
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 September 30, 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 October 27, 2013 was 34,751,910.

LTC PROPERTIES, INC.

FORM 10-Q

September 30, 2013

INDEX

Item 1. Financial Statements

| | |
|---|---|
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Income | 4 |
| Consolidated Statements of Comprehensive Income | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |

| | |
|---|----|
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
|---|----|

| | |
|--|----|
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 37 |
|--|----|

| | |
|---|----|
| Item 4. Controls and Procedures | 37 |
|---|----|

PART II -- Other Information

| | |
|---|----|
| Item 1. Legal Proceedings | 38 |
|---|----|

| | |
|---------------------------------------|----|
| Item 1A. Risk Factors | 38 |
|---------------------------------------|----|

| | |
|---|----|
| Item 5. Other Information | 38 |
|---|----|

| | |
|----------------------------------|----|
| Item 6. Exhibits | 39 |
|----------------------------------|----|

[Table of Contents](#)

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

| | September 30, 2013 <i>(unaudited)</i> | December 31, 2012 <i>(audited)</i> |
|---|--|---------------------------------------|
| ASSETS | | |
| Real estate investments: | | |
| Land | \$ 76,751 | \$ 74,702 |
| Buildings and improvements | 834,345 | 811,867 |
| Accumulated depreciation and amortization | (212,495) | (194,448) |
| Net operating real estate property | 698,601 | 692,121 |
| Properties held-for-sale, net of accumulated depreciation and amortization: | | |
| 2013 — \$0; 2012 — \$4,100 | — | 9,426 |
| Net real estate property | 698,601 | 701,547 |
| Mortgage loans receivable, net of allowance for doubtful accounts: 2013 — \$411; 2012 — \$782 | 40,668 | 39,299 |
| Real estate investments, net | 739,269 | 740,846 |
| Other assets: | | |
| Cash and cash equivalents | 60,338 | 7,191 |
| Debt issue costs, net | 2,514 | 3,040 |
| Interest receivable | 726 | 789 |
| Straight-line rent receivable, ⁽¹⁾ net of allowance for doubtful accounts: 2013 — \$1,541; 2012 — \$1,513 | 29,684 | 26,766 |
| Prepaid expenses and other assets | 7,453 | 7,542 |
| Notes receivable | 1,259 | 3,180 |
| Straight-line rent receivable and other assets related to properties held-for-sale, net of allowance for doubtful accounts: 2013 — \$0; 2012 — \$44 | — | 238 |
| Total assets | <u>\$841,243</u> | <u>\$789,592</u> |
| LIABILITIES | | |
| Bank borrowings | \$ — | \$115,500 |
| Senior unsecured notes | 185,800 | 185,800 |
| Bonds payable | 2,035 | 2,635 |
| Accrued interest | 2,076 | 3,279 |
| Earn-out liabilities | — | 6,744 |
| Accrued expenses and other liabilities | 15,275 | 12,165 |
| Accrued expenses and other liabilities related to properties held-for-sale | 33 | 361 |
| Total liabilities | <u>205,219</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 — 34,752; 2012 — 30,544 | 348 | 305 |
| Capital in excess of par value | 688,341 | 510,236 |
| Cumulative net income | 767,198 | 724,033 |
| Other | 125 | 152 |

| | | |
|---|-----------|-----------|
| Cumulative distributions | (858,488) | (810,125) |
| Total LTC Properties, Inc. stockholders' equity | 636,024 | 463,101 |
| Non-controlling interests | — | 7 |
| Total equity | 636,024 | 463,108 |
| Total liabilities and equity | \$841,243 | \$789,592 |

⁽¹⁾ On September 30, 2013 and December 31, 2012, we had \$3,210 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.

See accompanying notes.

[Table of Contents](#)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Rental income ⁽¹⁾ | \$24,645 | \$21,908 | \$72,907 | \$63,182 |
| Interest income from mortgage loans | 1,086 | 1,398 | 3,195 | 4,361 |
| Interest and other income ⁽²⁾ | 94 | 96 | 279 | 818 |
| Total revenues | 25,825 | 23,402 | 76,381 | 68,361 |
| Expenses: | | | | |
| Interest expense | 2,581 | 2,988 | 8,512 | 7,025 |
| Depreciation and amortization | 6,139 | 5,793 | 18,152 | 16,053 |
| General and administrative expenses | 2,676 | 2,370 | 8,962 | 7,498 |
| Total expenses | 11,396 | 11,151 | 35,626 | 30,576 |
| Income from continuing operations | 14,429 | 12,251 | 40,755 | 37,785 |
| Discontinued operations: | | | | |
| Net income from discontinued operations | 238 | 253 | 805 | 748 |
| Gain on real estate assets, net | 2,619 | — | 1,605 | 16 |
| Net income from discontinued operations | 2,857 | 253 | 2,410 | 764 |
| Net income | 17,286 | 12,504 | 43,165 | 38,549 |
| Income allocated to non-controlling interests | — | (9) | — | (30) |
| Net income attributable to LTC Properties, Inc. | 17,286 | 12,495 | 43,165 | 38,519 |
| Income allocated to participating securities | (95) | (94) | (284) | (279) |
| Income allocated to preferred stockholders | (818) | (818) | (2,454) | (2,454) |
| Net income available to common stockholders | \$16,373 | \$11,583 | \$40,427 | \$35,786 |
| <u>Basic earnings per common share</u> | | | | |
| Continuing operations | \$0.39 | \$0.37 | \$1.17 | \$1.16 |
| Discontinued operations | \$0.08 | \$0.01 | \$0.07 | \$0.03 |
| Net income available to common stockholders | \$0.47 | \$0.38 | \$1.24 | \$1.18 |
| <u>Diluted earnings per common share</u> | | | | |
| Continuing operations | \$0.39 | \$0.37 | \$1.16 | \$1.16 |
| Discontinued operations | \$0.08 | \$0.01 | \$0.07 | \$0.03 |
| Net income available to common stockholders | \$0.47 | \$0.38 | \$1.24 | \$1.18 |
| Dividends declared and paid per common share | \$0.465 | \$0.455 | \$1.395 | \$1.325 |
| <u>Weighted average shares used to calculate earnings per common share</u> | | | | |
| Basic | 34,553 | 30,253 | 32,625 | 30,219 |
| Diluted | 36,580 | 30,293 | 34,657 | 30,263 |

⁽¹⁾ During the three and nine months ended September 30, 2013, we received \$1,122 and \$3,357, respectively, in rental income and recorded \$3 and \$19, respectively, in straight-line rental income from a lessee that qualifies as a related party. During the three and nine months ended September 30, 2012, we received \$1,095 and \$3,275, respectively, in rental income and recorded \$31 and \$101, 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 and nine months ended September 30, 2013, we did not recognize interest income from any related parties. During the three and nine months ended September 30, 2012, we recognized \$0 and \$235, respectively, 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.

[Table of Contents](#)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$17,286 | \$12,504 | \$43,165 | \$38,549 |
| Reclassification adjustment | (9) | (9) | (26) | (40) |
| Comprehensive income | 17,277 | 12,495 | 43,139 | 38,509 |
| Comprehensive income allocated to non-controlling interests | — | (9) | — | (30) |
| Comprehensive income attributable to LTC Properties, Inc. | <u>\$17,277</u> | <u>\$12,486</u> | <u>\$43,139</u> | <u>\$38,479</u> |

See accompanying notes.

[Table of Contents](#)

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------------|
| | 2013 | 2012 |
| OPERATING ACTIVITIES: | | |
| Net income | \$43,165 | \$38,549 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization—continuing and discontinued operations | 18,469 | 16,461 |
| Stock-based compensation expense | 2,050 | 1,355 |
| Gain on sale of assets, net | (1,605) | (16) |
| Straight-line rental income—continuing and discontinued operations ⁽¹⁾ | (3,000) | (2,199) |
| Provision (recovery) for doubtful accounts | 42 | (23) |
| Non-cash interest related to earn-out liabilities | 256 | 330 |
| Other non-cash items, net | 354 | 991 |
| (Decrease) increase in accrued interest payable | (1,203) | 964 |
| Decrease in interest receivable | 26 | 397 |
| Net change in other assets and liabilities | 1,614 | 602 |
| Net cash provided by operating activities | <u>60,168</u> | <u>57,411</u> |
| INVESTING ACTIVITIES: | | |
| Investment in real estate properties, net | (2,050) | (80,982) |
| Investment in real estate properties under development | (15,369) | (1,438) |
| Investment in real estate capital improvements | (6,390) | (1,174) |
| Proceeds from sale of real estate investments, net | 11,001 | 1,248 |
| Advances under mortgage loans receivable | (2,816) | — |
| Principal payments received on mortgage loans receivable | 1,429 | 4,856 |
| Proceeds from redemption of marketable securities | — | 6,500 |
| Advances under notes receivable | (795) | (2,461) |
| Principal payments received on notes receivable | 2,716 | 273 |
| Net cash used in investing activities | <u>(12,274)</u> | <u>(73,178)</u> |
| FINANCING ACTIVITIES: | | |
| Bank borrowings | 2,000 | 52,500 |
| Repayment of bank borrowings | (117,500) | (73,000) |
| Proceeds from issuance of senior unsecured notes | — | 85,800 |
| Principal payments on bonds payable | (600) | (565) |
| Payment of earn-out liabilities | (7,000) | — |
| Proceeds from common stock offering | 176,260 | — |
| Stock option exercises | 523 | 1,926 |
| Distributions paid to stockholders | (48,363) | (42,777) |
| Redemption of non-controlling interests | — | (2,764) |
| Distributions paid to non-controlling interests | (7) | (69) |
| Financing costs paid | (37) | (1,418) |
| Other | (23) | — |
| Net cash provided by financing activities | <u>5,253</u> | <u>19,633</u> |
| Increase in cash and cash equivalents | 53,147 | 3,866 |
| Cash and cash equivalents, beginning of period | 7,191 | 4,408 |
| Cash and cash equivalents, end of period | <u>\$60,338</u> | <u>\$ 8,274</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$ 9,870 | \$ 5,560 |
| Non-cash investing and financing transactions: | | |
| Redemption of non-controlling interests | — | 56 |

⁽¹⁾ During the nine months ended September 30, 2013 and 2012, we recorded \$19 and \$101, 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.

[Table of Contents](#)

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 and nine months ended September 30, 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 and nine months ended September 30, 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 nine months ended September 30, 2013, we sold a 47-bed skilled nursing property located in Colorado for \$1,000. Additionally, we sold six skilled nursing properties with a total of 230 beds for \$11,000,000. During the nine months ended September 30, 2012, we sold a 140-bed skilled nursing property located in Texas for \$1,248,000. Additionally, during the third quarter of 2012, we reclassified a 140-unit independent living property located in Texas from held-for-sale to held-for-use. Depreciation expense, which was not recognized during the held-for-sale period, was recognized at the date of reclassification. Due to the market conditions, the timing of the ultimate disposal of this property is uncertain. These adjustments are normal and recurring in nature. See *Note 2. Real Estate Investments* for further discussion of our property sales.

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.

[Table of Contents](#)

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 September 30, 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 | \$443,757 | 48.7% | 67 | 8,188 | — | \$54.20 |
| Assisted Living | 390,105 | 42.8% | 97 | — | 4,562 | \$85.51 |
| Range of Care | 43,907 | 4.8% | 8 | 634 | 274 | \$48.36 |
| Under Development ⁽²⁾ | 20,883 | 2.3% | — | — | — | — |
| Schools | 12,444 | 1.4% | 2 | — | — | — |
| Totals | \$911,096 | 100.0% | 174 | 8,822 | 4,836 | |

(1) We have investments in 26 states leased to 33 different operators.

(2) Includes two MC developments with a total of 108 units, two combination ALF and MC developments with a total of 158 units, and a SNF development with 143 beds.

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.

[Table of Contents](#)

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

During the three months ended September 30, 2013, we entered into development commitments totaling \$19,553,000 with an existing operator to fund the purchase of land and construction of two free-standing memory care properties in Colorado, one with 60-units and the other with 48-units. In conjunction with such commitments, we closed on two parcels of land for an aggregate purchase price of \$2,050,000 which were simultaneously added to the existing master lease agreement with the operator. Rent at an initial annual rate of 9.25% will commence upon the respective project's completion date (but in no event later than December 31, 2014) and be calculated based on the land purchase price and construction costs funded for each property plus 9.0% compounded on the land purchase price and each amount funded under the commitments.

In October 2013, we entered into a pipeline agreement with this same operator whereby we have the opportunity to finance any senior housing development projects or acquisitions originated by the operator through May 2018 (unless earlier terminated as provided for therein) with provisions limiting, among other things, to five the number of development projects the operator may have under construction at any time. Any such projects or opportunities financed by us pursuant to the agreement will be added to the parties' master lease with the then remaining term extended by 10 years at initial lease rates estimated to range from 9.0% to 10.5% with annual escalations of 2.5%.

During the three months ended September 30, 2013, our operator of a master lease exercised its option to purchase six skilled nursing properties located in Ohio with a total of 230 beds for an all cash purchase price of \$11,000,000. As a result, we recorded a \$2,619,000 gain on sale. Also, during the nine months ended September 30, 2013, we sold a 47-bed skilled nursing property in Colorado for \$1,000 and recognized a \$1,014,000 loss on sale.

During the three months ended September 30, 2013, we completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. During the nine months ended September 30, 2013, we funded the remaining \$4,373,000 of the \$9,925,000 development commitment for the new property.

During the nine months ended September 30, 2013, we completed the construction of a 120-bed skilled nursing property in Texas. This new property replaces a skilled nursing property in our existing portfolio. All the residents were relocated from the old property to the new property. The operator is responsible for marketing and selling the old property. During the nine months ended September 30, 2013, we funded the remaining \$5,066,000 of the \$9,094,000 development commitment for the new property.

In October 2013, we purchased four parcels of land in Michigan for \$1,163,000. In November 2013, we purchased a 120-bed skilled nursing property in Florida for \$14,402,000. The property was included in a master lease at an incremental initial cash yield of 8.75%. The operator currently leases four properties with a total of 596 beds/units from us. The new master lease will contain all five properties with a total of 716 beds/units and have a GAAP yield of 10.7%. The initial lease term is 10 years with two 5-year renewal options and annual rent escalations of 2.2%.

[Table of Contents](#)

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

As of September 30, 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. As of September 30, 2013, no funds have been requested under this commitment.

The following table summarizes our investment commitments as of September 30, 2013, excluding the \$5,000,000 per year commitment, and year to date funding on our ongoing 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 | \$ 29,650 | \$ 4,212 | \$ 9,748 | \$19,902 | 6 | 640 |
| Assisted Living ⁽¹⁾ | 50,538 | 9,904 | 12,545 | 37,993 | 6 | 402 |

| | | | | | | |
|--------|----------|-------------------------|----------|----------|----|-------|
| Totals | \$80,188 | \$14,116 ⁽³⁾ | \$22,293 | \$57,895 | 12 | 1,042 |
|--------|----------|-------------------------|----------|----------|----|-------|

- (1) Includes the development of two memory care properties for a total of \$19,553 and two assisted living and memory care combination properties for a total of \$16,385, and the expansion of two assisted living properties for a total \$14,600.
- (2) Excludes year 2013 funding for completed development of a 60-unit memory care property for \$4,373, completed redevelopment of a skilled nursing property for \$5,066, and \$260 of capital improvement on three completed projects with no remaining commitments. It also includes \$6 funded under the commitment as marketing expense and \$2,050 of land acquired for development.
- (3) In October 2013, we funded \$3,054 under investment commitments.

