operations:		
Gain on sale of assets, net	—	16
Total net income from discontinued operations	—	16
Net income available to common stockholders	12,060	12,009
Effect of dilutive securities:		
Convertible preferred securities	—	—
Net income for diluted net income per share	\$12,060	\$12,009
Shares for basic net income per share	30,365	30,189
Effect of dilutive securities:		
Stock options	34	45
Convertible preferred securities	—	—
Shares for diluted net income per share	30,399	30,234
Basic net income per share	\$0.40	\$0.40
Diluted net income per share ⁽¹⁾	\$0.40	\$0.40

(1) For the three months ended March 31, 2013 and 2012, the Series C Cumulative Convertible Preferred Stock, the participating securities and the non-controlling interest have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive.

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LTC PROPERTIES, INC.
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(Unaudited)

11. Fair Value Measurements

In accordance with the accounting guidance regarding the fair value option for financial assets and financial liabilities, entities are permitted to choose to measure certain financial assets and liabilities at fair value, with the change in unrealized gains and losses reported in earnings. We did not adopt the elective

fair market value option for our financial assets and financial liabilities.

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments. We do not invest our cash in auction rate securities. The carrying value and fair value of our financial instruments as of March 31, 2013 and December 31, 2012 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	At March 31, 2013		At December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	\$39,741	\$45,060 ⁽¹⁾	\$39,299	\$44,939 ⁽¹⁾
Bonds payable	2,035	2,035 ⁽²⁾	2,635	2,635 ⁽²⁾
Bank borrowings	117,500	117,500 ⁽²⁾	115,500	115,500 ⁽²⁾
Senior unsecured notes	185,800	194,475 ⁽³⁾	185,800	194,838 ⁽³⁾
Contingent liabilities	6,854	6,854 ⁽⁴⁾	6,744	6,744 ⁽⁴⁾

- (1) Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable at March 31, 2013 and December 31, 2012 was 6.0%.
- (2) Our bonds payable and bank borrowings are at a variable interest rate. The estimated fair value of our bonds payable and bank borrowings approximated their carrying values at March 31, 2013 and December 31, 2012 based upon prevailing market interest rates for similar debt arrangements.
- (3) Our obligation under our senior unsecured notes is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At March 31, 2013 and December 31, 2012, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.8% for those maturing before year 2019 and 4.3% for those maturing through year 2021.
- (4) Our contingent obligation under the earn-out liabilities is classified as Level 3. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis. The discount rate that we use consists of a risk-free U.S. Treasury rate plus a company specific credit spread which we believe is acceptable by willing market participants. At March 31, 2013 and December 31, 2012, the discount rate used to value our future cash outflow of the earn-out liability was 6.5% and 6.6%, respectively.

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LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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12. Subsequent Events

Subsequent to March 31, 2013 the following events occurred.

We declared a monthly cash dividend of \$0.155 per share on our common stock for the months of April, May and June 2013, payable on April 30, May 31 and June 28, 2013, respectively, to stockholders of record on April 22, May 23 and June 20, 2013, respectively.

We funded \$1,398,000 under real estate investment commitments. Accordingly, we have a remaining commitment of \$52,633,000. See *Note 2. Real Estate Investments* for further discussion. We also funded \$60,000 under loans and line of credit agreements to certain operators and have a remaining commitment of \$1,256,000. See *Note 3. Notes Receivable* for further discussion.

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

Statement Regarding Forward Looking Disclosure

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify some of the forward-looking statements by their use of forward-looking words, such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy, the status of capital markets (including prevailing interest rates), and our access to capital; the income and returns available from investments in health care related real estate, the ability of our borrowers and lessees to meet their obligations to us, our reliance on a few major operators; competition faced by our borrowers and lessees within the health care industry; regulation of the health care industry by federal, state and local governments (including as a result of the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010), changes in Medicare and Medicaid reimbursement amounts (including due to federal and state budget constraints), compliance with and changes to regulations and payment policies within the health care industry, debt that we may incur and changes in financing terms, our ability to continue to qualify as a real estate investment trust, the relative illiquidity of our real estate investments, potential limitations on our remedies when mortgage loans default, and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and in our publicly available filings with the Securities and Exchange Commission. We do not undertake any responsibility to update or

revise any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Business

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in senior housing and long term healthcare properties through acquisitions, development, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary senior housing and long term healthcare property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF), memory care properties (or MC) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property type. Range of care properties (or ROC) property type consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. In the first quarter of 2013, senior housing and long term healthcare properties comprised approximately 99% of our investment portfolio. We have been operating since August 1992.

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The following table summarizes our real estate investment portfolio as of March 31, 2013 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Three Months Ended March 31, 2013		Percentage of Revenues ⁽²⁾	Number of Properties ⁽³⁾	Number of	
			Rental Income	Interest Income ⁽¹⁾			SNF Beds ⁽⁴⁾	ALF Units ⁽⁴⁾
Skilled Nursing	\$473,107	50.0%	\$12,559	\$ 701	51.9%	90	10,296	—
Assisted Living	392,119	41.4%	10,231	277	41.1%	104	—	4,713
Range of Care	46,707	4.9%	1,327	81	5.5%	9	733	348
Under Development ⁽⁵⁾	22,347	2.4%	—	—	0.0%	—	—	—
Schools	12,444	1.3%	394	—	1.5%	2	—	—
Totals	<u>\$946,724</u>	<u>100.0%</u>	<u>\$24,511</u>	<u>\$1,059</u>	<u>100.0%</u>	<u>205</u>	<u>11,029</u>	<u>5,061</u>

(1) Includes interest income from mortgage loans.

(2) Includes rental income and interest income from mortgage loans.

(3) We have investments in 29 states leased or mortgaged to 42 different operators.

(4) See Item 1. Financial Statements — Note 2. Real Estate Investments for discussion of bed/unit count.

(5) Includes a MC development with 60 units and two combination ALF and MC developments with a total of 158 units, a new 143-bed SNF development and a 120-bed SNF redevelopment project.

As of March 31, 2013 we had \$741.7 million in carrying value of net real estate investments, consisting of \$701.9 million or 94.6% invested in owned and leased properties and \$39.7 million or 5.4% invested in mortgage loans secured by first mortgages.

For the three months ended March 31, 2013, rental income and interest income from mortgage loans represented 95.5% and 4.1%, respectively, of total gross revenues. In most instances, our lease structure contains fixed annual rental escalations, which are generally recognized on a straight-line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved. For the three months ended March 31, 2013 and 2012, we recorded \$0.9 million and \$0.6 million, respectively, in straight-line rental income. Also during three months ended March 31, 2013 and 2012, we recorded \$10,000 and \$8,000, respectively, of straight-line rent receivable reserve. For leases in place at March 31, 2013, assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight-line rental income will decrease from \$3.3 million for projected annual 2013 to \$1.5 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.4 million for projected annual 2013 to \$97.6 million for projected annual 2014. During the three months ended March 31, 2013, we received \$23.7 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.2 million. For the three months ended March 31, 2013, no leases were renewed. At March 31, 2013 and December 31, 2012, the straight-line rent receivable balance, net of reserves, on the balance sheet was \$27.9 million and \$27.0 million, respectively.

Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator, property type and form of investment. We opportunistically consider investments in health care facilities in related businesses where the business model is similar to our existing model and the opportunity provides an attractive expected return. Consistent with this strategy, we pursue, from time to time, opportunities for potential acquisitions and investments, with due diligence and negotiations often at different stages of development at any particular time.

- With respect to skilled nursing properties, we attempt to invest in properties that do not have to rely on a high percentage of private-pay patients. We prefer to invest in a property that has significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.
- For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels.

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- Memory care facilities offer specialized options for seniors with Alzheimer's disease and other forms of dementia. Purpose built, free-standing memory care facilities offer an attractive alternative for private-pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more

residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in mortgage loans and owned properties represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. To the extent that the operators experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of health care facility and operator. Our monitoring process includes periodic review of financial statements for each facility, periodic review of operator credit, scheduled property inspections and review of covenant compliance.