During the nine months ended September 30, 2012, 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 the master lease did not change as a result of this sale. Additionally, during the nine months ended September 30, 2012, we invested \$2,612,000 under agreements to expand and renovate six existing properties and to construct a skilled nursing property and a memory care property. The following table summarizes our acquisitions during nine months ended September 30, 2012 (*dollar amounts in thousands, unaudited*):

| Type of Property | Purchase Price | Transaction Costs | Total Acquisition Costs | Number of Properties | Number of Beds |
|--------------------------------|----------------|-------------------|-------------------------|----------------------|----------------|
| Skilled Nursing ⁽¹⁾ | \$79,100 | \$246 | \$79,346 | 4 | 522 |
| Land ⁽²⁾ | 1,882 | 120 | 2,002 | — | — |
| Totals | \$80,982 | \$366 | \$81,348 | 4 | 522 |

- (1) Includes two skilled nursing properties with a total of 234 beds located in Texas. These properties were purchased separately for a total purchase price of \$25,100. Simultaneous with these purchases, we added these properties to an existing master lease with a third party operator at an incremental GAAP yield of 10.7%. Also, includes two 144-bed skilled nursing properties located in Ohio purchased for an aggregate purchase price of \$54,000. Simultaneous with the purchase, we leased the properties to an unrelated third-party operator at a GAAP yield of 10.1%.
- (2) We purchased a vacant parcel of land in Colorado for \$1,882. Simultaneous with the purchase, we entered into a lease agreement and development commitment in an amount of \$9,925 to fund the construction of a 60-unit memory care property. During the nine months ended September 30, 2013, we completed the construction of this property, as previously discussed.

[Table of Contents](#)

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

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2013 (*dollar amounts in thousands*):

| Type of Property | Gross Investments | Percentage of Investments | Number of Loans | Number of Properties ⁽¹⁾ | Number of SNF Beds | Number of ALF Units | Investment per Bed/Unit |
|--------------------------------|-------------------|---------------------------|-----------------|-------------------------------------|--------------------|---------------------|-------------------------|
| Skilled Nursing ⁽²⁾ | \$26,251 | 63.9% | 15 | 17 | 1,861 | — | \$14.11 |
| Assisted Living | 12,158 | 29.6% | 3 | 8 | — | 211 | \$57.62 |
| Range of Care | 2,670 | 6.5% | 1 | 1 | 99 | 74 | \$15.43 |
| Totals | \$41,079 | 100.0% | 19 | 26 | 1,960 | 285 | |

- (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 property is being 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 September 30, 2013, the mortgage loans had interest rates ranging from 7.0% to 13.6% 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 nine months ended September 30, 2013, we funded \$2,816,000 under a \$10,600,000 mortgage and construction loan and we have a remaining commitment of \$5,165,000. During the nine months ended September 30, 2013 and 2012, we received \$1,429,000 and \$2,010,000, respectively, in regularly scheduled principal payments. During the nine months ended September 30, 2012, we received \$2,846,000 plus accrued interest related to the early payoff of three mortgage loans secured by three skilled nursing properties.

In October 2013, we funded a \$124,387,000 mortgage loan with a third-party operator secured by 15 properties with a total of 2,092 skilled nursing beds in Michigan. The loan is for a term of 30 years and bears interest at 9.53% for five years, escalating annually thereafter by 2.25%. Payments are interest-only for three years, after which the borrower will make interest payments along with annual principal payments of \$1,000,000. The loan agreement provides for additional forward commitments of \$12,000,000 for capital improvements at 9.41% for the first twelve months. Beginning in the thirteenth month, the interest will be the greater of 7.25% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the twenty days prior to funding or 9.0% with annual escalations of 2.25%. The loan agreement also provides, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, for additional loan proceeds of up to \$40,000,000 with such proceeds limited to \$10,000,000 per twelve months. The term for the additional loan proceeds will be at the greater of 7.25% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the twenty days prior to funding or 9.0% with annual escalations of 2.25%.

The borrower has a one-time option between the third and twelfth years to prepay up to 50% of the then outstanding loan balance without penalty. Exclusively for the purposes of this option, the properties collateralizing the loan have been separated by us into two pools of assets. If and when the option is exercised, we will identify which of the two pools we will release for prepayment and removal from portfolio of properties securing the loan. If the prepayment option is exercised and timely concluded, the borrower forfeits its opportunity to access any additional loan proceeds. Additionally, under certain circumstances, including a change in regulatory environment, we have the option to purchase the properties.

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 nine months ended September 30, 2013, we received \$2,372,000 for the early repayment of an 8.5% term loan. During the nine months ended September 30, 2013 and 2012, we received, including the repayment previously discussed, \$2,716,000 and \$273,000, respectively, in principal payments and we funded \$795,000 and \$2,461,000, respectively, under our notes receivable.

During the three months ended September 2013, we committed to fund two loans up to \$400,000 each with interest at 12% maturing in September 2017. At September 30, 2013, including the two new loans previously discussed, we had ten loans and line of credit agreements with a total commitment to fund \$2,325,000. As of September 30, 2013, we funded \$615,000 under these commitments and we have a remaining commitment of \$1,710,000. These loans and line of credit commitments have interest rates ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2017.

In October 2013, we entered into a new agreement to fund two pre-development loans of \$325,000 each to facilitate the site selection and pre-construction services for the future development of two memory care properties. The initial rate of each loan is 12%, increasing by 25 basis points per year. The maturity date is the earlier of the acquisition of the land or October 2015. As a result of this commitment, we have 12 loans and line of credit agreements with a total commitment of \$2,975,000 and we have a remaining commitment balance of \$2,360,000.

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 nine months ended September 30, 2012, we recognized \$235,000 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 September 30, 2013, the amended facility provides for interest annually at LIBOR plus 125 basis points and the unused commitment fee was 25 basis points.

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

During the nine months ended September 30, 2013, we borrowed \$2,000,000 and repaid \$117,500,000 under our Unsecured Credit Agreement. At September 30, 2013, we had no outstanding balances under our Unsecured Credit Agreement and we were in compliance with all our covenants. In October, we borrowed \$86,000,000 under our unsecured line of credit and used cash on hand to fund a mortgage loan secured by 15 skilled nursing properties in Michigan, as previously discussed. Accordingly, we currently have \$86,000,000 outstanding under our Unsecured Credit Agreement with \$154,000,000 available for borrowing. See *Note 2. Real Estate Investments* for further discussion on the mortgage loan funding.

Senior Unsecured Notes. At September 30, 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.

On October 30, 2013, we entered into an amended and restated note purchase and private shelf agreement with Prudential Investment Management, Inc. (or Prudential). The shelf agreement with Prudential, as amended, conforms the definitions and financial covenants contained therein and previously issued senior unsecured promissory notes outstanding to Prudential and certain of its affiliates and managed accounts to those contained in our unsecured credit facility and to covenants contained in the senior unsecured notes sold in July 2012. Any notes sold by us to Prudential under the shelf agreement will be in amounts at fixed interest rates and have maturity dates (each note to have a final maturity not greater than 12 years and an average life not greater than 10 years from the date of issuance) subject to further agreement by us and Prudential.

The shelf agreement with Prudential contains standard covenants including requirements to maintain financial ratios such as debt to asset value ratios. Under the shelf agreement, maximum total indebtedness shall not exceed 50% of total asset value as defined in the shelf agreement, as amended. Borrowings under the shelf agreement are limited by reference to the value of unencumbered assets. Under the shelf agreement, maximum unsecured debt shall not exceed 60% of the value of the unencumbered asset pool as defined in the shelf agreement. As of November 4, 2013, we had \$50,000,000 outstanding in senior unsecured notes sold by us to Prudential in July 2010 and \$50,000,000 outstanding in senior unsecured notes sold by us to Prudential in July 2011.

Bonds Payable. At September 30, 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 nine months ended September 30, 2013, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 2.9%. During the nine months ended September 30, 2013 and 2012, we paid \$600,000 and \$565,000, respectively, in regularly scheduled principal payments. As of September 30, 2013 and December 31, 2012, the aggregate carrying value of real estate properties securing our bonds payable was \$6,452,000 and \$6,650,000, respectively.

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 | 43,165 | — | 43,165 |
| Issue common stock | 175,597 | — | 175,597 |
| Vested restricted common stock | 2,050 | — | 2,050 |
| Stock option exercise | 523 | — | 523 |
| Reclassification adjustment | (26) | — | (26) |
| Non-controlling interest preferred return | — | (7) | (7) |
| Preferred stock dividends | (2,454) | — | (2,454) |
| Common stock dividends | (45,909) | — | (45,909) |
| Other | (23) | — | (23) |
| Balance at September 30, 2013 | \$636,024 | \$ — | \$636,024 |

Preferred Stock. At September 30, 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 September 30, 2013.

Common Stock. During the nine months ended September 30, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Additionally, during the nine months ended September 30, 2013, we sold 4,025,000 shares of common stock in a public offering at a price of \$44.50 per share, before fees and costs of \$7,748,000. The net proceeds of \$171,365,000 were used to pay down amounts outstanding under our Unsecured Credit Agreement, to fund acquisitions and our current development commitments and general corporate purposes.

[Table of Contents](#)

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

During the nine months ended September 30, 2013, we terminated the equity distribution agreement which allowed 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 were 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 nine months ended September 30, 2012, we did not sell shares of our common stock under our equity distribution agreement. During the nine months ended September 30, 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 \$662,000 of accumulated costs associated with the equity distribution agreement to additional paid in capital.

Available Shelf Registrations. On July 19, 2013, we filed a Form S-3ASR "shelf" registration statement to replace our prior shelf registration statement. This current shelf registration statement provides us with the capacity to offer up to \$800,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under this 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.

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*):

| | Nine months ended September 30, | |
|---|------------------------------------|----------|
| | 2013 | 2012 |
| Net income attributable to LTC Properties, Inc. | \$43,165 | \$38,519 |
| Transfers from the non-controlling interest | | |
| Increase in paid-in capital for limited partners conversion | — | 56 |
| 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 | \$43,165 | \$37,329 |

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

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

| | Nine months ended September 30, 2013 | | Nine months ended September 30, 2012 | |
|--------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | Declared | Paid | Declared | Paid |
| Preferred Stock Series C | \$ 2,454 | \$ 2,454 | \$ 2,454 | \$ 2,454 |
| Common Stock | 45,909 ⁽¹⁾ | 45,909 ⁽¹⁾ | 40,323 ⁽²⁾ | 40,323 ⁽¹⁾ |
| Total | \$48,363 | \$48,363 | \$42,777 | \$42,777 |

⁽¹⁾ Represents \$0.155 per share per month for the nine months ended September 30, 2013.

⁽²⁾ Represents \$0.145 per share per month for January through July of 2012 and \$0.155 per share per month for August through September of 2012.

In October 2013, we increased the monthly dividend on our common stock to \$0.17 per share which is a 9.7% increase from the previous monthly \$0.155 per share dividend. We declared a monthly cash dividend of \$0.17 per share on our common stock for the months of October, November and December 2013, payable on October 31, November 29, and December 31, 2013, respectively, to stockholders of record on October 23, November 21, and December 23, 2013, respectively.

Other Equity. At September 30, 2013 and December 31, 2012, other equity consisted of accumulated comprehensive income of \$125,000 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 nine months ended September 30, 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 nine months ended September 30, 2012, a total of 85,000 stock options were exercised at a total option value of \$1,926,000 and a total market value on the date of exercise of \$2,761,000. No stock options were granted during the nine months ended September 30, 2013 and 2012. At September 30, 2013, we had 73,334 stock options outstanding and all stock options are vested. Accordingly, during the nine months ended September 30, 2013, we did not record compensation expense related to the vesting of stock options.

During the nine months ended September 30, 2013, we granted 8,400 shares of restricted common stock at \$46.54 per share and 6,000 shares of restricted common stock at \$41.83 per share. These shares vest ratably over a three-year period from the grant date. During the nine months ended September 30, 2013, excluding the shares granted above, 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 nine months ended September 30, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our former Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$457,000 of compensation expense related to the accelerated vesting. During the three and nine months ended September 30, 2013, we recognized \$542,000 and \$2,050,000, respectively, of compensation expense related to the vesting of restricted common stock.

During the nine months ended September 30, 2012, we granted 8,000 shares of restricted common stock at \$31.87 per share and 56,200 shares of restricted common stock at \$31.77 per share. The vesting of these shares are as follows: 8,000 shares vest ratably over a three-year period from the grant date, 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 and nine months ended September 30, 2012, we recognized \$443,000 and \$1,345,000, respectively, of compensation expense related to the vesting of restricted common stock.

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

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 were accreting the contingent liability to the settlement amount as of the payment date. The fair value of such contingent liability was re-evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates. During the three months ended September 30, 2013, we paid \$7,000,000 related to the contingent liability. Accordingly, we have no remaining contingent liability as of September 30, 2013. During the three and nine months ended September 30, 2013, we recorded non-cash interest expense of \$36,000 and \$256,000, respectively, related to the contingent liability. During the three and nine months ended September 30, 2012, we recorded non-cash interest expense of \$110,000 and \$330,000, respectively, related to the contingent liability. At December 31, 2012, the contingent liability had a carrying value of \$6,744,000.

At September 30, 2013, we had outstanding commitments totaling \$80,188,000 to develop, re-develop, renovate or expand six skilled nursing properties with a total of 640 beds, two memory care properties with a total of 108 units, two assisted living and memory care combination properties with a total of 158 units, and two assisted living properties with a total of 136 units. As of September 30, 2013, we have funded \$22,293,000 under these commitments and we have a remaining commitment of \$57,895,000. 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 September 30, 2013, we had a \$10,600,000 mortgage and construction commitment. As of September 30, 2013, we funded \$5,435,000 under this commitment and we have a remaining commitment of \$5,165,000. In October 2013, we funded a \$124,387,000 mortgage loan and committed to provide an additional \$12,000,000 for capital improvements and, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, additional loan proceeds of up to \$40,000,000. See *Note 2. Real Estate Investments* for further discussion of these mortgage loans.

At September 30, 2013, we committed to provide \$2,325,000 in loans and line of credit agreements. As of September 30, 2013, we had funded \$615,000 under these commitments and we have a remaining commitment of \$1,710,000. In October 2013, we entered into a new agreement to fund two pre-development loans of \$325,000 each to facilitate the site selection and pre-construction services for the future development of two memory care properties. As a result of this commitment, we have a total commitment of \$2,975,000 under our loans and line of credit agreements and we have a remaining commitment balance of \$2,360,000. See *Note 3. Notes Receivables* for further discussion of these commitments.

8. Major Operators

We have four 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). 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.

[Table of Contents](#)

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

On July 11, 2013, ALC merged 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). Aid Holdings and Aid Merger Sub are affiliates of TPG Capital, L.P.

Extencicare and ALC collectively lease 37 assisted living properties with a total of 1,430 units owned by us representing approximately 6.2%, or \$51,825,000, of our total assets at September 30, 2013 and 10.6% of rental revenue and interest income from mortgage loans recognized as of September 30, 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 6.2%, or \$52,067,000, of our total assets at September 30, 2013 and 10.6% of rental revenue and interest income from mortgage loans recognized as of September 30, 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 6.0%, or \$50,735,000, of our total assets at September 30, 2013 and 10.4% of rental revenue and interest income from mortgage loans recognized as of September 30, 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.

Senior Care Centers, LLC (or Senior Care) is a privately held company. During the three months ended September 30, 2013, we entered into an amended and restated master lease agreement with Senior Care to include four skilled nursing properties which were previously operated by and subleased to Senior Care. Under the new amended and restated master lease agreement, Senior Care leases nine skilled nursing properties with a total of 1,190 beds owned by us representing approximately 12.6%, or \$105,881,000, of our total assets at September 30, 2013 and 11.2% of rental revenue and interest income from mortgage loans recognized as of September 30, 2013.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by Extencicare, ALC, Brookdale Communities, Preferred Care, Senior 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.

[Table of Contents](#)

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 and nine months ended September 30, 2012, we recognized \$55,000 and \$235,000 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 and nine months ended September 30, 2013, we received \$1,122,000 and \$3,357,000, respectively, in rental income and recorded \$3,000 and \$19,000, respectively, in straight-line rental income from subsidiaries of SHG. During the three and nine months ended September 30, 2012, we received \$1,095,000 and \$3,275,000, respectively, in rental income and recorded \$31,000 and \$101,000, respectively, in straight-line rental income from subsidiaries of SHG. At September 30, 2013 and December 31, 2012, the straight-line rent receivable from subsidiaries of SHG was \$3,210,000 and \$3,191,000, respectively.

[Table of Contents](#)

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Income from continuing operations | \$14,429 | \$12,251 | \$40,755 | \$37,785 |
| Less net income allocated to non-controlling interests | — | (9) | — | (30) |
| Less net income allocated to participating securities: | | | | |
| Nonforfeitable dividends on participating securities | (93) | (94) | (282) | (279) |
| Allocation of undistributed income to participating securities | (2) | — | (2) | — |
| Total net income allocated to participating securities | (95) | (94) | (284) | (279) |
| Less net income allocated to preferred stockholders: | | | | |
| Preferred stock dividends | (818) | (818) | (2,454) | (2,454) |
| Total net income allocated to preferred stockholders | (818) | (818) | (2,454) | (2,454) |
| Income from continuing operations available to common stockholders | 13,516 | 11,330 | 38,017 | 35,022 |
| Discontinued operations: | | | | |
| Net income from discontinued operations | 238 | 253 | 805 | 748 |
| Gain on sale of assets, net | 2,619 | — | 1,605 | 16 |
| Total net income from discontinued operations | 2,857 | 253 | 2,410 | 764 |
| Net income available to common stockholders | 16,373 | 11,583 | 40,427 | 35,786 |
| Effect of dilutive securities: | | | | |
| Convertible preferred securities | 818 | — | 2,454 | — |
| Net income for diluted net income per share | \$17,191 | \$11,583 | \$42,881 | \$35,786 |
| Shares for basic net income per share | 34,553 | 30,253 | 32,625 | 30,219 |
| Effect of dilutive securities: | | | | |
| Stock options | 27 | 40 | 32 | 44 |
| Convertible preferred securities | 2,000 | — | 2,000 | — |
| Shares for diluted net income per share | 36,580 | 30,293 | 34,657 | 30,263 |
| Basic net income per share | \$0.47 | \$0.38 | \$1.24 | \$1.18 |
| Diluted net income per share ⁽¹⁾ | \$0.47 | \$0.38 | \$1.24 | \$1.18 |

⁽¹⁾ For the three and nine months ended September 30, 2013, 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. For the three and nine months ended September 30, 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.

LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(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 September 30, 2013 and December 31, 2012 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

| | At September 30, 2013 | | At December 31, 2012 | |
|---------------------------|-----------------------|-------------------------|----------------------|-------------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Mortgage loans receivable | \$40,668 | \$45,751 ⁽¹⁾ | \$39,299 | \$44,939 ⁽¹⁾ |
| Bonds payable | 2,035 | 2,035 ⁽²⁾ | 2,635 | 2,635 ⁽²⁾ |
| Bank borrowings | — | — ⁽²⁾ | 115,500 | 115,500 ⁽²⁾ |
| Senior unsecured notes | 185,800 | 191,424 ⁽³⁾ | 185,800 | 194,838 ⁽³⁾ |
| Contingent liabilities | — | — | 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 September 30, 2013 and December 31, 2012 was 5.5% and 6.0%, respectively.
- (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 September 30, 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 September 30, 2013, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.9% for those maturing before year 2019 and 4.5% for those maturing through year 2021. At 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 December 31, 2012, the discount rate used to value our future cash outflow of the earn-out liability was 6.6%.

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

12. Subsequent Events

Subsequent to September 30, 2013 the following events occurred.

Real Estate – Owned Properties: We purchased four parcels of land in Michigan for \$1,163,000 and a 120-bed skilled nursing property in Florida for \$14,402,000. Additionally, we entered into a pipeline agreement with one of our existing operators whereby we have the opportunity to finance any senior housing development projects or acquisitions originated by this operator. We funded \$3,054,000 under ongoing real estate investment commitments. Accordingly, we have a remaining commitment of \$54,841,000. See *Note 2. Real Estate Investments* for further discussion on the acquisitions, pipeline agreement and commitments.

Real Estate – Mortgage Loans: We funded a \$124,387,000 mortgage loan and committed to provide an additional \$12,000,000 for capital improvements and, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, additional loan proceeds of up to \$40,000,000. See *Note 2. Real Estate Investments* for further discussion of these mortgage loans.

Notes Receivable: We entered into a new agreement to fund two pre-development loans of \$325,000 each to facilitate the site selection and pre-construction services for the future development of two memory care properties. See *Note 3. Notes Receivable* for further discussion.

Debt Obligations: In October 2013, we borrowed \$86,000,000 under our unsecured line of credit. Accordingly, we currently have \$86,000,000 outstanding under our unsecured line of credit with \$154,000,000 remaining for borrowing. In October 2013, we entered into an amended and restated note purchase and private shelf agreement with Prudential Investment Management, Inc. (or Prudential). The amendment conforms the definitions and financial covenants contained in the note purchase and private shelf agreement and previously issued senior unsecured promissory notes outstanding to Prudential and certain of its affiliates and managed accounts to those contained in our unsecured credit facility and to covenants contained in the senior unsecured notes sold in July 2012. See *Note 5. Debt Obligations* for further discussion.

Equity: We increased the monthly dividend on our common stock to \$0.17 per share from the previous monthly \$0.155 per share dividend. We declared a monthly cash dividend of \$0.17 per share on our common stock for the months of October, November and December 2013, payable on October 31, November 29, and December 31, 2013, respectively, to stockholders of record on October 23, November 21, and December 23, 2013, respectively.

[Table of Contents](#)

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. As of September 30, 2013, senior housing and long term healthcare properties comprised approximately 99% of our investment portfolio. We have been operating since August 1992.

[Table of Contents](#)

The following table summarizes our real estate investment portfolio as of September 30, 2013 (*dollar amounts in thousands*):

| Type of Property | Gross Investments | Percentage of Investments | Nine Months Ended September 30, 2013 | | Percentage of Revenues ⁽²⁾ | Number of Properties ⁽³⁾ | Number of | |
|----------------------------------|-------------------|---------------------------|--------------------------------------|--------------------------------|---------------------------------------|-------------------------------------|-------------------------|--------------------------|
| | | | Rental Income | Interest Income ⁽¹⁾ | | | SNF Beds ⁽⁴⁾ | ALF Units ⁽⁴⁾ |
| Skilled Nursing ⁽⁵⁾ | \$470,008 | 49.4% | \$36,802 | \$ 2,128 | 51.2% | 84 | 10,049 | — |
| Assisted Living | 402,263 | 42.2% | 30,943 | 829 | 41.7% | 105 | — | 4,773 |
| Range of Care | 46,577 | 4.9% | 3,981 | 238 | 5.5% | 9 | 733 | 348 |
| Under Development ⁽⁶⁾ | 20,883 | 2.2% | 1,181 | — | 1.6% | — | — | — |
| Schools | 12,444 | 1.3% | — | — | 0.0% | 2 | — | — |
| Totals | \$952,175 | 100.0% | \$72,907 | \$3,195 | 100.0% | 200 | 10,782 | 5,121 |

(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 40 different operators.

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

(5) Includes a mortgage and construction loan secured by a currently operating skilled nursing property and parcel of land upon which a 106-bed replacement property is being 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.

(6) Includes two MC developments with a total of 108 units, two combination ALF and MC developments with a total of 158 units, and a SNF development with 143 beds.

As of September 30, 2013 we had \$739.3 million in carrying value of net real estate investments, consisting of \$698.6 million or 94.5% invested in owned and leased properties and \$40.7 million or 5.5% invested in mortgage loans secured by first mortgages.

For the nine months ended September 30, 2013, rental income and interest income from mortgage loans represented 95.5% and 4.2%, 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 nine months ended

September 30, 2013, we recorded \$3.0 million in straight-line rental income and \$27,000 of straight-line rent receivable reserve. For leases in place at September 30, 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 \$3.9 million for projected annual 2013 to \$2.1 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.6 million for projected annual 2013 to \$96.9 million for projected annual 2014. During the nine months ended September 30, 2013, we received \$71.5 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.5 million. For the nine months ended September 30, 2013, no leases were renewed. At September 30, 2013, the straight-line rent receivable balance, net of reserves, on the balance sheet was \$29.7 million.

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.

[Table of Contents](#)

- For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels.
- 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 September 30, 2013, we had \$60.3 million of cash on hand, \$240.0 million available under our unsecured line of credit, and \$100.0 million available under the uncommitted private shelf agreement for our senior unsecured notes. Subsequent to September 30, 2013, we used approximately \$55.0 million of cash on hand and borrowed \$86.0 million under our unsecured line of credit. Accordingly, we currently have approximately \$5.0 million of cash on hand and \$86.0 million outstanding under our unsecured line of credit with \$154.0 million available for borrowing. We also have the potential ability to access the capital markets through the issuance of debt and/or equity securities under our \$800.0 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.

[Table of Contents](#)

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 6, 2013, CMS published its final Medicare skilled nursing facility payment rate update for fiscal year 2014, which began on

October 1, 2013. CMS estimates that the final rule will increase aggregate Medicare skilled nursing facility payments by \$470 million, or 1.3%, compared to fiscal year 2013 levels. Specifically, under the final rule, Medicare rates are updated to reflect a 2.3% market basket increase that is reduced by a 0.5 percentage point “multifactor productivity adjustment” (described below), and that is further reduced by a 0.5 percentage point forecast error correction. CMS also rebased the SNF market basket to reflect fiscal year 2010 data and made other policy changes. There can be no assurance that future regulations modifying Medicare skilled nursing facility payment rates will 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 “multifactor 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.

Under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration will last through fiscal year 2021, although Congress and the Administration could enact legislation to end or modify sequestration at any time. Congress and the Administration also could consider other legislation that would have the impact of reducing Medicare reimbursement for skilled nursing facilities and other Medicare providers or otherwise reforming payment policy for post-acute care services. There can be no assurances that enacted or 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.

[Table of Contents](#)

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.

[Table of Contents](#)

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

| | Period Ended | | | | |
|---|--------------|-----------|-----------|-----------|-----------|
| | 9/30/13 | 6/30/13 | 3/31/13 | 12/31/12 | 9/30/12 |
| Asset mix: | | | | | |
| Real property | \$911,096 | \$913,042 | \$906,582 | \$900,095 | \$805,759 |
| Loans receivable | 41,079 | 39,668 | 40,142 | 40,081 | 49,141 |
| Investment mix: | | | | | |
| Skilled nursing properties ⁽¹⁾ | \$470,008 | \$478,751 | \$478,311 | \$475,873 | \$472,220 |
| Assisted living properties ⁽¹⁾ | 402,263 | 401,877 | 399,796 | 397,787 | 323,582 |
| Range of care properties | 46,577 | 46,643 | 46,707 | 46,769 | 46,830 |
| Under development ⁽¹⁾ | 20,883 | 12,995 | 9,466 | 7,421 | — |
| Schools | 12,444 | 12,444 | 12,444 | 12,326 | 12,268 |

Operator mix:

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Senior Care Centers, LLC ⁽²⁾ | \$114,539 | \$114,539 | \$114,539 | \$114,539 | \$114,539 |
| Extencare & ALC | 88,034 | 88,034 | 88,034 | 88,034 | 88,034 |
| Juniper Communities, LLC | 87,088 | 87,088 | 87,088 | 87,088 | — |
| Brookdale Communities | 84,216 | 84,212 | 84,211 | 84,210 | 84,210 |
| Preferred Care ⁽³⁾ | 83,983 | 84,089 | 84,192 | 84,292 | 84,425 |
| Remaining operators | 494,315 | 494,748 | 488,660 | 482,013 | 483,692 |

Geographic mix:

| | | | | | |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Texas | \$238,036 | \$236,100 | \$233,865 | \$232,106 | \$229,062 |
| Ohio | 98,647 | 110,804 | 110,804 | 110,804 | 110,804 |
| New Jersey | 70,667 | 70,667 | 70,667 | 70,667 | 12,195 |
| Florida | 67,710 | 67,742 | 67,772 | 67,802 | 67,830 |
| Colorado | 63,416 | 59,725 | 59,009 | 56,960 | 31,145 |
| Remaining states | 413,699 | 407,672 | 404,607 | 401,837 | 403,864 |

- (1) During the nine months ended September 30, 2013, we completed the construction of a 60-unit memory care property and 120-bed skilled nursing property. Accordingly, these properties were reclassified from "Under development" to either "Skilled nursing property" or "Assisted living property," depending on the property type, for all periods presented.
- (2) During the three months ended September 30, 2013, we entered into an amended and restated master lease agreement with Senior Care Centers, LLC (or Senior Care) to include four skilled nursing properties which were previously operated by and subleased to Senior Care but was not included in Senior Care's operator mix. Accordingly, the four skilled nursing properties were reclassified from "Remaining operators" to "Senior Care Center, LLC" operator mix for all periods presented.
- (3) 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.