In addition to our monitoring and research efforts, we also structure our investments to help mitigate payment risk. Some operating leases and loans are credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other loans, operating leases or agreements between us and the operator and its affiliates.

Depending upon the availability and cost of external capital, we anticipate making additional investments in health care related properties. New investments are generally funded from cash on hand, temporary borrowings under our unsecured line of credit and internally generated cash flows. Our investments generate internal cash from rent and interest receipts and principal payments on mortgage loans receivable. Permanent financing for future investments, which replaces funds drawn under our unsecured line of credit, is expected to be provided through a combination of public and private offerings of debt and equity securities and secured and unsecured debt financing. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. Changes in the capital markets' environment may impact the availability of cost-effective capital.

We believe our business model has enabled and will continue to enable us to maintain the integrity of our property investments, including in response to financial difficulties that may be experienced by operators. Traditionally, we have taken a conservative approach to managing our business, choosing to maintain liquidity and exercise patience until favorable investment opportunities arise.

At March 31, 2013, we had \$9.6 million of cash on hand, \$122.5 million available under our \$240.0 million unsecured line of credit, and \$100.0 million available under the uncommitted private shelf agreement for our senior unsecured notes. Also, our potential ability to access the capital markets through the issuance of \$59.6 million of common stock under our equity distribution agreement and through the issuance of debt and/or equity securities under our \$167.6 million effective shelf registration. As a result, we believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, meet debt service obligations (both principal and interest), make dividend distributions and finance some future investments should we determine such future investments are financially feasible.

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Healthcare Regulatory Climate

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On August 2, 2012, CMS published a notice updating Medicare skilled nursing facility payment rates for fiscal year 2013, which began on October 1, 2012. The notice calls for a 1.8 percent update in rates (consisting of a 2.5 % market basket update, reduced by a 0.7 percentage point multifactor productivity adjustment mandated by the Affordable Care Act, as discussed below). CMS estimates that overall Medicare payments to skilled nursing facilities in fiscal year 2013 will increase by \$670 million compared to fiscal year 2012. In addition, on November 9, 2012, CMS published a final rule that, among other things, codifies provisions of section 3201 of the Middle Class Tax Extension and Job Creation Act of 2012 that require reductions in bad debt reimbursement to all providers, suppliers, and other entities eligible to receive bad debt reimbursement. The rule gradually reduces the amount Medicare skilled nursing facilities can claim as bad debt to 65% of allowable bad debt by fiscal year 2015. There can be no assurance that these rules or any future reductions in Medicare skilled nursing facility payment rates would not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains beginning in fiscal year 2012; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business when fully implemented. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which increased the nation's debt ceiling while taking steps to reduce the federal deficit. Under this law, a bipartisan Joint Select Committee on Deficit Reduction was responsible for identifying \$1.5 trillion in deficit reduction, which could include cuts in Medicare, Medicaid, and other federal spending and/or revenue increases. The Committee failed to achieve consensus on deficit reduction measures. As a result, an enforcement mechanism known as sequestration was scheduled to trigger a total of \$1.2 trillion in spending

reductions beginning in January 2013, divided between domestic and defense spending. Under the Budget Control Act, Medicare provider payments are subject to sequestration, although the reductions are capped at 2%. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, delayed sequestration for two months in order to provide an additional opportunity for Congress and the President to agree on alternative deficit reduction options. The American Taxpayer Relief Act also made a series of changes to Medicare payment provisions. Because no budget compromise was reached, on March 1, 2013, President Obama issued a sequestration order mandating a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service

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(FFS) claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration will last through FY 2021, although Congress and the Administration could enact legislation to end or modify sequestration at any time. There can be no assurances that federal spending reductions resulting from the Budget Control Act, including sequestration, or other future budget control mechanisms will not have an adverse impact on the financial condition of our borrowers and lessees, which subsequently could materially adversely impact our company.

In addition, comprehensive reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results in making operating decisions and for budget planning purposes.

Concentration Risk. We evaluate by gross investment our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property or mortgage loans. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top five operators. Geographic mix measures the portion of our investment that relate to our top five states.

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The following table reflects our recent historical trends of concentration risk (*gross investment, in thousands*):

	Period Ended				
	3/31/13	12/31/12	9/30/12	6/30/12	3/31/12
Asset mix:					
Real property	\$906,582	\$900,095	\$805,759	\$743,297	\$740,951
Loans receivable	40,142	40,081	49,141	50,246	53,282
Investment mix:					
Skilled nursing properties	\$473,107	\$472,282	\$470,878	\$411,056	\$413,684
Assisted living properties	392,119	392,157	320,253	320,368	320,481
Range of care properties	46,707	46,769	46,830	46,888	46,945
Under development	22,347	16,642	4,671	2,995	894
Schools	12,444	12,326	12,268	12,236	12,229
Operator mix:					
Extencicare & ALC	\$88,034	\$88,034	\$88,034	\$ 88,034	\$ 88,034
Juniper Communities, LLC	87,088	87,088	—	—	—
Preferred Care ⁽¹⁾	84,192	84,292	84,425	85,075	85,245
Brookdale Communities	84,211	84,210	84,210	84,210	84,210
Senior Care Centers, LLC ⁽²⁾	63,698	63,698	63,698	63,698	57,198
Remaining operators	539,501	532,854	534,533	472,526	479,546
Geographic mix:					
Texas	\$233,865	\$232,106	\$229,062	\$222,989	\$223,245
Ohio	110,804	110,804	110,804	56,804	56,804
New Jersey	70,667	70,667	12,195	12,195	12,195
Florida	67,772	67,802	67,830	67,859	70,150
Colorado	59,009	56,960	31,145	29,849	27,816
Remaining states	404,607	401,837	403,864	403,847	404,023

(1) Preferred Care, Inc. (or Preferred Care) leases 22 skilled nursing and two range of care properties under two master leases and one skilled nursing property under a separate lease agreement. In addition, they operate four skilled nursing properties securing four mortgage loans receivable that we have with unrelated third parties. They also operate one skilled nursing facility under a sub-lease with another lessee we have which is not included in the Preferred Care operator mix.

(2) Senior Care Centers, LLC (or Senior Care) also operates four skilled nursing properties under a sub-lease with another lessee which is not include in the Senior Care operator mix.

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to gross asset value and debt to market capitalization. The leverage ratios indicate how much of our consolidated balance sheet capitalization is related to long term obligations. Our coverage ratios include interest coverage ratio and fixed charge coverage ratio. The coverage ratios indicate our ability to service interest and fixed charges (interest plus preferred dividends). The coverage ratios are based on adjusted earnings before gain on sale of real estate, interest, taxes, depreciation and amortization (or Adjusted EBITDA). Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. The following table reflects the recent historical trends for our credit strength measures:

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Balance Sheet Metrics

	Quarter Ended				
	3/31/13	12/31/12	9/30/12	6/30/12	3/31/12
Debt to gross asset value	30.6% ⁽¹⁾	30.8% ⁽⁴⁾	24.8% ⁽⁴⁾	20.3% ⁽⁹⁾	20.9%
Debt & preferred stock to gross asset value	34.5% ⁽¹⁾	34.7% ⁽⁴⁾	29.1% ⁽⁴⁾	24.8% ⁽⁹⁾	25.5%
Debt to market capitalization ratio	19.1% ⁽²⁾	21.4% ⁽⁵⁾	18.1% ⁽⁴⁾	13.0% ⁽²⁾	14.8%
Debt & preferred stock to market capitalization ratio	21.6% ⁽²⁾	24.2% ⁽⁵⁾	21.3% ⁽⁴⁾	15.9% ⁽²⁾	18.0%
Interest coverage ratio ⁽¹¹⁾	7.1x ⁽³⁾	7.4x ⁽⁶⁾	7.2x ⁽⁸⁾	10.2x ⁽¹⁰⁾	9.9x
Fixed charge coverage ratio ⁽¹¹⁾	5.6x ⁽³⁾	5.7x ⁽⁷⁾	5.6x ⁽⁸⁾	7.3x ⁽¹⁰⁾	7.1x

(1) Decrease primarily due to increase in gross asset value from additional development and capital improvement funding.

(2) Decrease primarily due to the increase in market capitalization.

(3) Decrease primarily due to increase in interest expense resulting from increased pricing levels under our unsecured line of credit.

(4) Increase primarily due to the increase in outstanding debt due to acquisitions.

(5) Increase primarily due to the increase in bank borrowings due to acquisitions offset by the increase in market capitalization.

(6) Increase primarily due to the decrease in interest expense caused by recording capitalized interest on the funding of construction projects and the decrease in depreciation due to a prior quarter one-time depreciation adjustment to reclassify a property from held-for-sale to held-for use, partially offset by increased income due to rental income from acquisitions.

(7) Increase due to the decrease in interest expense caused by recording capitalized interest on the funding of properties under development.

(8) Decrease primarily due to the increase in interest expense due to increased bank borrowing and the new senior unsecured term notes, the increase in debt issue costs and the non-cash interest related to the contingent earn-out liabilities.

(9) Decrease primarily due to the decrease in outstanding debt.

(10) Increase primarily due to additional income generated from acquisitions.

(11) In calculating our interest coverage and fixed charge coverage ratios above, we use Adjusted EBITDA, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (non-GAAP financial measure). Adjusted EBITDA is not an alternative to net income, operating income, income from continuing operations or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on Adjusted EBITDA as a substitute for any such U.S. GAAP financial measures or consider it in isolation, for the purpose of analyzing our financial performance, financial position or cash flows. Net income is the most directly comparable GAAP measure to Adjusted EBITDA.

	Quarter Ended				
	3/31/13	12/31/12	9/30/12	6/30/12	3/31/12
Net income	\$12,976	\$12,778	\$12,504	\$13,113	\$12,932
Less: Gain on sale	—	—	—	—	(16)
Add: Interest expense	3,133	2,907	2,988	2,004	2,033
Add: Depreciation and amortization	6,136	5,692	5,925	5,369	5,167
Total adjusted EBITDA	\$22,245	\$21,377	\$21,417	\$20,486	\$20,116
Interest expense	\$3,133	\$2,907	\$2,988	\$2,004	\$2,033
Interest coverage ratio	7.1x	7.4x	7.2x	10.2x	9.9x
Interest expense	\$3,133	\$2,907	\$2,988	\$2,004	\$2,033
Preferred stock dividends	818	819	818	818	818
Total fixed charges	\$3,951	\$3,726	\$3,806	\$2,822	\$2,851
Fixed charge coverage ratio	5.6x	5.7x	5.6x	7.3x	7.1x

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We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. This may be a result of various factors, including, but

not limited to

- The status of the economy;
- The status of capital markets, including prevailing interest rates;
- Compliance with and changes to regulations and payment policies within the health care industry;
- Changes in financing terms;
- Competition within the health care and senior housing industries; and
- Changes in federal, state and local legislation.

Management regularly monitors the economic and other factors listed above. We develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends.

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Operating Results

Three months ended March 31, 2013 compared to three months ended March 31, 2012

	Three months ended March 31,		Increase/ (Decrease)
	2013	2012	
Revenues:			
Rental income	\$24,511	\$20,872	\$3,639 ⁽¹⁾
Interest income from mortgage loans	1,059	1,532	(473) ⁽²⁾
Interest and other income	93	236	(144) ⁽³⁾
Total revenues	<u>25,663</u>	<u>22,640</u>	<u>3,022</u>
Expenses:			
Interest expense	3,133	2,033	1,100 ⁽⁴⁾
Depreciation and amortization	6,136	5,167	969 ⁽⁵⁾
General and administrative expenses	3,418	2,524	893 ⁽⁶⁾
Total expenses	<u>12,687</u>	<u>9,724</u>	<u>2,962</u>
Income from continuing operations	12,976	12,916	60
Discontinued operations:			
Gain on sale of assets, net	—	16	(16) ⁽⁷⁾
Net income from discontinued operations	<u>—</u>	<u>16</u>	<u>(16)</u>
Net income	12,976	12,932	44
Income allocated to non-controlling interests	—	(11)	11 ⁽⁸⁾
Net income attributable to LTC Properties, Inc.	<u>12,976</u>	<u>12,921</u>	<u>55</u>
Income allocated to participating securities	(98)	(94)	(4)
Income allocated to preferred stockholders	(818)	(818)	—
Net income available to common stockholders	<u>\$12,060</u>	<u>\$12,009</u>	<u>\$ 51</u>

(1) Increased due to acquisitions.

(2) Decreased primarily due to payoffs and normal amortization of existing mortgage loans partially offset by origination of two loans totaling \$7,719 in 2012 and construction funding of \$910 during 2013.

(3) Decreased primarily due to the redemption of the Skilled Healthcare Group bond.

(4) Increased primarily due to an increase in debt (bank borrowings and the sale of senior unsecured notes to fund investments) and an increase in interest rates on our unsecured line of credit resulting from a change in pricing levels.

(5) Increased due to acquisitions, developments and capital improvement investments.

(6) Increased primarily due to a one-time \$707 charge related to the retirement of our Senior Vice President, Marketing and Strategic Planning. The one-time charge included a severance payment of \$250 and vesting expense of \$457 related to the acceleration of 18,180 shares of restricted common stock.

(7) Includes the gain on sale of a 140-bed skilled nursing property sold during 2012.

(8) Decreased due to the conversion of all 112,588 limited partnership units during 2012.

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Funds From Operations

Funds from Operations (or FFO) available to common stockholders, basic FFO available to common stockholders per share and diluted FFO available to common stockholders per share are supplemental measures of a REIT's financial performance that are not defined by U.S. GAAP. Real estate values historically rise and fall with market conditions, but cost accounting for real estate assets in accordance with U.S. GAAP assumes that the value of real estate assets diminishes predictably over time. We believe that by excluding the effect of historical cost depreciation, which may be of limited relevance in evaluating current performance, FFO facilitates comparisons of operating performance between periods.

We use FFO as a supplemental performance measurement of our cash flow generated by operations. FFO does not represent cash generated from operating activities in accordance with U.S. GAAP, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income available to common stockholders.

We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts (or NAREIT). FFO, as defined by NAREIT, means net income available to common stockholders (computed in accordance with U.S. GAAP) excluding gains or losses on the sale of real estate and impairment write-downs of depreciable real estate plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our calculation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that have a different interpretation of the current NAREIT definition from us; therefore, caution should be exercised when comparing our FFO to that of other REITs.

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

	Three Months Ended March 31,	
	2013	2012
Net income available to common stockholders	\$12,060	\$12,009
Add: Depreciation and amortization	6,136	5,167
Less: Gain on sale of real estate, net	—	(16)
FFO available to common stockholders	<u>\$18,196</u>	<u>\$17,160</u>
FFO available to common stockholders per share:		
Basic	<u>\$0.60</u>	<u>\$0.57</u>
Diluted	<u>\$0.59</u>	<u>\$0.56</u>
Weighted average shares used to calculate FFO per share:		
Basic	<u>30,365</u>	<u>30,189</u>
Diluted	<u>32,609</u>	<u>32,470</u>

Liquidity and Capital Resources

Operating Activities. At March 31, 2013, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$906.6 million invested primarily in owned long-term healthcare properties and mortgage loans of approximately \$40.1 million (prior to deducting a \$0.4 million reserve). Our portfolio consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 90 skilled nursing properties, 104 assisted living properties, 9 range of care properties, two schools and five parcels of land under development. These properties are located in 29 states. Assisted living properties, independent living properties, memory care properties and combinations thereof are included in the assisted living property type. Range of care properties consist of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. For the three months ended March 31, 2013, we had net cash provided by operating activities of \$17.4 million.