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:

[Table of Contents](#)

Balance Sheet Metrics

| | Year to Date | Quarter Ended | | | | |
|---|--------------|----------------------|----------------------|----------------------|-----------------------|---------|
| | 9/30/13 | 9/30/13 | 6/30/13 | 3/31/13 | 12/31/12 | 9/30/12 |
| Debt to gross asset value | 17.8% | 17.8% | 17.8% ⁽⁴⁾ | 30.6% ⁽⁷⁾ | 30.8% ⁽¹⁰⁾ | 24.8% |
| Debt & preferred stock to gross asset value | 21.5% | 21.5% ⁽¹⁾ | 21.4% ⁽⁴⁾ | 34.5% ⁽⁷⁾ | 34.7% ⁽¹⁰⁾ | 29.1% |
| Debt to market capitalization ratio | 12.1% | 12.1% ⁽²⁾ | 11.9% ⁽⁵⁾ | 19.1% ⁽⁸⁾ | 21.4% ⁽¹¹⁾ | 18.1% |
| Debt & preferred stock to market capitalization ratio | 14.6% | 14.6% ⁽²⁾ | 14.3% ⁽⁵⁾ | 21.6% ⁽⁸⁾ | 24.2% ⁽¹¹⁾ | 21.3% |
| Interest coverage ratio ⁽¹⁴⁾ | 8.1x | 9.1x ⁽³⁾ | 8.2x ⁽⁶⁾ | 7.1x ⁽⁹⁾ | 7.4x ⁽¹²⁾ | 7.2x |
| Fixed charge coverage ratio ⁽¹⁴⁾ | 6.3x | 6.9x ⁽³⁾ | 6.3x ⁽⁶⁾ | 5.6x ⁽⁹⁾ | 5.7x ⁽¹³⁾ | 5.6x |

- (1) Increase due to the increase in gross asset value from additional development and capital improvement funding.
- (2) Increase due to decrease in market capitalization.
- (3) Increase primarily due to the increased income due to rental income from completed construction projects, partially offset by the decrease in interest expense caused by the decrease in outstanding debt and the decrease in recording capitalized interest on the funding of construction projects.
- (4) Decrease primarily due to the decrease in outstanding debt offset by the increase in gross asset value from additional development and capital improvement funding.
- (5) Decrease primarily due to the decrease in outstanding debt offset by the sale of 4,025,000 shares of common stock in a public offering and the decrease in market capitalization.
- (6) Increase primarily due to the decrease in interest expense due to the decrease in outstanding debt.
- (7) Decrease primarily due to increase in gross asset value from additional development and capital improvement funding.
- (8) Decrease primarily due to the increase in market capitalization.
- (9) Decrease primarily due to increase in interest expense resulting from increased pricing levels under our unsecured line of credit.
- (10) Increase primarily due to the increase in outstanding debt due to acquisitions.
- (11) Increase primarily due to the increase in bank borrowings due to acquisitions offset by the increase in market capitalization.
- (12) Increase primarily due to the decrease in interest expense caused by recording capitalized interest on the funding of construction projects, partially offset by increased income due to rental income from acquisitions.
- (13) Increase due to the decrease in interest expense caused by recording capitalized interest on the funding of properties under development.
- (14) 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.

| | Year to Date | Quarter Ended | | | | |
|---|--------------|---------------|----------|----------|----------|----------|
| | 9/30/13 | 9/30/13 | 6/30/13 | 3/31/13 | 12/31/12 | 9/30/12 |
| Net income | \$43,165 | \$17,286 | \$12,903 | \$12,976 | \$12,778 | \$12,504 |
| (Less) add: (Gain) loss on sale | (1,605) | (2,619) | 1,014 | — | — | — |
| Add: Interest expense | 8,512 | 2,581 | 2,798 | 3,133 | 2,907 | 2,988 |
| Add: Depreciation and amortization—continuing and discontinued operations | 18,469 | 6,202 | 6,131 | 6,136 | 5,692 | 5,925 |
| Total adjusted EBITDA | \$68,541 | \$23,450 | \$22,846 | \$22,245 | \$21,377 | \$21,417 |

| | | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|----------|
| Interest expense | \$ 8,512 | \$ 2,581 | \$ 2,798 | \$ 3,133 | \$ 2,907 | \$ 2,988 |
| Interest coverage ratio | 8.1x | 9.1x | 8.2x | 7.1x | 7.4x | 7.2x |
| Interest expense | \$ 8,512 | \$ 2,581 | \$ 2,798 | \$ 3,133 | \$ 2,907 | \$ 2,988 |
| Preferred stock dividends | 2,454 | 818 | 818 | 818 | 819 | 818 |
| Total fixed charges | \$10,966 | \$ 3,399 | \$ 3,616 | \$ 3,951 | \$ 3,726 | \$ 3,806 |
| Fixed charge coverage ratio | 6.3x | 6.9x | 6.3x | 5.6x | 5.7x | 5.6x |

[Table of Contents](#)

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.

[Table of Contents](#)

Operating Results

Three months ended September 30, 2013 compared to three months ended September 30, 2012 (amounts in thousands)

| | Three months ended September 30, | | Increase/ (Decrease) |
|---|-------------------------------------|----------|-------------------------|
| | 2013 | 2012 | |
| Revenues: | | | |
| Rental income | \$24,645 | \$21,908 | \$2,737 ⁽¹⁾ |
| Interest income from mortgage loans | 1,086 | 1,398 | (312) ⁽²⁾ |
| Interest and other income | 94 | 96 | (2) |
| Total revenues | 25,825 | 23,402 | 2,423 |
| Expenses: | | | |
| Interest expense | 2,581 | 2,988 | (407) ⁽³⁾ |
| Depreciation and amortization | 6,139 | 5,793 | 346 ⁽¹⁾ |
| General and administrative expenses | 2,676 | 2,370 | 306 ⁽⁴⁾ |
| Total expenses | 11,396 | 11,151 | 245 |
| Income from continuing operations | 14,429 | 12,251 | 2,178 |
| Discontinued operations: | | | |
| Net income from discontinued operations | 238 | 253 | (15) ⁽⁵⁾ |
| Gain on real estate assets, net | 2,619 | — | 2,619 ⁽⁶⁾ |
| Net income from discontinued operations | 2,857 | 253 | 2,604 |
| Net income | 17,286 | 12,504 | 4,782 |
| Income allocated to non-controlling interests | — | (9) | 9 ⁽⁷⁾ |
| Net income attributable to LTC Properties, Inc. | 17,286 | 12,495 | 4,791 |
| Income allocated to participating securities | (95) | (94) | (1) |
| Income allocated to preferred stockholders | (818) | (818) | — |
| Net income available to common stockholders | \$16,373 | \$11,583 | \$4,790 |

⁽¹⁾ Increase due to acquisitions, developments and capital improvement investments.

⁽²⁾ Decrease 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 \$2,816 during 2013.

⁽³⁾ Decrease primarily due to lower average bank borrowings outstanding and an increase in capitalized interest related to development projects.

⁽⁴⁾ Increase primarily due to increased salaries and benefits reflective of increased staffing levels.

⁽⁵⁾ Net income from seven skilled nursing properties, with a total of 277 beds, sold during 2013.

- (6) Gain on sale of six skilled nursing properties with a total of 230 beds during 2013.
(7) Decrease due to the conversion of all 112,588 limited partnership units during 2012.

[Table of Contents](#)

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012 (amounts in thousands)

| | Nine months ended September 30, | | Increase/ (Decrease) |
|---|------------------------------------|----------|-------------------------|
| | 2013 | 2012 | |
| Revenues: | | | |
| Rental income | \$72,907 | \$63,182 | \$9,725 ⁽¹⁾ |
| Interest income from mortgage loans | 3,195 | 4,361 | (1,166) ⁽²⁾ |
| Interest and other income | 279 | 818 | (539) ⁽³⁾ |
| Total revenues | 76,381 | 68,361 | 8,020 |
| Expenses: | | | |
| Interest expense | 8,512 | 7,025 | 1,487 ⁽⁴⁾ |
| Depreciation and amortization | 18,152 | 16,053 | 2,099 ⁽¹⁾ |
| General and administrative expenses | 8,962 | 7,498 | 1,464 ⁽⁵⁾ |
| Total expenses | 35,626 | 30,576 | 5,050 |
| Income from continuing operations | 40,755 | 37,785 | 2,970 |
| Discontinued operations: | | | |
| Net income from discontinued operations | 805 | 748 | 57 ⁽⁶⁾ |
| Gain on real estate assets, net | 1,605 | 16 | 1,589 ⁽⁷⁾ |
| Net income from discontinued operations | 2,410 | 764 | 1,646 |
| Net income | 43,165 | 38,549 | 4,616 |
| Income allocated to non-controlling interests | — | (30) | 30 ⁽⁸⁾ |
| Net income attributable to LTC Properties, Inc. | 43,165 | 38,519 | 4,646 |
| Income allocated to participating securities | (284) | (279) | (5) |
| Income allocated to preferred stockholders | (2,454) | (2,454) | — |
| Net income available to common stockholders | \$40,427 | \$35,786 | \$4,641 |

⁽¹⁾ Increase due to acquisitions, developments and capital improvement investments.

⁽²⁾ Decrease 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 \$2,816 during 2013.

⁽³⁾ Decrease primarily due to the bankruptcy settlement distribution related to Sunwest and the redemption of the Skilled Healthcare Group bond in 2012.

⁽⁴⁾ Increase primarily due to an increase in senior unsecured notes and an increase in interest rates on our unsecured line of credit resulting from a change in pricing levels partially offset by an increase in capitalized interest related to development projects.

⁽⁵⁾ Increase primarily due to a one-time \$707 charge related to the retirement of our former 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. Additionally, the increase is due to higher marketing expenditures and higher salaries and benefits reflective of increased staffing levels.

⁽⁶⁾ Net income from seven skilled nursing properties, with a total of 277 beds, sold during 2013.

⁽⁷⁾ For the nine months ended September 30, 2013, includes the gain on sale of six skilled nursing properties with a total of 230 beds offset by the loss on sale of a 47-bed skilled nursing property sold. For the nine months ended September 30, 2012, includes the gain on sale of a 140-bed skilled nursing property sold.

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

[Table of Contents](#)

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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income available to common stockholders | \$16,373 | \$11,583 | \$40,427 | \$35,786 |
| Add: Depreciation and amortization (continuing and discontinued operations) | 6,202 | 5,925 | 18,469 | 16,461 |
| Less: Gain on sale of real estate, net | (2,619) | — | (1,605) | (16) |
| FFO available to common stockholders | <u>\$19,956</u> | <u>\$17,508</u> | <u>\$57,291</u> | <u>\$52,231</u> |
| FFO available to common stockholders per share: | | | | |
| Basic | <u>\$0.58</u> | <u>\$0.58</u> | <u>\$1.76</u> | <u>\$1.73</u> |
| Diluted | <u>\$0.57</u> | <u>\$0.57</u> | <u>\$1.72</u> | <u>\$1.69</u> |
| Weighted average shares used to calculate FFO per share: | | | | |
| Basic | <u>34,553</u> | <u>30,253</u> | <u>32,625</u> | <u>30,219</u> |
| Diluted | <u>36,779</u> | <u>32,521</u> | <u>34,858</u> | <u>32,494</u> |

Liquidity and Capital Resources

Operating Activities. At September 30, 2013, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of \$911.1 million invested primarily in owned long-term healthcare properties and mortgage loans of approximately \$41.1 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 84 skilled nursing properties, 105 assisted living properties, 9 range of care properties, two schools and six 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 nine months ended September 30, 2013, we had net cash provided by operating activities of \$60.2 million.

32

[Table of Contents](#)

For the nine months ended September 30, 2013, we recorded \$3.0 million in straight-line rental income and a reserve of \$27,000 on our straight-line rent receivable. For leases in place at September 30, 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 \$3.9 million for projected annual 2013 to \$2.1 million for projected annual 2014 and, conversely, our cash rental income is projected to increase from \$95.6 million for projected annual 2013 to \$96.9 million for projected annual 2014. During the nine months ended September 30, 2013, we received \$71.5 million of cash rental revenue and recorded amortization of lease inducement cost of \$0.5 million. For the nine months ended September 30, 2013, no leases were renewed.

Investing and Financing Activities. For the nine months ended September 30, 2013, we used \$19.3 million of cash for investing activities. During the nine months ended September 30, 2013, we received \$1.4 million in regularly scheduled principal payments on our mortgage loans. Additionally, we funded \$2.8 million under a \$10.6 million mortgage and construction loan and we have a remaining commitment of \$5.2 million at September 30, 2013.

Subsequent to September 30, 2013, we funded a \$124.4 million mortgage loan with a third-party operator secured by 15 properties with a total of 2,092 skilled nursing beds in Michigan. The loan is for a term of 30 years and bears interest at 9.53% for five years, escalating annually thereafter by 2.25%. Payments are interest-only for three years, after which the borrower will make interest payments along with annual principal payments of \$1.0 million. The loan agreement provides for additional forward commitments of \$12.0 million for capital improvements at 9.41% for the first twelve months. Beginning in the thirteenth month, the interest will be the greater of 7.25% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the twenty days prior to funding or 9.0% with annual escalations of 2.25%. The loan agreement also provides, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, for additional loan proceeds of up to \$40.0 million with such proceeds limited to \$10.0 million per twelve months. The term for the additional loan proceeds will be at the greater of 7.25% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the twenty days prior to funding or 9.0% with annual escalations of 2.25%.

The borrower has a one-time option between the third and twelfth years to prepay up to 50% of the then outstanding loan balance without penalty. Exclusively for the purposes of this option, the properties collateralizing the loan have been separated by us into two pools of assets. If and when the option is exercised, we will identify which of the two pools we will release for prepayment and removal from portfolio of properties securing the loan. If the prepayment option is exercised and timely concluded, the borrower forfeits its opportunity to access any additional loan proceeds. Additionally, under certain circumstances, including a change in regulatory environment, we have the option to purchase the properties.

During the three months ended September 2013, it entered into development commitments totaling \$19.6 million with an existing operator to fund the purchase of land and construction of two free-standing memory care communities in Colorado, one with 60-units and the other with 48-units. In conjunction with such commitments, we closed on two parcels of land for an aggregate purchase price of \$2.1 million which were simultaneously added to the existing master lease agreement with the operator. Rent at an initial annual rate of 9.25% will commence upon the respective project's completion date (but in no event later than December 31, 2014) and be calculated based on the land purchase price and construction costs funded for each property plus 9.0% compounded on the land purchase price and each amount funded under the commitments.

33

Subsequent to September 30, 2013, we entered into a pipeline agreement with this same operator whereby we have the opportunity to finance any seniors housing development projects or acquisitions originated by the operator through May 2018 (unless earlier terminated as provided for therein) with provisions limiting, among other things, to five the number of development projects the operator may have under construction at any time. Any such projects or opportunities financed by us pursuant to the agreement will be added to the parties' master lease with the then remaining term extended by 10 years at initial lease rates estimated to range from 9.0% to 10.5% with annual escalations of 2.5%.

During the three months ended September 30, 2013, our operator of a master lease exercised its option to purchase six skilled nursing properties located in Ohio with a total of 230 beds for purchase price of \$11.0 million. As a result, we recorded a \$2.6 million gain on sale. Also, during the nine months ended September 30, 2013, we sold a 47-bed skilled nursing property in Colorado for \$1,000 and recognized a \$1.0 million loss on sale.

During the three months ended September 30, 2013, we completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. During the nine months ended September 30, 2013, we funded the remaining \$4.4 million of the \$9.9 million development commitment for the new property.

During the nine months ended September 30, 2013, we completed the construction of a 120-bed skilled nursing property in Texas. This new property replaces a skilled nursing property in our existing portfolio. All the residents were relocated from the old property to the new property. The operator is responsible for closing and selling the old property. During the nine months ended September 30, 2013, we funded the remaining \$5.1 million of the \$9.1 million development commitment for the new property.

Subsequent to September 30, 2013, we purchased four parcels of land for \$1.2 million. We also purchased a 120-bed skilled nursing property in Florida for \$14.4 million. The property will be included in a master lease at an incremental initial cash yield of 8.75%. The operator currently leases four properties with a total of 596 beds/units from us. The new master lease will contain all five properties with a total of 716 beds/units and have a GAAP yield of 10.7%. The initial lease term is 10 years with two 5-year renewal options and annual rent escalations of 2.2%. The transaction is expected to close on or about November 1, 2013.

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 were accreting the contingent liability to the settlement amount as of the payment date. The fair value of such contingent liability was re-evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates. During the three months ended September 30, 2013, we paid \$7.0 million related to the contingent liability. Accordingly, we have no remaining contingent liability as of September 30, 2013.

As of September 30, 2013, we have a commitment to provide, under certain conditions, up to \$5.0 million 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. As of September 30, 2013, no funds have been requested under this commitment. In addition, the following table summarizes our investment commitments as of September 30, 2013, excluding the \$5.0 million per year commitment, and year to date funding on our ongoing development, redevelopment, renovation (*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 | \$29,650 | \$4,212 | \$9,748 | \$19,902 | 6 | 640 |
| Assisted Living ⁽¹⁾ | 50,538 | 9,904 | 12,545 | 37,992 | 6 | 402 |
| Totals | \$80,188 | \$14,116 ⁽³⁾ | \$22,293 | \$57,894 | 12 | 1,042 |

⁽¹⁾ Includes the development of two memory care properties for a total of \$19,553 and two assisted living and memory care combination properties for a total of \$16,385, and the expansion of two assisted living properties for a total \$14,600.