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For the three months ended March 31, 2013 we recorded \$0.9 million in straight-line rental income and a reserve of \$10,000 on our straight-line rent receivable. For leases in place at March 31, 2013, assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight-line rental income will decrease from \$3.3 million for projected annual 2013 to \$1.5 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.4 million for projected annual 2013 to \$97.6 million for projected annual 2014. During the three months ended March 31, 2013 we received \$23.7 million of cash rental revenue and recorded \$0.2 million of amortized lease inducement cost.

Investing and Financing Activities. For the three months ended March 31, 2013, we used \$6.7 million of cash for investing activities. During the three months ended March 31, 2013, we received \$0.5 million in regularly scheduled principal payments on our mortgage loans. Additionally, we funded \$0.9 million under a \$10.6 million mortgage and construction loan and we have a remaining commitment of \$7.1 million at March 31, 2013.

During the three months ended March 31, 2013, we funded the following under our development, redevelopment, renovation and expansion projects (excludes capitalized interest, dollar amounts in thousands):

Type of Property	Investment Commitment	2013 Funding ⁽²⁾	Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing	\$36,644	\$2,313	\$11,418	\$25,226	6	785
Assisted Living ⁽¹⁾	40,927	3,880	12,122	28,805	7	494
Totals	<u>\$77,571</u>	<u>\$6,193 ⁽³⁾</u>	<u>\$23,540</u>	<u>\$54,031</u>	<u>13</u>	<u>1,279</u>

(1) Includes the development of a 60-unit memory care property for \$9,817 and two assisted living and memory care combination properties for a total of \$16,385, the expansion of three assisted living properties for a total \$14,600 and the renovation of a 140-unit independent living property for \$125

(2) Excludes \$117 of capital improvement funding for 2013.

In connection with an acquisition in December 2012, we expect to acquire a 72-unit assisted living property located in Pennsylvania for approximately \$12.0 million. We plan to finance the acquisition with funds drawn from our unsecured revolving line of credit and the assumption of approximately \$6.8 million of an existing U.S. Department of Housing and Urban Development (“HUD”) insured loan encumbering the property. The HUD loan bears interest at 3.75% and matures in 2051. Closing is subject to, among other things, the consent of HUD to the assignment to and assumption by us of the HUD loan, which is anticipated to occur in 2013. Simultaneous with the acquisition of this property, we intend to lease the property to an entity affiliated with Juniper Communities, LLC under similar terms and conditions as their existing master triple-net lease.

At March 31, 2013, we had two term loans outstanding with a carrying value of \$2.9 million at a weighted average interest of 8.6%. Also at March 31, 2013, we committed to provide \$1.5 million under six loans and line of credit agreements to certain operators. As of March 31, 2013, we funded \$0.2 million under these commitments and have a remaining commitment of \$1.3 million. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2014. During the three months ended March 31, 2013, we received \$0.1 million in principal payments and we funded \$0.1 million under notes receivables.

For the three months ended March 31, 2013, we used \$8.2 million of cash in financing activities. During the three months ended March 31, 2012, we paid \$0.6 million in scheduled principal payments on bonds payable. During the three months ended March 31, 2013, we borrowed \$2.0 million under our unsecured line of credit. Accordingly, at March 31, 2013, we had \$117.5 million outstanding and \$122.5 million available for borrowing. At March 31, 2013, we were in compliance with all our covenants.

We have an equity distribution agreement which allows us to issue and sell, from time to time, up to \$85.7 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers’ transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the three months ended March 31, 2013, we sold 126,742 shares of

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common stock for \$4.9 million in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we reclassified \$0.6 million of accumulated costs associated with the equity distribution agreement to additional paid in capital. At March 31, 2013, we had \$59.6 million available under this equity distribution agreement.

During the three months ended March 31, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Additionally, during the three months ended March 31, 2013, a total of 22,000 stock options were exercised at a total option value of \$0.5 million and a total market value on the date of exercise of \$0.9 million. No stock options were issued during the first quarter of 2013 and all stock options outstanding are exercisable as of March 31, 2013. During the three months ended March 31, 2013, we granted 20,000 shares of restricted common stock at \$36.26 per share. These shares all vest on June 1, 2016. Also during the three months ended March 31, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$0.5 million of compensation expense related to the accelerated vesting. During the three months ended March 31, 2013, we recognized \$1.0 million of compensation expense related to the vesting of restricted common stock.

We paid cash dividends on our 8.5% Series C Cumulative Convertible Preferred Stock totaling \$0.8 million. Additionally, we declared and paid cash dividends on our common stock totaling \$14.2 million. In April 2013, we declared a monthly cash dividend of \$0.155 per share on our common stock for the months of April, May and June 2013, payable on April 30, May 31 and June 28, 2013, respectively, to stockholders of record on April 22, May 23 and June 20, 2013, respectively.

Available Shelf Registration. Our shelf registration statement provides us with the capacity to offer up to \$400.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering. At March 31, 2013, we had availability of \$167.6 million under our effective shelf registration.

Liquidity. We expect our future income and ability to make distributions from cash flows from operations to depend on the collectibility of our rents and mortgage loans receivable. The collection of these loans and rents will be dependent, in large part, upon the successful operation by the operators of the skilled nursing properties, assisted living properties, independent living properties, memory care properties, range of care properties and schools we own or that are pledged to us. Range of Care properties consist of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. 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 healthcare facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term healthcare 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 healthcare 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 financial status of the operations of the senior housing and long term care properties. 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 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 would be at risk of net interest margin deterioration if medium and long-term rates were to increase. As of March 31, 2013, only \$2.0 million of our debt, excluding our Unsecured Credit Agreement, was at a variable interest rate.

At March 31, 2013, we had \$9.6 million of cash on hand, \$122.5 million available under our unsecured line of credit and \$100.0 million available under the uncommitted private shelf agreement for our senior unsecured notes. Also, we have the ability to access the capital markets through the issuance of \$59.6 million of common stock under our equity distribution agreement and through the issuance of debt and/or equity securities under our \$167.6 million effective shelf registration.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets 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. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for additional capital investments in 2013.

Critical Accounting Policies

There have been no material changes from the critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our market risk during the three months ended March 31, 2013. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). As of the end of the period covered by this report based on such evaluation our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are a party from time to time to various general and professional liability claims and lawsuits asserted against the lessees or borrowers of our properties, which in our opinion are not singularly or in the aggregate material to our results of operations or financial condition. These types of claims and lawsuits may include matters involving general or professional liability, which we believe under applicable legal principles are not our responsibility as a non-possessory landlord or mortgage holder. We believe that these matters are the responsibility of our lessees and borrowers pursuant to general legal principles and pursuant to insurance and indemnification provisions in the applicable leases or mortgages. We intend to continue to vigorously defend such claims.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The number of shares of our Common Stock purchased and the average prices paid per share for each month in the quarter ended March 31, 2013 are as follows:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plan
January 1 – January 31, 2013	—	\$ —	—	—
February 1 – February 28, 2013	—	\$ —	—	—
March 1 – March 31, 2013	600	\$ 39.05	—	—
Total	600		—	

(1) During the three months ended March 31, 2013, we acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

(2) No shares were purchased as part of publicly announced plans or programs. We had a Board of Directors repurchase authorization program enabling us to repurchase up to 5,000,000 shares of our equity securities, including common and preferred securities, on the open market. During 2012, our Board of Directors terminated this repurchase authorization.

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Item 6. Exhibits

- 3.1 LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.2 to LTC Properties Inc.'s Current Report on Form 8-K dated September 14, 2012)
- 3.2 Bylaws of LTC Properties, Inc., as amended and restated August 3, 2009 (incorporated by reference to Exhibit 3.2 to LTC Properties Inc.'s Form 10-Q for the quarter ended June 30, 2009)
- 10.1 The 2008 Equity Participation Plan*
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from LTC Properties, Inc.'s Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2013 and December 31, 2012; (ii) Consolidated Statements of Income for the three months ended March 31, 2013 and 2012; (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012; and (iv) Notes to Consolidated Financial Statements**

* During the three months ended March 31, 2013, the 2008 Equity Participation Plan was amended to permit the issuance of shares in uncertificated form.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LTC PROPERTIES, INC.
Registrant

Dated: April 30, 2013

By: /s/ PAMELA SHELLEY-KESSLER
Pamela Shelley-Kessler
Executive Vice President, Chief Financial Officer and
Corporate Secretary
(Principal Financial and Accounting Officer)

LTC PROPERTIES, INC.

THE 2008 EQUITY PARTICIPATION PLAN

OF

LTC PROPERTIES, INC.

LTC Properties, Inc., a Maryland corporation, has adopted The 2008 Equity Participation Plan of LTC Properties, Inc. (the "Plan"), effective June 10, 2008, for the benefit of its eligible employees, consultants and directors.

The purposes of the Plan are as follows:

- (1) To provide an additional incentive for Independent Directors, key Employees and consultants to further the growth, development and financial success of the Company by personally benefiting through the ownership of Company stock and/or rights which recognize such growth, development and financial success;
- (2) To enable the Company to obtain and retain the services of Independent Directors, key Employees and consultants considered essential to the long range success of the Company by offering them an opportunity to own stock in the Company and/or rights which will reflect the growth, development and financial success of the Company; and
- (3) To encourage participants to contribute materially to the growth of the Company, thereby benefiting the Company's stockholders, and align the economic interests of the participants with those of the stockholders.

ARTICLE I.

DEFINITIONS

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

"*Administrator*" shall mean the party that conducts the general administration of the Plan as provided in Article XI. With reference to the administration of the Plan with respect to Awards granted to Independent Directors, the term "Administrator" shall refer to the Board. With reference to the administration of the Plan with respect to any other Award, the term "Administrator" shall refer to the Committee, unless the Board has assumed the authority for administration of the Plan generally as provided in Section 11.2.

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

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

"*Award Limit*" shall mean two hundred thousand (200,000) shares of Common Stock, as adjusted pursuant to Section 12.3 of the Plan.

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

"*Change in Control*" shall mean, unless otherwise defined in an Award Agreement, a change in ownership or control of the Company effected through any of the following transactions:

(a) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing thirty percent (30%) or more of the total combined voting power of the Company's then outstanding securities; or

(b) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation (or other entity), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 66-2/3% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; *provided, however*, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 30% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control; or

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

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

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

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

"Common Stock" shall mean the common stock of the Company, par value \$.01 per share.

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

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

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

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

(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than thirty percent (30%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

"Coupled Stock Appreciation Right" shall mean an Award granted under Section 9.2 of the Plan.

"CSAR" shall mean a Coupled Stock Appreciation Right.

"Deferred Stock" shall mean Common Stock awarded under Section 8.5 of the Plan.

"Director" shall mean a member of the Board.

"Dividend Equivalent" shall mean a right to receive the equivalent value (in cash or Common Stock) of dividends paid on Common Stock, awarded under Section 8.3 of the Plan.

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

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

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

"Grantee" shall mean an Employee, Independent Director or consultant granted a Performance Award, Dividend Equivalent, Stock Payment, Stock Appreciation Right, or Deferred Stock.

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

"Incentive Stock Option" shall mean an Option that is designated as an Incentive Stock Option by the Committee to the extent such Option complies with the applicable provisions of Section 422 of the Code.

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

“Independent Stock Appreciation Right” shall mean an Award granted under Section 9.3 of the Plan.

“ISAR” shall mean an Independent Stock Appreciation Right.

“Non-Qualified Stock Option” shall mean an Option that is not designated as an Incentive Stock Option by the Committee, or an Option that is designated as an Incentive Stock Option to the extent such Option does not comply with the provisions of Section 422 of the Code.

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

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

“Performance Award” shall mean a cash bonus, stock bonus or other performance or incentive award that is paid in cash, Common Stock or a combination of both, awarded under Section 8.2 of the Plan.

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

“Plan” shall mean The 2008 Equity Participation Plan of LTC Properties, Inc., as set forth herein and as amended from time to time.

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

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

“Rule 16b-3” shall mean Rule 16b-3 under the Exchange Act, amended from time to time.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Stock Appreciation Right” shall mean an Award granted under Article IX of the Plan.

“Stock Payment” shall mean an Award granted under Section 8.4 of the Plan.

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

“Termination of Consultancy” shall mean the time when the engagement of a Holder as a consultant to the Company or a Subsidiary is terminated for any reason, with or without cause and with or without notice, including, but not by way of limitation, by resignation, discharge, death or retirement; but excluding terminations where there is a simultaneous commencement of employment with the Company or any Subsidiary. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Consultancy, including, but not by way of limitation, the question of whether a Termination of Consultancy resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Consultancy. Notwithstanding any other provision of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate a consultant’s service at any time for any reason whatsoever, with or without cause and with or without notice, except to the extent expressly provided otherwise in writing.

“Termination of Directorship” shall mean the time when a Holder who is an Independent Director ceases to be a Director for any reason, including, but not by way of limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where there is a simultaneous commencement of employment or establishment of a consulting relationship with the Company or any Subsidiary. The Board, in its sole and absolute discretion, shall determine the effect of all matters and questions relating to Termination of Directorship with respect to Independent Directors.

“Termination of Employment” shall mean the time when the employee-employer relationship between a Holder and the Company or any Subsidiary is terminated for any reason, with or without cause and with or without notice, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding (i) terminations where there is a simultaneous reemployment or continuing employment of a Holder by the Company or any Subsidiary, (ii) at the discretion of the Committee, terminations which result in a temporary severance of the employee-employer relationship, and (iii) at the discretion of the Committee, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment; *provided*,

however, that, with respect to Incentive Stock Options, unless otherwise determined by the Committee in its discretion, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Employment if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. Notwithstanding any other provision of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate an Employee's employment at any time for any reason whatsoever, with or without cause and with or without notice, except to the extent expressly provided otherwise in writing.

ARTICLE II.

SHARES SUBJECT TO PLAN AND OTHER LIMITATIONS

2.1. Aggregate Limit on Shares Subject to Plan and Individual Award Limits.

(a) The shares of stock subject to Awards shall be Common Stock. The aggregate number of such shares which may be issued upon exercise of Options or in connection with any other Awards shall not exceed Six Hundred Thousand (600,000). The shares of Common Stock issuable upon exercise of Options or in connection with any other Awards may be previously authorized but unissued shares.

(b) The Administrator may not grant to any individual in any calendar year Stock Options, Restricted Stock, Independent Stock Appreciation Rights, Performance Awards, Stock Payments and Deferred Stock representing in the aggregate a number of Shares in excess of the Award Limit. For this purpose, a Performance Award payable in cash shall represent a number of Shares equal to the amount of such cash divided by the Fair Market Value of a share of Common Stock on the date the Performance Award is granted. The Administrator may not grant to any individual in any calendar year Divided Equivalents in excess of the aggregate number of Stock Appreciation Rights, Deferred Stock Awards and Performance Awards payable in shares of Common Stock granted to such individual in such calendar year. The Administrator may not grant to any individual in any calendar year Coupled Stock Appreciation Rights in excess of the Options granted to such individual in such calendar year.

2.2. Add-back of Options and Other Rights. If any Award expires, is forfeited or is canceled without having been fully exercised or without having become fully vested, or is exercised in whole or in part for cash as permitted by the Plan, the number of shares subject to such Award as to which such Award was not exercised, was forfeited, was cancelled, or was exercised in cash may again be subject to an Award, subject to the limitations of Section 2.1. Furthermore, any shares subject to Awards which are adjusted pursuant to Section 12.3 and become exercisable with respect to shares of stock of another corporation shall be considered cancelled and may again be subject to an Award, subject to the limitations of Section 2.1. If any share of Restricted Stock is forfeited by the Holder or repurchased by the Company pursuant to Section 7.5 hereof, such share may again be subject to an Award, subject to the limitations of Section 2.1. Notwithstanding the provisions of this Section 2.2, no shares of Common Stock may again be optioned, granted or awarded if such action would cause Incentive Stock Options to fail to qualify as an incentive stock options under Section 422 of the Code.