⁽²⁾ Excludes 2013 funding for completed development of a 60-unit memory care property for \$4,373, completed redevelopment of a skilled nursing property for \$5,066, and \$260 of capital improvement on three completed projects with no remaining commitments. It also includes \$6 funded under the commitment as marketing expense and \$2,050 of land acquired for development.

⁽³⁾ Subsequent to September 30, 2013, we funded \$3,054 under investment commitments.

During the nine months ended September 30, 2013, we received \$2.4 million for the early repayment of an 8.5% term loan. During the nine months ended September 30, 2013, we received, including the repayment previously discussed, \$2.7 million in principal payments and we funded \$0.8 million under our notes receivables. During the three months ended September 2013, we committed to fund two loans of up to \$0.4 million each with interest accruing at 12% per annum maturing September 2017. At September 30, 2013, including the two new loans noted previously, we had ten loans and line of credit agreements with a total commitment to fund \$2.3 million. As of September 30, 2013, we funded \$0.6 million under these commitments and we have a remaining commitment of \$1.7 million. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2017.

Subsequent to September 30, 2013, we entered into a new agreement to fund two pre-development loans of \$0.3 million each to facilitate the site selection and pre-construction services for the future development of two memory care properties. The initial rate of each loan is 12%, increasing by 25 basis points per year. The maturity date is the earlier of the acquisition of the land or October 2015. As a result of this commitment and funding, we have 12 loans and line of credit agreements with a total commitment of \$3.0 million and we have a remaining commitment balance of \$2.4 million.

For the nine months ended September 30, 2013, we used \$12.3 million of cash in financing activities. During the nine months ended September 30, 2013, we paid \$0.6 million in scheduled principal payments on bonds payable. During the nine months ended September 30, 2013, we borrowed \$2.0 million and repaid \$117.5 million under our unsecured line of credit. At September 30, 2013, we had \$60.3 million of cash on hand and no outstanding balances under our unsecured line of credit. Also at September 30, 2013, we were in compliance with all our covenants. Subsequent to September 30, 2013, we used approximately \$55.0 million of cash on hand and borrowed \$86.0 million under our unsecured line of credit to fund a mortgage loan secured by is skilled nursing properties in Michigan as previously discussed. Accordingly, we currently have approximately \$5.0 million of cash on hand and \$86.0 million outstanding under our unsecured line of credit with \$154.0 million available for borrowing.

During the nine months ended September 30, 2013, we sold 4,025,000 shares of common stock at a price of \$44.50 per share, before fees and costs of \$7.7 million, in a public offering. The net proceeds of \$171.4 million were used to pay down amounts outstanding under our unsecured line of credit, to fund acquisitions and our current development commitments and general corporate purposes.

[Table of Contents](#)

During the nine months ended September 30, 2013, we terminated the equity distribution agreement which allowed 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 were 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 nine months ended September 30, 2013, we sold 126,742 shares of common stock for \$4.9 million in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we reclassified \$0.7 million of accumulated costs associated with the equity distribution agreement to additional paid in capital.

During the nine months ended September 30, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Additionally, during the nine months ended September 30, 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 granted during the nine months ended September 30, 2013 and all stock options outstanding are vested of September 30, 2013. During the nine months ended September 30, 2013, we granted 20,000 shares of restricted common stock at \$36.26 per share. These shares all vest on June 1, 2016. Additionally, we granted 8,400 shares of restricted common stock at \$46.54 per share and 6,000 shares of restricted common stock at \$41.83 per share. These shares vest ratably over a three-year period from the grant date. Also during the nine months ended September 30, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our former Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded \$0.5 million of compensation expense related to the accelerated vesting. During the nine months ended September 30, 2013, we recognized \$2.1 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 \$2.5 million. Additionally, we declared and paid cash dividends on our common stock totaling \$45.9 million. In October 2013, we increased the monthly dividend on our common stock to \$0.17 per share which is a 9.7% increase from the previous monthly \$0.155 per share dividend. We declared a monthly cash dividend of \$0.17 per share on our common stock for the months of October, November and December 2013, payable on October 31, November 29, and December 31, 2013, respectively, to stockholders of record on October 23, November 21, and December 23, 2013, respectively.

Available Shelf Registration. On July 19, 2013, we filed a Form S-3ASR "shelf" registration statement to replace our prior shelf registration statement. Our current shelf registration statement provides us with the capacity to offer up to \$800.0 million in common stock, preferred stock, warrants, debt, depository 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.

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.

[Table of Contents](#)

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 September 30, 2013, only \$2.0 million of our debt, excluding our Unsecured Credit Agreement, was at a variable interest rate.

At September 30, 2013, we had \$60.3 million of cash on hand, \$240.0 million available under our unsecured line of credit and \$100.0 million available under the uncommitted private shelf agreement for potential future senior unsecured notes. Subsequent to September 30, 2013, we used approximately \$55.0 million of cash on hand and borrowed \$86.0 million under our unsecured line of credit. Accordingly, we currently have approximately \$5.0 million of cash on hand and \$86.0 million outstanding under our unsecured line of credit with \$154.0 million available for borrowing. We also have the potential ability to access the capital markets through the issuance of debt and/or equity securities under our \$800.0 million effective shelf registration.

On October 30, 2013, we entered into an amended and restated note purchase and private shelf agreement with Prudential Investment Management, Inc. (or Prudential). The shelf agreement with Prudential, as amended, conforms the definitions and financial covenants contained therein and previously issued senior unsecured promissory notes outstanding to Prudential and certain of its affiliates and managed accounts to those contained in our unsecured credit facility and to covenants contained in the senior unsecured notes sold in July 2012. Any notes sold by us to Prudential under the shelf agreement will be in amounts at fixed interest rates and have maturity dates (each note to have a final maturity not greater than 12 years and an average life not greater than 10 years from the date of issuance) subject to further agreement by us and Prudential.

The shelf agreement with Prudential contains standard covenants including requirements to maintain financial ratios such as debt to asset value ratios. Under the shelf agreement, maximum total indebtedness shall not exceed 50% of total asset value as defined in the shelf agreement, as amended. Borrowings under the shelf agreement are limited by reference to the value of unencumbered assets. Under the shelf agreement, maximum unsecured debt shall not exceed 60% of the value of the unencumbered asset pool as defined in the shelf agreement. As of November 4, 2013, we had \$50.0 million outstanding in senior unsecured notes sold by us to Prudential in July 2010 and \$50.0 million outstanding in senior unsecured notes sold by us to Prudential in July 2011.

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 and 2014.

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 nine months ended September 30, 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.

[Table of Contents](#)

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 5. Other Information

On October 30, 2013, we entered into an amended and restated note purchase and private shelf agreement with Prudential Investment Management, Inc. (or Prudential). The shelf agreement with Prudential, as amended, conforms the definitions and financial covenants contained therein and previously issued senior unsecured promissory notes outstanding to Prudential and certain of its affiliates and managed accounts to those contained in our unsecured credit facility and to covenants contained in the senior unsecured notes sold in July 2012. Any notes sold by us to Prudential under the shelf agreement will be in amounts at fixed interest rates and have maturity dates (each note to have a final maturity not greater than 12 years and an average life not greater than 10 years from the date of issuance) subject to further agreement by us and Prudential.

The shelf agreement with Prudential contains standard covenants including requirements to maintain financial ratios such as debt to asset value ratios. Under the shelf agreement, maximum total indebtedness shall not exceed 50% of total asset value as defined in the shelf agreement, as amended. Borrowings under the shelf agreement are limited by reference to the value of unencumbered assets. Under the shelf agreement, maximum unsecured debt shall not exceed 60% of the value of the unencumbered asset pool as defined in the shelf agreement. As of November 4, 2013, we had \$50.0 million outstanding in senior unsecured notes sold by us to Prudential in July 2010 and \$50.0 million outstanding in senior unsecured notes sold by us to Prudential in July 2011.

The shelf agreement with Prudential, as amended, is filed as an exhibit to this Quarterly Report on Form 10-Q. The description herein of the shelf agreement, as amended, is qualified in its entirety by reference to the exhibit filed hereto.

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 Second amended and restated note purchase and private shelf agreement dated October 30, 2013
- 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 September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2012; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012; and (iv) Notes to Consolidated Financial Statements

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: November 4, 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.

**SECOND AMENDED AND RESTATED
NOTE PURCHASE AND PRIVATE SHELF AGREEMENT**

**5.26% Series A-1 Senior Notes Due July 14, 2015
(\$25,000,000 Aggregate Original Principal Amount)**

**5.74% Series A-2 Senior Notes Due January 14, 2019
(\$25,000,000 Aggregate Original Principal Amount)**

**4.80% Series B Senior Notes Due July 20, 2021
(\$50,000,000 Aggregate Original Principal Amount)**

\$100,000,000 Private Shelf Facility

As of October 30, 2013

Information Schedule

| | | |
|------------------|---|--|
| Schedule A | — | Purchaser Schedule Related to Series A Notes Purchaser Schedule Related to Series B Notes |
| Schedule B | — | Defined Terms |
| Schedule 5.4 | — | Subsidiaries; Affiliates; Directors and Officers; Restrictions on Subsidiaries |
| Schedule 5.10(c) | — | Significant Leases |
| Schedule 5.15 | — | Existing Indebtedness for Borrowed Money |
| Schedule 5.25 | — | UAP Properties |
| Schedule 10.2 | — | Existing Investments |
| Exhibit A-1 | — | Form of 5.26% Series A-1 Senior Note due July 14, 2015 |
| Exhibit A-2 | — | Form of 5.74% Series A-2 Senior Note due January 14, 2019 |
| Exhibit A-3 | — | Form of 4.80% Series B Senior Note due July 20, 2021 |
| Exhibit A-4 | — | Form of Shelf Note |
| Exhibit B | — | Form of Request for Purchase |
| Exhibit C | — | Form of Confirmation of Acceptance |
| Exhibit D-1 | — | Form of Opinion of Special Counsel for the Credit Parties |
| Exhibit D-2 | — | Form of Opinion of Special Maryland Counsel for the Credit Parties |
| Exhibit D-3 | — | Form of Opinion of Special Texas Counsel for the Credit Parties |
| Exhibit D-4 | — | Form of Opinion of Special Nevada Counsel for the Credit Parties |
| Exhibit E | — | Form of Joinder to Multiparty Guaranty |

| | | |
|----|--|---|
| 1 | Authorization of Notes | 1 |
| 1A | Amendment and Restatement | 1 |
| 1B | Existing Series A-1 Notes | 1 |
| 1C | Existing Series A-2 Notes | 2 |
| 1D | Existing Series B Notes | 2 |
| 1E | Authorization of Issue of Shelf Notes | 2 |
| 2 | Sale And Purchase of Notes | 3 |
| 2A | [Intentionally Omitted] | 3 |
| 2B | Sale and Purchase of Shelf Notes | 3 |
| | 2B(1) Facility | 3 |
| | 2B(2) Issuance Period | 3 |
| | 2B(3) Request For Purchase | 3 |
| | 2B(4) Rate Quotes | 4 |
| | 2B(5) Acceptance | 4 |
| | 2B(6) Market Disruption | 5 |
| | 2B(7) Facility Closings | 5 |
| | 2B(8) Fees | 5 |
| | 2B(8)(i) Draw Fees | 6 |
| | 2B(8)(ii) [Intentionally Omitted.] | 6 |
| | 2B(8)(iii) Delayed Delivery Fee | 6 |
| | 2B(8)(iv) Cancellation Fee | 6 |
| 3 | [Intentionally Omitted] | 7 |
| 4 | Conditions | 7 |
| 4A | Conditions to Effectiveness of Amendment and Restatement | 7 |
| | 4A(1) [Intentionally Omitted] | 7 |
| | 4A(2) Payment of Special Counsel Fees | 7 |
| 4B | Conditions to Each Closing | 7 |
| | 4B(1) Certain Documents | 7 |
| | 4B(2) Payment of Fees | 8 |
| | 4B(3) Representations and Warranties | 8 |

Table of Contents
(continued)

| | | |
|---|--|------|
| | | Page |
| | 4B(4) Performance; No Default | 8 |
| | 4B(5) Changes in Structure | 8 |
| | 4B(6) Purchase Permitted By Applicable Law, Etc. | 9 |
| | 4B(7) Private Placement Number | 9 |
| | 4B(8) Proceedings and Documents | 9 |
| | 4C Condition Subsequent | 9 |
| 5 | Representations and Warranties of the Company | 9 |
| | 5.1 Organization; Power and Authority | 9 |
| | 5.2 Authorization, Etc. | 10 |
| | 5.3 Disclosure | 10 |
| | 5.4 Organization and Ownership of Equity in Subsidiaries; Affiliates | 10 |
| | 5.5 Financial Statements | 11 |

| | | |
|------|---|----|
| 5.6 | Compliance with Laws; Other Instruments, Etc. | 12 |
| 5.7 | Governmental Authorizations, Etc. | 12 |
| 5.8 | Litigation; Observance of Agreements, Statutes and Orders | 12 |
| 5.9 | Taxes | 13 |
| 5.10 | Title to Property; Leases | 13 |
| 5.11 | Licenses, Permits, Etc. | 14 |
| 5.12 | Compliance with ERISA | 14 |
| 5.13 | Private Offering | 15 |
| 5.14 | Use of Proceeds; Margin Regulations | 15 |
| 5.15 | Existing Indebtedness for Borrowed Money; Future Liens | 15 |
| 5.16 | Foreign Assets Control Regulations, Etc. | 16 |
| 5.17 | Status under Certain Statutes | 18 |
| 5.18 | Environmental Matters | 18 |
| 5.19 | Stock of the Company | 19 |
| 5.20 | Condition of Property; Casualties; Condemnation | 19 |
| 5.21 | Legal Requirements and Zoning | 19 |
| 5.22 | [Intentionally Omitted] | 19 |
| 5.23 | Solvency | 19 |

Table of Contents
(continued)

| | | Page |
|---|---|------|
| | 5.24 Hostile Tender Offers | 19 |
| | 5.25 UAP Properties | 20 |
| 6 | Representations of the Purchasers | 20 |
| | 6.1 Purchase for Investment | 20 |
| | 6.2 Source of Funds | 20 |
| 7 | Information as to the Company | 21 |
| | 7.1 Financial and Business Information | 21 |
| | 7.2 Officer's Certificate | 24 |
| | 7.3 Visitation | 25 |
| 8 | Prepayment of the Notes | 25 |
| | 8.1 Required Prepayments | 25 |
| | 8.2 Optional Prepayments with Make-Whole Amount | 26 |
| | 8.3 Allocation of Partial Prepayments | 26 |
| | 8.4 Maturity; Surrender, Etc. | 26 |
| | 8.5 Purchase of Notes | 27 |
| | 8.6 Make-Whole Amount | 27 |
| 9 | Affirmative Covenants | 28 |
| | 9.1 Compliance with Law | 28 |
| | 9.2 Insurance | 29 |
| | 9.3 Maintenance of Properties | 30 |
| | 9.4 Payment of Taxes and Claims | 30 |
| | 9.5 Maintenance of Existence, Etc. | 30 |
| | 9.6 Books and Records | 30 |
| | 9.7 Maintenance of REIT Status | 31 |

| | | |
|------|--|----|
| 9.8 | Listing of Common Stock; Filing of Reports | 31 |
| 9.9 | Additional Guarantors | 31 |
| 9.10 | [Intentionally Omitted] | 31 |
| 9.11 | Information Required by Rule 144A | 31 |
| 9.12 | UAP Properties | 31 |
| 10 | Negative Covenants | 31 |

| | Table of Contents (continued) | Page |
|-------|--|------|
| 10.1 | Liens, Etc. | 31 |
| 10.2 | Investments, Acquisitions, Loans and Advances | 32 |
| 10.3 | Mergers, Consolidations and Sales | 33 |
| 10.4 | Maintenance of Subsidiaries | 34 |
| 10.5 | No Burdensome Contracts With Affiliates | 34 |
| 10.6 | No Changes in Fiscal Year | 34 |
| 10.7 | Change in the Nature of Business | 34 |
| 10.8 | Use of Proceeds of Notes | 35 |
| 10.9 | No Restrictions | 35 |
| 10.10 | Financial Covenants | 35 |
| 10.11 | Two-Way Most Favored Lender | 36 |
| 10.12 | Redemption of Stock, Etc. | 37 |
| 10.13 | Terrorism Sanctions Regulations | 37 |
| 11 | Events Of Default | 38 |
| 12 | Remedies On Default, Etc. | 40 |
| 12.1 | Acceleration | 40 |
| 12.2 | Other Remedies | 41 |
| 12.3 | Rescission | 41 |
| 12.4 | No Waivers or Election of Remedies, Expenses, Etc. | 41 |
| 13 | Registration; Exchange; Substitution Of Notes | 42 |
| 13.1 | Registration of Notes | 42 |
| 13.2 | Transfer and Exchange of Notes | 42 |
| 13.3 | Replacement of Notes | 42 |
| 14 | Payments On Notes | 43 |
| 14.1 | Place of Payment | 43 |
| 14.2 | Home Office Payment | 43 |
| 15 | Expenses, Etc. | 44 |
| 15.1 | Transaction Expenses | 44 |
| 15.2 | Survival | 44 |
| 16 | Survival Of Representations And Warranties; Entire Agreement | 44 |

| | | |
|-------|---|----|
| 17 | Amendment And Waiver | 45 |
| 17.1 | Requirements | 45 |
| 17.2 | Solicitation of Holders of Notes | 45 |
| 17.3 | Binding Effect. Etc. | 46 |
| 17.4 | Notes Held by Company, Etc. | 46 |
| 18 | Notices | 46 |
| 19 | Reproduction Of Documents | 47 |
| 20 | Multiparty Guaranty | 47 |
| 20.1 | Unconditional Guaranty | 48 |
| 20.2 | Subrogation | 50 |
| 20.3 | Amendments, Etc. with Respect to Guaranteed Obligations | 50 |
| 20.4 | Guaranty Absolute and Unconditional; Termination | 50 |
| 20.5 | Reinstatement | 52 |
| 20.6 | Payments | 52 |
| 20.7 | Bound by Other Provisions | 52 |
| 20.8 | Additional Guarantors | 52 |
| 21 | CONFIDENTIALITY | 53 |
| 22 | MISCELLANEOUS | 54 |
| 22.1 | Successors and Assigns | 54 |
| 22.2 | Payments Due on Non-Business Days | 54 |
| 22.3 | Accounting Terms | 54 |
| 22.4 | Severability | 54 |
| 22.5 | Construction | 55 |
| 22.6 | Counterparts | 55 |
| 22.7 | Governing Law | 55 |
| 22.8 | Jurisdiction and Process | 55 |
| 22.9 | Waiver of Jury Trial | 56 |
| 22.10 | Transaction References | 56 |
| 22.11 | No Novation | 56 |

LTC PROPERTIES, INC.
2829 Townsgate Road, Suite 350
Westlake Village, California 91361

As of October 30, 2013

Prudential Investment Management, Inc.
Each Prudential Affiliate (as hereinafter defined) which is
a signatory of this Agreement or becomes bound by certain
provisions of this Agreement as hereinafter provided)

c/o Prudential Capital Group
2029 Century Park East, Suite 710
Los Angeles, California 90067

Ladies and Gentlemen:

Each of the undersigned, LTC Properties, Inc., a Maryland corporation (the “**Company**”), and certain direct and indirect Subsidiaries of the Company from time to time party to this Agreement as Guarantors agrees with each of the Purchasers as follows:

1 AUTHORIZATION OF NOTES

1A AMENDMENT AND RESTATEMENT.

This Agreement amends, restates and replaces in its entirety (subject to Section 4C) that certain Amended and Restated Note Purchase and Private Shelf Agreement, dated as of October 19, 2011 (as amended, restated, supplemented or otherwise modified through the date hereof, the “**Prior Agreement**”), between the Persons which are parties hereto as of the date hereof; and the Prior Agreement amended, restated and replaced in its entirety that certain Note Purchase and Private Shelf Agreement, dated as of July 14, 2010 (as amended, restated, supplemented or otherwise modified through October 19, 2011, the “**Original Agreement**”), between the Persons which are parties hereto as of the date hereof. Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a “Schedule” or an “Exhibit” are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

1B EXISTING SERIES A-1 NOTES.

On July 14, 2010 the Company issued and sold \$25,000,000 aggregate original principal amount of its 5.26% Series A-1 Senior Notes due July 14, 2015 (as amended, restated, supplemented or otherwise modified from time to time, the “**Series A-1 Notes**”, such term to include any such notes issued in substitution therefor pursuant to Section 13 of the Original Agreement, the Prior Agreement or this Agreement). The Series A-1 Notes are substantially in the form set out in Exhibit A-1.

1C EXISTING SERIES A-2 NOTES.

On July 14, 2010 the Company issued and sold \$25,000,000 aggregate original principal amount of its 5.74% Series A-2 Senior Notes due January 14, 2019 (as amended, restated, supplemented or otherwise modified from time to time, the “**Series A-2 Notes**”, such term to include any such notes issued in substitution therefor pursuant to Section 13 of the Original Agreement, the Prior Agreement or this Agreement). The Series A-2 Notes are substantially in the form set out in Exhibit A-2. The terms “**Series A Note**” and “**Series A Notes**” as used herein shall include each Series A-1 Note and each Series A-2 Note delivered pursuant to any provision of the Original Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any provision of the Original Agreement, the Prior Agreement or this Agreement.

1D EXISTING SERIES B NOTES.

On July 20, 2011 the Company issued and sold \$50,000,000 aggregate original principal amount of its 4.80% Series B Senior Notes due July 20, 2021 (as amended, restated, supplemented or otherwise modified from time to time, the “**Series B Notes**”, such term to include any such notes issued in substitution therefor pursuant to Section 13 of the Original Agreement, the Prior Agreement or this Agreement). The Series B Notes are substantially in the form set out in Exhibit A-3.

1E AUTHORIZATION OF ISSUE OF SHELF NOTES.

The Company will authorize the issue and sale of its additional senior notes (as amended, restated, supplemented or otherwise modified from time to time, the “**Shelf Notes**”) in the aggregate principal amount of up to \$100,000,000, to be dated the date of issue thereof, to mature, in the case of each Shelf Note so issued, no more than 12 years after the date of original issuance thereof, to have an average life, in the case of each Shelf Note so issued, of no more than 10 years after the date of original issuance thereof, to bear interest on the unpaid balance thereof from the date thereof at the rate per annum, and to have such other particular terms, as shall be set forth, in the case of each Shelf Note so issued, in the Confirmation of Acceptance with respect to such Shelf Note delivered pursuant to Section 2B(5), and to be substantially in the form of Exhibit A-4. The terms “**Shelf Note**” and “**Shelf Notes**” as used herein shall include each Shelf Note delivered pursuant to any provision of this Agreement and each Shelf Note delivered in substitution or exchange for any such Shelf Note pursuant to any such provision. The terms “**Note**” and “**Notes**” as used herein shall include each Series A Note, each Series B Note and each Shelf Note delivered pursuant to any provision of the Original Agreement, the Prior Agreement or this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Notes that have (i) the same final maturity, (ii) the same principal prepayment dates, (iii) the same principal prepayment amounts (as a percentage of the original principal amount of each Note), (iv) the same interest rate, (v) the same interest payment periods, and (vi) the same date of issuance (which, in the case of a Note issued in exchange for another Note, shall be deemed for these purposes the date on which such Note’s ultimate predecessor Note was issued), are herein called a “**Series**” of Notes.

2 SALE AND PURCHASE OF NOTES

2A [INTENTIONALLY OMITTED].

2B SALE AND PURCHASE OF SHELF NOTES.

2B(1) Facility. PIM is willing to consider, in its sole discretion and within limits that may be authorized for purchase by PIM and Prudential Affiliates from time to time, the purchase of Shelf Notes pursuant to this Agreement. The willingness of PIM to consider such purchase of Shelf Notes is herein called the “**Facility**.” At any time, (i) the aggregate principal amount of Shelf Notes stated in Section 1E, minus (ii) the aggregate principal amount of Shelf Notes purchased and sold pursuant to this Agreement prior to such time, minus (iii) the aggregate principal amount of Accepted Notes (as hereinafter defined) which have not yet been purchased and sold hereunder prior to such time, is herein called the “**Available Facility Amount**” at such time. **NOTWITHSTANDING THE WILLINGNESS OF PIM TO CONSIDER PURCHASES OF SHELF NOTES, THIS AGREEMENT IS ENTERED INTO ON THE EXPRESS UNDERSTANDING THAT NEITHER PIM NOR ANY PRUDENTIAL AFFILIATE SHALL BE OBLIGATED TO MAKE OR ACCEPT OFFERS TO PURCHASE SHELF NOTES, OR TO QUOTE RATES, SPREADS OR OTHER TERMS WITH RESPECT TO SPECIFIC PURCHASES OF SHELF NOTES, AND THE**

FACILITY SHALL IN NO WAY BE CONSTRUED AS A COMMITMENT BY PIM OR ANY PRUDENTIAL AFFILIATE. Notwithstanding anything to the contrary appearing herein, in no event shall any Note be purchased under the Facility by a Prudential Affiliate described in clause (i) of the definition thereof if, upon giving effect to such purchase and the use of proceeds thereof, the aggregate principal amount all Notes and any other notes of the Company then outstanding and held by all Prudential Affiliates described in such clause, would exceed \$150,000,000.

2B(2) Issuance Period. Shelf Notes may be issued and sold pursuant to this Agreement until the earlier of (i) October 19, 2014 (or if such date is not a New York Business Day, the New York Business Day next preceding such date), and (ii) the thirtieth day after PIM shall have given to the Company, or the Company shall have given to PIM, written notice stating that it elects to terminate the issuance and sale of Shelf Notes pursuant to this Agreement (or if such thirtieth day is not a New York Business Day, the New York Business Day next preceding such thirtieth day). The period during which Shelf Notes may be issued and sold pursuant to this Agreement is herein called the “**Issuance Period**.”

2B(3) Request For Purchase. The Company may from time to time during the Issuance Period make requests for purchases of Shelf Notes (each such request being herein called a “**Request for Purchase**”). Each Request for Purchase shall be made to PIM by email or overnight delivery service, and shall (i) specify the aggregate principal amount of Shelf Notes covered thereby, which shall not be less than \$10,000,000 and not be greater than the Available Facility Amount at the time such Request for Purchase is made, (ii) specify the principal amounts, final maturities (which shall be no more than 12 years from the date of original issuance), and principal prepayment dates and amounts (which shall result in an average life of no more than 10 years from the date of original issuance) of the Shelf Notes covered thereby, (iii) specify the interest payment periods (which shall be quarterly or semi-annually), (iv) specify

3

the use of proceeds of such Shelf Notes), (v) specify the proposed day for the closing of the purchase and sale of such Shelf Notes, which shall be a Business Day during the Issuance Period not less than 10 Business Days and not more than 90 days after the making of such Request for Purchase, (vi) specify the number of the account and the name and address of the depository institution to which the purchase prices of such Shelf Notes are to be transferred on the Closing Day for such purchase and sale, (vii) certify that the representations and warranties contained in Section 5 are true on and as of the date of such Request for Purchase and that there exists on the date of such Request for Purchase no Event of Default or Default, and (viii) be substantially in the form of Exhibit B attached hereto. Each Request for Purchase shall be in writing and shall be deemed made when received by PIM.

2B(4) Rate Quotes. Not later than 5 Business Days after the Company shall have given PIM a Request for Purchase pursuant to Section 2B(3), PIM may, but shall be under no obligation to, provide to the Company by telephone interest rate quotes for the several principal amounts, maturities and principal prepayment schedules, and interest payment periods of Shelf Notes specified in such Request for Purchase. Each quote shall represent the interest rate per annum payable on the outstanding principal balance of such Shelf Notes at which PIM or a Prudential Affiliate would be willing to purchase such Shelf Notes at 100% of the principal amount thereof.

2B(5) Acceptance. Within 2 minutes after PIM shall have provided any interest rate quotes pursuant to Section 2B(4) or such shorter period as PIM may specify to the Company (such period herein called the “**Acceptance Window**”), the Company may, subject to Section 2B(6), elect to accept such interest rate quotes as to not less than \$10,000,000 aggregate principal amount of the Shelf Notes specified in the related Request for Purchase. Such election shall be made by an Authorized Officer of the Company notifying PIM by telephone or email within the Acceptance Window (but not earlier than 9:30 a.m. or later than 1:30 p.m. (or such later time as PIM may agree), New York City local time) that the Company elects to accept such interest rate quotes, specifying the Shelf Notes (each such Shelf Note being herein called an “**Accepted Note**”) as to which such acceptance (herein called an “**Acceptance**”) relates. The day the Company notifies PIM of an Acceptance with respect to any Accepted Notes is herein called the “**Acceptance Day**” for such Accepted Notes. Any interest rate quotes as to which PIM does not receive an Acceptance within the Acceptance Window shall expire, and no purchase or sale of Shelf Notes hereunder shall be made based on such expired interest rate quotes. Subject to Section 2B(6) and the other terms and conditions hereof, the Company agrees to sell to PIM or a Prudential Affiliate, and PIM agrees to purchase, or to cause the purchase by a Prudential Affiliate of, the Accepted Notes at 100% of the principal amount of such Accepted Notes. As soon as practicable following the Acceptance Day, the Company, PIM and each Prudential Affiliate which is to purchase any such Accepted Notes will execute a confirmation of such Acceptance substantially in the form of Exhibit C (herein called a “**Confirmation of Acceptance**”). If the Company should fail to execute and return to PIM within 2 Business Days following receipt thereof a Confirmation of Acceptance with respect to any Accepted Notes, PIM may at its election at any time prior to its receipt thereof cancel the closing with respect to such Accepted Notes by so notifying the Company in writing.

4

2B(6) Market Disruption. Notwithstanding the provisions of Section 2B(5), if PIM shall have provided interest rate quotes pursuant to Section 2B(4) and thereafter, prior to the time an Acceptance with respect to such quotes shall have been notified to PIM in accordance with Section 2B(5), the domestic market for United States treasury securities or derivatives shall have closed or there shall have occurred a general suspension, material limitation, or significant disruption of trading in securities generally on the New York Stock Exchange or in the domestic market for United States treasury securities or derivatives, then such interest rate quotes shall expire, and no purchase or sale of Shelf Notes hereunder shall be made based on such expired interest rate quotes. If the Company thereafter notifies PIM of the Acceptance of any such interest rate quotes, such Acceptance shall be ineffective for all purposes of this Agreement, and PIM shall promptly notify the Company that the provisions of this Section 2B(6) are applicable with respect to such Acceptance.