ARTICLE III.

GRANTING OF AWARDS

3.1 Award Agreement. Each Award shall be evidenced by an Award Agreement. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

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

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

ARTICLE IV.

GRANTING OF OPTIONS TO EMPLOYEES, CONSULTANTS AND INDEPENDENT DIRECTORS

4.1. Eligibility. Any Employee or consultant selected by the Committee pursuant to Section 4.4(a)(i) shall be eligible to be granted Options. Each Independent Director of the Company shall be eligible to be granted Options at the times and in the manner set forth in Sections 4.5 and 4.6. An Option shall give the Optionee the right to purchase shares of Common Stock under the terms and conditions set forth in the Award Agreement applicable to the Option.

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

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

4.4. Granting of Options to Employees and Consultants.

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

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

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

(iii) Subject to Section 4.3, determine whether such Options are to be Incentive Stock Options or Non-Qualified Stock Options; and

(iv) Determine the terms and conditions of such Options, consistent with the Plan.

(b) Upon the selection of a key Employee or consultant to be granted an Option, the Committee shall instruct the Secretary of the Company to issue the Option and may impose such conditions on the grant of the Option as it deems appropriate. Without limiting the generality of the preceding sentence, the Committee may, in its discretion and on such terms as it deems appropriate, and consistent with applicable law require as a condition on the grant of an Option to an Employee or consultant that the Employee or consultant surrender for cancellation some or all of the unexercised Options or any other Awards or rights which have been previously granted to him/her under the Plan or otherwise. An Option, the grant of which is conditioned upon such surrender, may have an Option price lower (or higher) than the exercise price of such surrendered Option or other Award, may cover the same (or a lesser or greater) number of shares as such surrendered Option or other Award, may contain such other terms as the Committee deems appropriate, and shall be exercisable in accordance with its terms, without regard to the number of shares, price, exercise period or any other term or condition of such surrendered Option or other Award. Notwithstanding the foregoing, the Committee shall not have authority to reprice Options in accordance with this Section 4.4(b) without first obtaining stockholder approval for such repricing and the grant of an Option described in the previous sentence may not result in the imposition on the Optionee of a 20% tax pursuant to Section 409A(a)(1)(B) of the Code.

(c) Any Incentive Stock Option granted under the Plan may be modified by the Committee, with the consent of the Optionee, to disqualify such Option from treatment as an "incentive stock option" under Section 422 of the Code, provided that no such modification may result in the imposition on the Optionee of a 20% tax pursuant to Section 409A(a)(1)(B) of the Code.

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

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

ARTICLE V.

TERMS OF OPTIONS

5.1 Option Price. The price per share of the shares subject to each Option granted to Employees and consultants shall be set by the Committee; *provided, however*, that such price shall not be less than the par value of a share of Common Stock, unless otherwise permitted by applicable state law, and shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted; and provided further that in the case of Incentive Stock Options granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code), such price shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date the Option is granted.

5.2 Option Term. The term of an Option granted to an Employee or consultant shall be set by the Committee in its discretion; *provided, however*, that the term shall not be more than ten (10) years from the date the Option is granted, or five (5) years from such date if the

Option is an Incentive Stock Option granted to an individual then owning (directly and through application of the attribution rules of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code). Except as limited by requirements of Section 422 of the Code and regulations and rulings thereunder applicable to Incentive Stock Options, the Committee may extend the term of any outstanding Option in connection with any Termination of Employment or Termination of Consultancy of the Optionee or amend any other term or condition of such Option relating to such a termination. Notwithstanding the foregoing, the Committee may not extend the term of any outstanding Option beyond the earlier of (1) the original expiration date of the Option and (2) the ten-year anniversary of the grant date of the Option.

5.3 Option Vesting.

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

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

(c) To the extent that the aggregate Fair Market Value of Common Stock with respect to which “incentive stock options” (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by an Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation (within the meaning of Section 422 of the Code) of the Company) exceeds \$100,000, such Options shall be treated as Non-Qualified Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into account in the order in which they were granted. For purposes of this Section 5.3(c), the Fair Market Value of stock shall be determined as of the time the Option with respect to such Common Stock is granted.

(d) Unless otherwise provided in an Award Agreement, Options shall become fully vested as of the date of a Change in Control.

5.4 Terms of Options Granted to Independent Directors. The price per share of the shares subject to each Option granted to an Independent Director shall equal 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted. Subject to Section 6.6, each Option granted to an Independent Director pursuant to Section 4.5 shall become exercisable in cumulative annual installments of 33-1/3% on each of the first, second and third anniversaries of the date of grant, shall become fully vested as of the date of a Change in Control and shall expire on the earlier of the seventh anniversary of the date of vesting or one year following an Independent Director’s Termination of Directorship for any reason.

ARTICLE VI.

EXERCISE OF OPTIONS

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

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

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

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

(c) In the event that the Option shall be exercised pursuant to Section 12.1 by any person or persons (other than the Optionee), who have been transferred an Option pursuant to Section 12.1, appropriate proof of the right of such person or persons to exercise the

Option; and

(d) Full cash payment to the Secretary of the Company for the shares with respect to which the Option, or portion thereof, is exercised. However, the Administrator, may in its discretion (i) allow payment, in whole or in part, through the delivery of shares of Common Stock owned by the Optionee, duly endorsed for transfer to the Company with a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; (ii) allow payment, in whole or in part, through the surrender of shares of Common Stock then issuable upon exercise of the Option having a Fair Market Value on the date of Option exercise equal to the excess of the aggregate exercise price of the Option or exercised portion thereof over the Option price of the Option or exercised portion thereof; (iii) allow payment, in whole or in part, in accordance with a cashless exercise program under which, if so instructed by the Optionee, shares of Common Stock may be issued directly to the Optionee's broker or dealer who in turn will sell the shares and pay the Option price in cash to the Company from the sale proceeds; or (iv) allow payment through any combination of the consideration provided in the foregoing clauses (i), (ii), and (iii).

6.3. Conditions to Issuance of Stock Certificates. The Company shall not be required to issue shares of Common Stock, either in certificated or uncertificated form, purchased upon the exercise of any Option or portion thereof prior to the fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Administrator shall, in its absolute discretion, deem necessary or advisable;

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

(d) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may establish from time to time for reasons of administrative convenience; and

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

6.4. Rights as Stockholders. Optionees shall not be, nor have any of the rights or privileges of, stockholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until such shares, in certificated or uncertificated form, have been issued by the Company to such Optionees.

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

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

ARTICLE VII.

AWARD OF RESTRICTED STOCK

7.1. Eligibility. Subject to the Award Limit, shares of Restricted Stock may be awarded to any Employee or consultant selected by the Committee pursuant to Section 7.2 or any Independent Director who the Board determines should receive such an Award.

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7.2. Award of Restricted Stock.

- (a) The Administrator may from time to time, in its absolute discretion:
 - (i) Determine which Employees are key Employees and select from among the key Employees, Independent Directors or consultants (including Employees, Independent Directors or consultants who have previously received other

Awards under the Plan) such of them as in its opinion should be awarded Restricted Stock; and

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

(b) The Administrator shall establish the purchase price, if any, and form of payment for Restricted Stock.