2B(7) Facility Closings. Not later than 1:30 p.m. (New York City local time) on the Closing Day for any Accepted Notes, the Company will deliver to each Purchaser listed in the Confirmation of Acceptance relating thereto at the offices of Vedder Price P.C., 275 Battery Street, Suite 2464, San Francisco, California 94111 (or such other address as PIM may specify in writing), the Accepted Notes to be purchased by such

Purchaser in the form of one or more Notes in authorized denominations as such Purchaser may request for each Series of Accepted Notes to be purchased on such Closing Day, dated the applicable Closing Day and registered in such Purchaser's name (or in the name of its nominee), against payment of the purchase price thereof by transfer of immediately available funds for credit to the account specified in the Request for Purchase of such Notes. If the Company fails to tender to any Purchaser the Accepted Notes to be purchased by such Purchaser on the scheduled Closing Day for such Accepted Notes as provided above in this paragraph 2B(7), or any of the conditions specified in Section 4 shall not have been fulfilled by the time required on such scheduled Closing Day, the Company shall, prior to 2:00 p.m., New York City local time, on such scheduled Closing Day notify PIM (which notification shall be deemed received by each Purchaser) in writing whether (i) such closing is to be rescheduled (such rescheduled date to be a Business Day during the Issuance Period not less than one Business Day and not more than 10 Business Days after such scheduled Closing Day (the **"Rescheduled Closing Day"**)) and certify to PIM (which certification shall be for the benefit of each Purchaser) that the Company reasonably believes that it will be able to comply with the conditions set forth in Section 4 on such Rescheduled Closing Day and that the Company will pay the Delayed Delivery Fee in accordance with Section 2B(8)(iii), or (ii) such closing is to be canceled and the Company will pay the Cancellation Fee as provided in Section 2B(8)(iv). In the event that the Company shall fail to give such notice referred to in the immediately preceding sentence, PIM (on behalf of each Purchaser) may at its election, at any time after 2:00 p.m., New York City local time, on such scheduled Closing Day, notify the Company in writing that such closing is to be canceled and the Company is obligated to pay the Cancellation Fee as provided in Section 2B(8)(iv). Notwithstanding anything to the contrary appearing in this Agreement, the Company may elect to reschedule a closing with respect to any given Accepted Notes on not more than one occasion, unless PIM shall have otherwise consented in writing.

2B(8) Fees.

5

2B(8)(i) Draw Fees. The Company shall pay to or as directed by PIM in immediately available funds a fee (herein called a **"Draw Fee"**) on or before each Closing Day in an amount equal to 0.10% of the aggregate principal amount of Notes sold on such Closing Day.

2B(8)(ii) [Intentionally Omitted.]

2B(8)(iii) Delayed Delivery Fee. If the closing of the purchase and sale of any Accepted Note is delayed for any reason beyond the original Closing Day for such Accepted Note, the Company shall pay to or as directed by PIM, on the Cancellation Date or actual Closing Day of such purchase and sale, an amount (the **"Delayed Delivery Fee"**) equal to:

$$(\text{BEY} - \text{MMY}) \times \text{DTS} / 360 \times \text{PA}$$

where **"BEY"** means Bond Equivalent Yield, *i.e.*, the bond equivalent yield per annum of such Accepted Note; **"MMY"** means Money Market Yield, *i.e.*, the yield per annum on an alternative Dollar investment of the highest quality selected by PIM having a maturity date or dates the same as, or closest to, the Rescheduled Closing Day from time to time fixed for the delayed delivery of such Accepted Note; **"DTS"** means Days to Settlement, *i.e.*, the number of actual days elapsed from and including the original Closing Day for such Accepted Note to but excluding the date of such payment; and **"PA"** means Principal Amount, *i.e.*, the principal amount of the Accepted Note for which such calculation is being made.

In no case shall the Delayed Delivery Fee be less than zero. Nothing contained herein shall obligate any Purchaser to purchase any Accepted Note on any day other than the Closing Day for such Accepted Note, as the same may be rescheduled from time to time in compliance with Section 2B(7).

2B(8)(iv) Cancellation Fee. If the Company at any time notifies PIM in writing that the Company is canceling the closing of the purchase and sale of any Accepted Note, or if PIM notifies the Company in writing under the circumstances set forth in the last sentence of paragraph 2B(5) or the penultimate sentence of Section 2B(7) that the closing of the purchase and sale of such Accepted Note is to be canceled, or if the closing of the purchase and sale of such Accepted Note is not consummated on or prior to the last day of the Issuance Period (the date of any such notification, or the last day of the Issuance Period, as the case may be, being herein called the **"Cancellation Date"**), the Company shall pay to or as directed by PIM in immediately available funds on the Cancellation Date an amount (the **"Cancellation Fee"**) equal to:

$$\text{PI} \times \text{PA}$$

where **"PI"** means Price Increase, *i.e.*, the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by PIM) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by PIM) of the Hedge Treasury Note(s) on the Acceptance Day for such Accepted Note by (b) such bid price; and **"PA"** has the meaning ascribed to it in paragraph 2B(8)(iii). The foregoing bid and ask prices shall be as reported by such publicly available source of such market data as is then customarily used by PIM, and rounded to the second decimal place.

In no case shall the Cancellation Fee be less than zero.

6

3 [INTENTIONALLY OMITTED].

4 CONDITIONS.

The effectiveness of the amendment and restatement effected herein is subject to the satisfaction of the conditions set forth in Section 4A (and the continued effectiveness of the amendment and restatement effected herein is subject to the satisfaction of the condition set forth in Section 4C, as provided more fully therein), and the obligation of any Purchaser to purchase and pay for any Shelf Notes is subject to the fulfillment to its satisfaction, on or before the applicable Closing Day, of the conditions set forth in Section 4B:

4A CONDITIONS TO EFFECTIVENESS OF AMENDMENT AND RESTATEMENT.

4A(1) [Intentionally Omitted].

4A(2) Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the date hereof the fees, charges and disbursements of the special counsel of PIM, the Series A Purchasers and the Series B Purchasers referred to in Section 4B(1)(g), to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the date hereof.

4B CONDITIONS TO EACH CLOSING.

4B(1) Certain Documents. PIM and each Purchaser that is purchasing Notes on such Closing Day shall have received the following, each dated the applicable Closing Day (except as provided in clause (h)).

- (a) The Note(s) to be purchased by such Purchaser;
- (b) an Officer's Certificate from the Company, certifying that the conditions specified in Sections 4B(3), 4B(4) and 4B(5) have been fulfilled;
- (c) certified copies of the resolutions of each Credit Party (or, if such Person is a partnership, its general partner), authorizing the execution and delivery of the Transaction Documents to which such Credit Party is a party (and, in the case of such resolutions of the Company, authorizing the issuance of the applicable Series of Notes by the Company), and of all documents evidencing other necessary corporate or similar action and governmental approvals, if any, with respect to the Transaction Documents and the applicable Series of Notes;
- (d) a certificate of the Secretary or an Assistant Secretary and one other officer of each of the Credit Parties (or, if such Person is a partnership, its general partner), certifying the names and true signatures of the officers of such Person authorized to sign the Transaction Documents to which such Credit Party is a party;
- (e) certified copies of the articles or certificate of incorporation (or similar charter document) and by-laws, operating agreement or partnership agreement, as applicable, of each Credit Party;

(f) favorable opinions of: (i) Lowenstein Sandler LLP, special counsel for the Credit Parties satisfactory to such Purchaser and substantially in the form of Exhibit D-1 attached hereto, and as to such other matters as such Purchaser may reasonably request; (ii) Ballard Spahr LLP, special Maryland counsel for the Credit Parties satisfactory to such Purchaser and substantially in the form of Exhibit D-2 attached hereto, and as to such other matters as such Purchaser may reasonably request; (iii) Fulbright & Jaworski L.L.P., special Texas counsel for the Credit Parties satisfactory to such Purchaser and substantially in the form of Exhibit D-3 attached hereto, and as to such other matters as such Purchaser may reasonably request; and (iv) Brownstein Hyatt Farber Schreck, LLP, special Nevada counsel for the Credit Parties satisfactory to such Purchaser and substantially in the form of Exhibit D-4 attached hereto, and as to such other matters as such Purchaser may reasonably request. The Company hereby directs each such counsel to deliver such opinions, agrees that the issuance and sale of any Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser receiving such an opinion will and is hereby authorized to rely on such opinion;

(g) a favorable opinion of Vedder Price P.C., special counsel for PIM and the Purchasers, as to such matters incident to the matters herein contemplated related to the Series A Notes as such Purchaser reasonably requests;

(h) a good standing or similar certificate for each Credit Party (or its general partner, in the case of a partnership) from the appropriate Governmental Authority of its jurisdiction of organization, dated as of a recent date, and such other evidence of the status of such Persons as such Purchaser may reasonably request; and

(i) additional documents or certificates with respect to legal matters or corporate or other proceedings related to the transactions contemplated hereby as may be reasonably requested by such Purchaser prior to the applicable Closing Day.

4B(2) Payment of Fees. The Company shall have paid to or as directed by PIM any fees due pursuant to or in connection with this Agreement, including the Draw Fee due pursuant to Section 2B(8)(i) and any Delayed Delivery Fee due pursuant to Section 2B(8)(iii).

4B(3) Representations and Warranties. The representations and warranties of the Credit Parties in Section 5 hereof shall, in each case, be correct when made and on and as of such Closing Day.

4B(4) Performance; No Default. Each of the Credit Parties shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at such Closing Day, and after giving effect to the issue and sale of the applicable Series of Notes (and the application of the proceeds thereof pursuant to the requirements of Section 5.14) no Default or Event of Default shall have occurred and be continuing.

4B(5) Changes in Structure. The Company shall not have changed its jurisdiction of organization or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other Person, at any time following the date of the most recent financial statements referred to in Section 5.5.

4B(6) Purchase Permitted By Applicable Law, Etc. Each Purchaser's purchase of Notes on such Closing Day shall (i) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including Regulation T, U or X of the Board of Governors of the Federal Reserve System), and (iii) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Purchaser of Notes on such Closing Day, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as it may reasonably specify to enable it to determine whether such purchase is so permitted.

4B(7) Private Placement Number. A Private Placement number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for each Series of Notes to be issued on the applicable Closing Day.

4B(8) Proceedings and Documents. All corporate, organizational and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to each Purchaser purchasing Notes on the applicable Closing Day and its special counsel, and each such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such counsel may reasonably request.

4C Condition Subsequent. This Agreement and the amendment and restatement of the Prior Agreement effected hereby shall cease to remain in effect (and the Prior Agreement, as in effect immediately prior to the effectiveness of this Agreement, shall thereupon be reinstated) as of December 31, 2013 if there shall not have occurred by such date one or more closings of the purchase and sale of Shelf Notes in an aggregate principal amount of at least \$50,000,000.

5 REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

5.1 Organization; Power and Authority.

Each Credit Party is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each Credit Party has the requisite power and authority to own or hold under lease the Properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver the Transaction Documents to which it is a party and to perform the provisions of such Transaction Documents which it is required to perform. The Company is organized in conformity with the requirements for qualification as a REIT under the Code, and its method of operation enables it to meet the requirements for qualification and taxation as a REIT under the Code.

5.2 Authorization, Etc.

This Agreement, the Notes and the other Transaction Documents to which any Credit Party is a party have been duly authorized by all necessary action on the part of such Credit Party, and each of this Agreement and such other Transaction Documents (other than the Notes) constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of each Credit Party that is party to such Transaction Document enforceable against such Credit Party in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

5.3 Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to PIM by or on behalf of the Company or the other Credit Parties in connection herewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading in light of the circumstances under which they were made, PIM acknowledging that as to any projections furnished to PIM, the Company only represents that the same were prepared on the basis of information and estimates the Company believed to be reasonable at the time of the preparation and delivery thereof. There is no fact known to the Company or any other Credit Party that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings (including the Company's most recent reports on Form 10-Q and Form 10-K and the Company's reports on Form 8-K filed during the period from January 1, 2010 through the date hereof) delivered to PIM by or on behalf of the Company or the other Credit Parties. Since the date of the most recent audited balance sheet delivered pursuant to Section 7.1(b), or if no such balance sheet has been delivered, the most recent audited balance sheet referred to in Section 5.5, there has been no change in the financial condition, operations,

business, Properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to PIM by or on behalf of the Company or the other Credit Parties.

5.4 Organization and Ownership of Equity in Subsidiaries; Affiliates.

(a) Schedule 5.4 contains complete and correct lists as of the date hereof (and as of the date such Schedule is updated from time to time as provided in Section 7.1(d)) (i) of each of the Subsidiaries of the Company, showing, as to each such Person, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares or units of each class issued and outstanding, (ii) of each of the Company's Affiliates, other than such Person's Subsidiaries and other than the other Credit Parties, and (iii) of the Company's directors and senior officers.

10

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien except as disclosed on Schedule 5.4.

(c) Each Subsidiary (other than the Credit Parties) is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the Properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to any legal, regulatory, contractual or other restriction (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law or similar statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

5.5 Financial Statements.

The Company has furnished each Purchaser of the Series A Notes, the Series B Notes and any Accepted Notes with the following financial statements: (i) consolidated balance sheets of the Company and its Subsidiaries as of December 31, 2010, 2011 and 2012 and as of the last day in each of the fiscal years completed thereafter and prior to the date as of which this representation is made or repeated to such Purchaser (other than fiscal years completed within 90 days prior to such date for which audited financial statements have not been released), and consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for each such year, all certified by independent certified public accountants of recognized international standing; and (ii) unaudited consolidated balance sheets of the Company and its Subsidiaries as at the end of the quarterly period (if any) most recently completed prior to such date and after the end of the most recent fiscal year (other than quarterly periods completed within 45 days prior to such date for which financial statements have not been released) and the most recently completed fiscal year end and unaudited consolidated statements of income and cash flows of the Company and its Subsidiaries for the periods from the beginning of the fiscal years in which such quarterly periods are included to the end of such quarterly periods and the comparable quarterly period in the immediately preceding fiscal year. Such financial statements (including any related schedules and/or notes) have been prepared in accordance with GAAP (subject, as to interim statements, to changes resulting from year-end adjustments) consistently applied throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The

11

balance sheets fairly present in all material respects the consolidated financial condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, retained earnings and cash flows fairly present the consolidated financial results of their operations for the periods indicated. The Company and its Subsidiaries do not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in writing to the Purchasers. No event has occurred since the end of the most recent fiscal year for which such audited financial statements have been furnished which has had or could reasonably be expected to have a material adverse effect on the condition (business, financial or otherwise), results of operations, assets, liabilities or prospects of the Company or any of its Subsidiaries.

5.6 Compliance with Laws; Other Instruments, Etc.

The execution, delivery and performance by each Credit Party of the Transaction Documents to which it is a party will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any Property of any Credit Party or any of its Subsidiaries under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter (or similar constitutive documents) or bylaws (or similar documents), or any other agreement or instrument to which any Credit Party or any of its Subsidiaries is bound or by which any Credit Party or any of its Subsidiaries or any of their respective Properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority

applicable to any Credit Party or any of its Subsidiaries, or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to any Credit Party or any of its Subsidiaries.

Neither the Company nor any Subsidiary is in default under the terms of any covenant, indenture or agreement of or affecting such Person or any of its Property, which default, if uncured, could reasonably be expected to have a Material Adverse Effect.

5.7 Governmental Authorizations, Etc.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by any Credit Party of this Agreement, the Notes or the other Transaction Documents to which such Person is a party.