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

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

7.4. Restriction. All shares of Restricted Stock issued under the Plan (including any shares received by holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Restricted Stock Award Agreement, be subject to such terms, conditions and restrictions as the Administrator shall provide, which restrictions may include, without limitation, forfeiture of such shares in the event of termination of employment prior to completion of a term of service and restrictions concerning voting rights and transferability, Company performance and individual performance and satisfaction of one or more Performance Criteria; *provided, however*, that, by action taken after the Restricted Stock is issued, the Administrator may, on such terms and conditions as it may determine to be appropriate, remove any or all of the restrictions imposed by the terms of the Restricted Stock Award Agreement. Unless otherwise provided in the Award Agreement, all of the restrictions imposed on an Award of Restricted Stock shall lapse upon the occurrence of a Change in Control. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. If no consideration was paid by the Restricted Stockholder upon issuance, a Restricted Stockholder's rights in unvested Restricted Stock shall lapse upon Termination of Employment or, if applicable, upon Termination of Consultancy or Termination of Directorship prior to the termination or expiration of all restrictions; *provided, however*, that unless otherwise provided by the Administrator in the Restricted Stock Award Agreement, such rights shall not lapse in the event of a Termination of Employment, Termination of Consultancy or Termination of Directorship following a Change in Control or because of the Restricted Stockholder's death or disability.

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7.5. Repurchase of Restricted Stock. The Administrator shall provide in the terms of each individual Restricted Stock Award Agreement that the Company shall have the right to repurchase from the Restricted Stockholder the Restricted Stock then subject to restrictions under the Restricted Stock Award Agreement immediately upon a Termination of Employment, Termination of Consultancy or Termination of Directorship prior to the termination or expiration of all restrictions, at a cash price per share equal to the price paid by the Restricted Stockholder for such Restricted Stock; *provided, however*, that the Administrator in its sole and absolute discretion may provide that no such right of repurchase shall exist in the event of a Termination of Employment, Termination of Consultancy or Termination of Directorship without cause or following a Change in Control or because of the Restricted Stockholder's retirement, death, disability or otherwise.

7.6. Escrow. Unless otherwise determined by the Administrator, the Secretary of the Company or such other escrow holder as the Administrator may appoint shall retain physical custody of any certificates representing Restricted Stock or, if such Restricted Stock is uncertificated, shall cause such uncertificated shares of Restricted Stock to be held by the Company's transfer agent in a restricted book entry account, in each case until all of the restrictions imposed under the Restricted Stock Award Agreement with respect to such shares of Restricted Stock terminate, expire or have been removed.

7.7. Legend / Notice. In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Administrator, for all shares of Restricted Stock that are still subject to restrictions under Award Agreements, shall cause a legend or legends that make appropriate reference to the conditions imposed thereby to be placed on any certificates representing such shares, or, if such shares are in uncertificated form, shall cause the Company's transfer agent to note such legend or legends on the restricted book entry account for such shares and to issue such notices or written statements containing information on the conditions imposed under the Award Agreements to the holders of such shares as may be required by law, the Company's charter and bylaws or otherwise deemed appropriate by the Company.

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

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

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ARTICLE VIII.

PERFORMANCE AWARDS, DIVIDEND EQUIVALENTS, DEFERRED STOCK, STOCK PAYMENTS

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

8.2. Performance Awards. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted one or more Performance Awards. A Performance Award represents the right to receive a payment subject to satisfaction of any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Administrator on a specified date or dates or over any period or periods determined by the Administrator. In making such determinations, the Administrator shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular key Employee, Independent Director or consultant.

8.3. Dividend Equivalents. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted Dividend Equivalents. A Dividend Equivalent represents the right to receive payments in the amount of the dividend on a share of Common Stock. Dividend Equivalents shall be credited as of dividend payment dates, during the period between the date a Stock Appreciation Right, Deferred Stock or Performance Award is granted, and the date such Stock Appreciation Right, Deferred Stock or Performance Award is exercised, vests or expires, as determined by the Administrator. Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Administrator, provided that in no event may the payment of such cash or additional shares of Common Stock be contingent upon a Holder's exercise of an Option or Stock Appreciation Right.

8.4. Stock Payments. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may receive Stock Payments in the manner determined from time to time by the Administrator. A Stock Payment represents the right to receive one share of Common Stock. The number of shares shall be determined by the Administrator and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Administrator, determined on the date such Stock Payment is made or on any date thereafter.

8.5. Deferred Stock. Any key Employee or consultant selected by the Committee or any Independent Director selected by the Board may be granted an Award of Deferred Stock in the manner determined from time to time by the Administrator. Deferred Stock represents the right to receive one share of Common Stock in the future. The number of shares of Deferred Stock shall be determined by the Administrator and may be linked to the satisfaction of Performance Criteria or other specific performance criteria determined to be appropriate by the

Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator. Common Stock underlying a Deferred Stock Award will not be issued until the Deferred Stock Award has vested, pursuant to a vesting schedule or satisfaction of Performance Criteria or other specific performance criteria set by the Administrator. Unless otherwise provided by the Administrator, a Holder of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Award has vested and the Common Stock underlying the Award has been issued.

8.6. Term. The term of a Performance Award, Dividend Equivalent, Deferred Stock and/or Stock Payment shall be set by the Administrator.

8.7. Exercise or Purchase Price. The Administrator may establish the exercise or purchase price, if any, of a Performance Award, shares of Deferred Stock, or shares received as a Stock Payment.

8.8. Exercise Upon Termination of Employment, Termination of Directorship or Termination of Consultancy. A Performance Award, Dividend Equivalent, Deferred Stock and/or Stock Payment is exercisable or payable only while the Holder is an Employee, Independent Director or consultant; *provided, however*, that the Administrator in its sole and absolute discretion may provide that the Performance Award, Dividend Equivalent, Award of Deferred Stock and/or Stock Payment may be exercised or paid subsequent to a Termination of Employment, Termination of Consultancy or Termination of Directorship following a Change in Control.

8.9. Payment on Exercise. Payment of the amount determined under Section 8.2 or 8.3 above shall be in cash, in Common Stock or a combination of both, as determined by the Administrator. To the extent any payment under this Article VIII is effected in Common Stock, it shall be made subject to satisfaction of all provisions of Section 6.3.

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

8.11. Section 409A Compliance. The Common Stock or cash payment distributable to a Holder pursuant to a Performance Award, Dividend Equivalent, Deferred Stock and/or Stock Payment shall be distributed to the Holder no later than 2½ months following the end of the

ARTICLE IX.

STOCK APPRECIATION RIGHTS

9.1. Grant of Stock Appreciation Rights. A Stock Appreciation Right entitles the Holder to a payment equal to the excess of the Fair Market Value of the number of shares of Common Stock underlying the Stock Appreciation Right as of the date the Award is exercised over such Fair Market Value as of the date the Award is granted. A Stock Appreciation Right may be granted to any key Employee or consultant selected by the Committee or any Independent Director selected by the Board. A Stock Appreciation Right may be granted (i) in connection and simultaneously with the grant of an Option or (ii) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall impose and shall be evidenced by an Award Agreement. Without limiting the generality of the preceding sentence, the Administrator may, in its discretion and on such terms as it deems appropriate, require as a condition of the grant of a Stock Appreciation Right to an Employee, Independent Director or consultant that the Employee, Independent Director or consultant surrender for cancellation some or all of the unexercised Stock Appreciation Rights or any other Awards or rights which have been previously granted to him/her under the Plan or otherwise. A Stock Appreciation Right, the grant of which is conditioned upon such surrender, may have an exercise price lower (or higher) than the exercise price of such surrendered Stock Appreciation Right or other Award, may cover the same (or a lesser or greater) number of shares as such surrendered Stock Appreciation Right or other Award, may contain such other terms as the Administrator deems appropriate, and shall be exercisable in accordance with its terms, without regard to the number of shares, price, exercise period, or any other term or condition of such surrendered Stock Appreciation Right or other Award. Notwithstanding the foregoing, the Committee shall not have authority to reprice Stock Appreciation Rights in accordance with this Section 9.1 without first obtaining stockholder approval for such repricing and the grant of a Stock Appreciation Right described in the previous sentence may not result in the imposition on the Holder of a 20% tax pursuant to Section 409A(a)(1)(B) of the Code.

9.2. Coupled Stock Appreciation Rights.

(a) A CSAR is a Stock Appreciation Right that is related to a particular Option and is exercisable only when and to the extent the related Option is exercisable.

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

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

9.3. Independent Stock Appreciation Rights.

(a) An Independent Stock Appreciation Right (ISAR) is a Stock Appreciation Right that is unrelated to any Option. ISARs shall have terms set by the Administrator and shall cover such number of shares of Common Stock as the Administrator may determine; *provided, however*, that the term of an ISAR shall not be more than ten years from the date the ISAR is granted. An ISAR is exercisable only while the Grantee is an Employee, Independent Director or consultant; provided that the Administrator may determine that the ISAR may be exercised subsequent to Termination of Employment, Termination of Directorship or Termination of Consultancy without cause, or following a Change in Control, or because of the Grantee's retirement, death or disability, or otherwise, and provided further, that unless otherwise provided in the Award Agreement, ISARs shall become fully vested as of the date of a Change in Control. Notwithstanding the foregoing, the Administrator may not extend the term of any outstanding ISAR beyond the earlier of (1) the original expiration date of the ISAR and (2) the ten-year anniversary of the grant date of the ISAR.

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

9.4. Payment and Limitations on Exercise.

(a) Payment of the amount determined under Sections 9.2(c) and 9.3(b) above shall be in cash, in Common Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Administrator.

To the extent such payment is effected in Common Stock it shall be made subject to satisfaction of all provisions of Section 6.3 above pertaining to Options.

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

ARTICLE X.

SECTION 162(m) PERFORMANCE BASED COMPENSATION

10.1. General Requirements. To the extent that a Performance Award, a Stock Payment or an Award of Restricted Stock or Deferred Stock is intended to qualify as “performance-based compensation” for purposes of Section 162(m) of the Code, such Award must (1) be granted by the Committee, (2) be earned based on the achievement over a performance period established by

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the Committee of objective performance goals as are established by the Committee no later than 90 days after the commencement of the performance period and not after 25% of the performance period has elapsed and (3) be paid only after the Committee has certified, after the completion of the performance period, that the performance goals have been met. To the extent that an Award of Options or Stock Appreciation Rights is intended to qualify as “performance-based compensation” for purposes of Section 162(m) of the Code, such Award must be granted by the Committee.

10.2. Performance Goals. The objective performance goals shall be stated as specific amounts of, or specific changes in, one or more of the Performance Criteria. The objective performance goals need not be the same for different performance periods and for any performance period may be stated: (a) on an absolute basis or relative to the performance of other companies or of a specified index or indices, or be based on any combination of the foregoing and (b) separately for one or more of the Holders, collectively for the entire group of Holders, or in any combination of the two.

10.3. Committee Requirements. Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of, the level of actual achievement of the specified performance goals relating to any Performance Award, a Stock Payment or an Award of Restricted Stock or Deferred Stock intended to qualify as “performance-based compensation” for purposes of Section 162(m) of the Code, and the amount of any such final Award shall be recorded in writing. Specifically, the Committee shall certify in writing, in a manner conforming to applicable regulations under Section 162(m), prior to settlement of each such Award that the performance objectives relating to the such Award and other material terms of such Award upon which settlement of the Award was conditioned have been satisfied.

ARTICLE XI.

ADMINISTRATION

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

11.2. Duties and Powers of Committee. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Award Agreements, and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. Notwithstanding the foregoing, the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Awards granted to Independent Directors. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan, except with respect to matters which under Rule 16b-3, Section 162(m) or other applicable law (including stock exchange rules), are required to be determined in the sole discretion of the Committee.

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

ARTICLE XII.

MISCELLANEOUS PROVISIONS

12.1. Not Transferable. No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed. No Option, Restricted Stock, Deferred Stock, Performance Award, Stock Appreciation Right, Dividend Equivalent or Stock Payment or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or his/her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

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

12.2. Amendment, Suspension or Termination of the Plan. Except as otherwise provided in this Section 12.2, the Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board. However, without approval of the Company's stockholders given within twelve months before or after the action by the Board, no action of the Board may, except as provided in Section 12.3, increase the limits imposed in Section 2.1 on the maximum number of shares which may be issued under the

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Plan. No amendment, suspension or termination of the Plan shall, without the consent of the Holder materially impair any rights or obligations under any Award theretofore granted or awarded, unless the Award itself otherwise expressly so provides. No Awards may be granted or awarded during any period of suspension or after termination of the Plan, and in no event may any Incentive Stock Option be granted under the Plan after the first to occur of the following events:

- (a) The expiration of ten years from the date the Plan is adopted by the Board; or
- (b) The expiration of ten years from the date the Plan is approved by the Company's stockholders under Section 12.4.

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

(a) Subject to Section 12.3(d), in the event that the Administrator determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Administrator's opinion, affects the Common Stock such that an adjustment is determined by the Administrator to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Award, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of:

- (i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Awards may be granted or awarded (including, but not limited to, adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued and adjustments of the Award Limit),
- (ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Options, Performance Awards, Stock Appreciation Rights, Dividend Equivalents, or Stock Payments, and in the number and kind of shares of outstanding Restricted Stock or Deferred Stock, and
- (iii) the grant or exercise price with respect to any Award.

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(b) Subject to Sections 12.3(b)(vii) and 12.3(d), in the event of any Corporate Transaction or other transaction or event described in Section 12.3(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Administrator, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

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

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

(iii) To provide that such Award shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in (i) Articles V, VII, VIII or IX or (ii) the provisions of such Award;

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

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

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

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(vii) None of the foregoing discretionary actions taken under this Section 12.3(b) shall be permitted with respect to Options granted under Section 4.5 to Independent Directors to the extent that such discretion would be inconsistent with the applicable exemptive conditions of Rule 16b-3. In the event of a Change in Control or a Corporate Transaction, to the extent that the Board does not have the ability under Rule 16b-3 to take or to refrain from taking the discretionary actions set forth in Section 12.3(b)(iii) above, each Option granted to an Independent Director shall be exercisable as to all shares covered thereby upon such Change in Control or during the five days immediately preceding the consummation of such Corporate Transaction and subject to such consummation, notwithstanding anything to the contrary in Section 5.4 or the vesting schedule of such Options. In the event of a Corporate Transaction, to the extent that the Board does not have the ability under Rule 16b-3 to take or to refrain from taking the discretionary actions set forth in Section 12.3(b)(ii) above, no Option granted to an Independent Director may be exercised following such Corporate Transaction unless such Option is, in connection with such Corporate Transaction, either assumed by the successor or survivor corporation (or parent or subsidiary thereof) or replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent or subsidiary thereof).

(c) Subject to Section 12.3(d) and 12.8, the Administrator may, in its discretion, include such further provisions and limitations in any Award, agreement, certificate or book entry account, as it may deem equitable and in the best interests of the Company.

(d) No adjustment or action described in this Section 12.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code or would result in the imposition on any Holder of a 20% tax pursuant to Section 409A(a)(1)(B) of the Code. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines that the Award is not to comply with such exemptive conditions. The number of shares of Common Stock subject to any Award shall always be rounded to the next whole number.

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

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

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12.6. Forfeiture Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Administrator shall have the right (to the extent consistent with the applicable exemptive conditions of Rule 16b-3) to provide, in the terms of

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

12.7. Limitations Applicable to Section 16 Persons and Performance-Based Compensation. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

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

12.9. Compliance with Laws. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of shares of Common Stock and the payment of money under the Plan or under Awards granted or awarded hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the

Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

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

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

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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(s) 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 the 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 control 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
Chief Executive Officer and President
(Principal Executive Officer)
April 30, 2013

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pamela Shelley-Kessler, 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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(s) 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 the 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 control 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/ PAMELA SHELLEY-KESSLER

Pamela Shelley-Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
(Principal Financial and Accounting Officer)
April 30, 2013

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

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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 March 31, 2013 as filed with the Securities and Exchange Commission (the "Report") that to 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 results of operations of the Company.

/s/ WENDY L. SIMPSON

Wendy L. Simpson
Chief Executive Officer and President
April 30, 2013

/s/ PAMELA SHELLEY-KESSLER

Pamela Shelley-Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
April 30, 2013

The foregoing certification is being furnished (but not filed) solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