5.8 Litigation; Observance of Agreements, Statutes and Orders.

(a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries or any Property of the Company or any of its Subsidiaries in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws or the USA PATRIOT Act) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

12

5.9 Taxes.

All tax returns required to be filed by the Company or any Subsidiary in any jurisdiction have, in fact, been filed, and all taxes, assessments, fees, and other governmental charges upon the Company or any Subsidiary or upon any of its Property, income or franchises, which are shown to be due and payable in such returns, have been paid, except such taxes, assessments, fees and governmental charges, if any, as are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and as to which adequate reserves established in accordance with GAAP have been provided or where the failure to so file or pay would not cause a Material Adverse Effect. The Company does not know of any proposed additional tax assessment against it or its Subsidiaries for which adequate provisions in accordance with GAAP have not been made on their accounts. Adequate provisions in accordance with GAAP for taxes on the books of the Company and each Subsidiary have been made for all open years, and for its current fiscal period.

5.10 Title to Property; Leases.

(a) The Company and its Subsidiaries have good and sufficient title to their respective Properties (other than Properties which are leased) that individually or in the aggregate are Material, including all such Properties reflected in the most recent audited balance sheet delivered pursuant to Section 7.1(b), or if no such balance sheet has been delivered, the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement.

(b) [Intentionally Omitted].

(c) Schedule 5.10(c) identifies, as of the date hereof (and as of the date such Schedule is updated from time to time as provided in Section 7.1(d)), each Significant Lease, the Property which is demised pursuant to each Significant Lease and the name of each landlord and lessee under each Significant Lease. Except as set forth on Schedule 5.10(c), as of the date hereof (and as of the date such Schedule is updated from time to time as provided in Section 7.1(d)): (x) none of the tenants under Significant Leases on Properties owned by the Company, Material Subsidiaries or any other Subsidiary of the Company was (as of such date or at any other time during the Fiscal Quarter beginning immediately prior to such date) in default for a period in excess of 60 days on the monthly minimum rent payments due under such Significant Leases, and (y) no other tenants on other Leases that in the aggregate generate more than \$6,000,000 in annual minimum rents payable to the Company or its Subsidiaries were (as of such date or at any other time during the Fiscal Quarter beginning immediately prior to such date) in default for a period in excess of 60 days on the monthly minimum rent payments due under such Leases.

13

5.11 Licenses, Permits, Etc.

(a) The Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others.

(b) To the best knowledge of the Company, no product of the Company or any of its Subsidiaries infringes in any material respect any license, permit, franchise, authorization, patent, copyright, proprietary software, service mark, trademark, trade name or other right

owned by any other Person.

(c) To the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, proprietary software, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries.

5.12 Compliance with ERISA.

(a) The Company, each Subsidiary and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. None of the Company, any Subsidiary or any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company, any Subsidiary or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company, any Subsidiary or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or pursuant to section 430 or 436 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term **"benefit liabilities"** has the meaning specified in section 4001 of ERISA and the terms **"current value"** and **"present value"** have the meaning specified in section 3 of ERISA. Following the effective date of the Pension Act, for any Plan which is subject to the Pension Funding Rules, the funding target attainment percentage, within the meaning of Section 303 of ERISA or Section 430 of the Code, for such Plan is not less than 100%.

(c) The Company, the Subsidiaries and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

14

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 715-60 (formerly known as Financial Accounting Standards Board Statement No. 106), without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

5.13 Private Offering.

Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act or the registration requirements of any securities or blue sky laws of any applicable jurisdiction.

5.14 Use of Proceeds; Margin Regulations.

The Company will apply the proceeds of the sale of each Series of Shelf Notes in the manner described in the applicable Request for Purchase with respect to such Series of Shelf Notes. None of the proceeds of the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the terms **"margin stock"** and **"purpose of buying or carrying"** shall have the meanings assigned to them in said Regulation U.

5.15 Existing Indebtedness for Borrowed Money; Future Liens.

(a) Except as described therein, Schedule 5.15 sets forth a complete and correct list as of the date hereof of all outstanding Indebtedness for Borrowed Money of the Company and its Subsidiaries as of September 30, 2013 (including a description of the obligations

15

and obligees, principal amount outstanding and collateral therefor, if any, and Guaranties thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness for Borrowed Money of the Company or any of its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness for Borrowed Money of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness for Borrowed Money of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness for Borrowed Money to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its Property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.1.

(c) As of the date hereof, neither the Company nor any Subsidiary is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness for Borrowed Money of the Company or such Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness for Borrowed Money of the Company or any Subsidiary, except as specifically indicated in Schedule 5.15.

5.16 Foreign Assets Control Regulations, Etc.

(a) Neither the Company nor any Controlled Entity is (i) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by the Office of Foreign Assets Control, United States Department of the Treasury (“**OFAC**”) (an “**OFAC Listed Person**”) (ii) an agent, department, or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, (x) any OFAC Listed Person or (y) any Person, entity, organization, foreign country or regime that is subject to any OFAC Sanctions Program, or (iii) otherwise blocked, subject to sanctions under or engaged in any activity in violation of other United States economic sanctions, including but not limited to, the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Comprehensive Iran Sanctions, Accountability and Divestment Act (“**CISADA**”) or any similar law or regulation with respect to Iran or any other country, the Sudan Accountability and Divestment Act, any OFAC Sanctions Program, or any economic sanctions regulations administered and enforced by the United States or any enabling legislation or executive order relating to any of the foregoing (collectively, “**U.S. Economic Sanctions**”) (each OFAC Listed Person and each other Person, entity, organization and government of a country described in clause (i), clause (ii) or clause (iii), a “**Blocked Person**”). Neither the Company nor any Controlled Entity has been notified that its name appears or may in the future appear on a state list of Persons that engage in investment or other commercial activities in Iran or any other country that is subject to U.S. Economic Sanctions.

(b) No part of the proceeds from the sale of the Notes hereunder constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (i) in connection with any investment in, or any transactions or dealings with, any Blocked Person, or (ii) otherwise in violation of U.S. Economic Sanctions.

(c) Neither the Company nor any Controlled Entity (i) has been found in violation of, charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes under the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act), the USA PATRIOT Act or any other United States law or regulation governing such activities (collectively, “**Anti-Money Laundering Laws**”) or any U.S. Economic Sanctions violations, (ii) to the Company’s actual knowledge after making due inquiry, is under investigation by any Governmental Body for possible violation of Anti-Money Laundering Laws or any U.S. Economic Sanctions violations, (iii) has been assessed civil penalties under any Anti-Money Laundering Laws or any U.S. Economic Sanctions, or (iv) has had any of its funds seized or forfeited in an action under any Anti-Money Laundering Laws. The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future Anti-Money Laundering Laws and U.S. Economic Sanctions.

(d) (i) Neither the Company nor any Controlled Entity (1) has been charged with, or convicted of bribery or any other anti-corruption related activity under any applicable law or regulation in a United States of America or any non-United States of America country or jurisdiction, including but not limited to, the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010 (collectively, “**Anti-Corruption Laws**”), (2) to the Company’s best knowledge, is under investigation by any United States of America or non-United States of America Governmental Body for possible violation of Anti-Corruption Laws, (3) has been assessed civil or criminal penalties under any Anti-Corruption Laws or (4) has been or is the target of sanctions imposed by the United Nations or the European Union.

(ii) To the Company’s best knowledge, neither the Company nor any Controlled Entity has, within the last five years, directly or indirectly offered, promised, given, paid or authorized the offer, promise, giving or payment of anything of value to a Governmental Official or a commercial counterparty for the purposes of: (1) influencing any act, decision or failure to act by such Governmental Official in his or her official capacity or such commercial counterparty; (2) inducing a Governmental Official to do or omit to do any act in violation of the Governmental Official’s lawful duty; or (3) inducing a Governmental Official or a commercial counterparty to use his or her influence with a government or instrumentality to affect any act or decision of such government or entity; in each case which is contrary to applicable law; and

(iii) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would cause any holder of a Note to be in violation of applicable Anti-Corruption Laws. The

5.17 Status under Certain Statutes.

Neither the Company nor any of its Subsidiaries is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

5.18 Environmental Matters.

(a) Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary has knowledge of any claim or has knowledge that any of its tenants has received any notice of any claim, and neither the Company nor any Subsidiary has knowledge that any proceeding has been instituted raising any claim against any tenant of the Company or its Subsidiaries with respect to their use of any real properties or other assets now or formerly owned, leased or operated by any of the Company or its Subsidiaries, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(c) Neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(d) Neither the Company nor any Subsidiary has, and to the knowledge of the Company and its Subsidiaries none of its tenants has, stored any material quantities of Hazardous Materials on real properties now or formerly owned, leased or operated by any of the Company or its Subsidiaries; and neither the Company nor any Subsidiary has, and to the knowledge of the Company and its Subsidiaries none of its tenants or any other Person has, disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect;

(e) To the knowledge of the Company and its Subsidiaries, the tenants of the Company and its Subsidiaries have obtained all governmental approvals required for the operation of the Properties under applicable Environmental Laws, except such as could not reasonably be expected to result in a Material Adverse Effect; and

(f) To the knowledge of the Company, all buildings on all real properties now owned, leased or operated by the Company or any Subsidiary are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

5.19 Stock of the Company.

As of the date hereof, the entire outstanding capital stock of the Company consists of: (i) Series C Cumulative Convertible Preferred Stock, 2,000,000 shares outstanding; and (ii) Common Stock, 34,751,910 shares outstanding.

5.20 Condition of Property; Casualties; Condemnation.

To the knowledge of the Company or its Material Subsidiaries, and except such as has not had, and could not reasonably be expected to have, a Material Adverse Effect, each Property owned by them (a) is in good repair, working order and condition, normal wear and tear excepted, (b) is free of structural defects, (c) is not subject to material deferred maintenance, and (d) has and will have all building systems contained therein in good repair, working order and condition, normal wear and tear excepted. To the knowledge of the Company or of any of its Subsidiaries, and except such as has not had, and could not reasonably be expected to have, a Material Adverse Effect, none of the Properties owned by them is currently affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of Property or cancellation of contracts, permits or concessions by a Governmental Authority, riot, activities of armed forces or acts of God or of any public enemy. No condemnation or other like proceedings that has had, or could reasonably be expected to result in, a Material Adverse Effect, are pending and served nor, to the knowledge of the Company, threatened against any Property owned by it or any of its Subsidiaries in any manner whatsoever. No casualty has occurred to any such Property that could reasonably be expected to have a Material Adverse Effect.

5.21 Legal Requirements and Zoning.

To the knowledge of the Company and its Subsidiaries, the use and operation of each Property owned by the Company or its Subsidiaries constitutes a legal use under applicable zoning regulations (as the same may be modified by special use permits or the granting of variances) and

complies in all material respects with all Legal Requirements, and does not violate in any material respect any material approvals, material restrictions of record or any material agreement affecting any such Property (or any portion thereof).

5.22 [Intentionally Omitted].

5.23 Solvency.

The Company and each of its Subsidiaries are solvent, able to pay their debts as they become due, and have sufficient capital to carry on their business and all businesses in which they are about to engage.

5.24 Hostile Tender Offers.

None of the proceeds of the sale of any Notes will be used to finance a Hostile Acquisition.

5.25 UAP Properties.

Schedule 5.25 hereto identifies each UAP Property.

6 REPRESENTATIONS OF THE PURCHASERS.

6.1 Purchase for Investment. Each Purchaser of any Series of Shelf Notes severally represents that it is purchasing such Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each such Purchaser understands that such Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register such Notes.

6.2 Source of Funds.

Each Purchaser of any Series of Shelf Notes severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "**Source**") to be used by such Purchaser to pay the purchase price of such Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("**PTE**") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "**NAIC Annual Statement**")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1, or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the "**QPAM Exemption**")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, as of the last day of its most recent calendar quarter, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "related" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM, and (ii) the names of any employee benefit plans whose assets are included in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of

such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a “plan(s)” (within the meaning of Part IV(h) of PTE 96-23 (the “**INHAM Exemption**”)) managed by an “in-house asset manager” or “INHAM” (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of “control” in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM, and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms “employee benefit plan”, “governmental plan”, and “separate account” shall have the respective meanings assigned to such terms in Section 3 of ERISA.

7 INFORMATION AS TO THE COMPANY.

The Company covenants that during the Issuance Period and so long thereafter as any Notes remain outstanding or any amounts owing under the Transaction Documents remain unpaid:

7.1 Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

21

(a) Quarterly Statements — as soon as available, and in any event within 45 days after the close of each of the first three (3) Fiscal Quarters of each Fiscal Year of the Company a copy of the consolidated balance sheet of the Company and its Subsidiaries as of the last day of such Fiscal Quarter and the consolidated statements of income and cash flows of the Company and its Subsidiaries for such quarter and for the fiscal year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous Fiscal Year, prepared by the Company in accordance with GAAP and certified to by its chief financial officer or another officer of the Company acceptable to the Required Holders (the filing within the time period specified above of the Company’s Form 10-Q for such Fiscal Quarter on the EDGAR system shall satisfy this requirement);

(b) Annual Statements — as soon as available, and in any event within 90 days after the end of each Fiscal Year of the Company, duplicate copies of

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, and

(ii) consolidated statements of income, changes in stockholders’ equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances,

provided that the filing within the time period specified above of the Company’s Form 10-K for such Fiscal Year (together with the Company’s annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act, provided that such annual report need not be filed until required to be filed pursuant to SEC requirements) prepared in accordance with the requirements therefor and filed with the SEC shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) [Intentionally Omitted].

(d) Quarterly Operating Reports — within 45 days after the last day of each of the first three Fiscal Quarters and within 90 days after the last day of the fourth Fiscal Quarter of the year: (i) a list (a) of all newly formed or acquired Subsidiaries during such quarter (such list shall contain the information relative to such new Subsidiaries as set forth in Schedule 5.4 hereto and upon receipt of which Schedule 5.4 shall be deemed amended to include references to such Subsidiaries), and (b) identifying any Subsidiary whose capital stock or other equity interests were transferred during such quarter as permitted by Section 10.4(c), together with the name of the transferor and transferee thereof; (ii) a list of newly executed Significant Leases during such quarter (upon receipt of which, Schedule 5.10(c) shall be deemed amended to include references

22

to such Significant Lease); (iii) a copy of any notice of a material default or any other material notice (including, without limitation, property condition reviews) received by the Company or any Guarantor from any ground lessor under a Significant Lease during such quarter; and (iv) a schedule showing for such quarter (a) any Significant Lease that was or is continuing to be in default with respect to monthly minimum rent payments in excess of 60 days, and (b) any other Leases that in the aggregate generate more than \$6,000,000 in annual minimum rents payable to the Company or its Subsidiaries that were or are continuing to be in default for a period in excess of 60 days on the monthly minimum rent payments due under such Significant Leases;

(e) Annual Projections — as soon as available, and in any event within 90 days after the last day of each Fiscal Year of the Company, a copy of the Company's consolidated projections for the then current fiscal year of revenues, expenses and balance sheet on a quarter-by-quarter basis, with such projections in reasonable detail prepared by the Company and in form satisfactory to the Required Holders (which shall include a summary of all significant assumptions made in preparing such business plan);

(f) SEC and Other Reports — promptly upon their becoming available, (i) one copy of each financial statement, report or notice sent by the Company or any Subsidiary to its principal lending banks as a whole (excluding any information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability), and (ii) each report on Form 8-K (or any similar successor form) and all amendments thereto (which documents may be delivered by email) filed by the Company or any Subsidiary with the SEC;

(g) Notice of Default or Event of Default — promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(h) Notices from Governmental Authority — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(i) Other Notices — promptly after knowledge thereof shall have come to the attention of any Responsible Officer of the Company, written notice of any threatened or pending litigation or governmental or arbitration proceeding or labor controversy against the Company or any Subsidiary or any of their Property which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

(j) ERISA Matters — promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

23

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multi-employer Plan that such action has been taken by the PBGC with respect to such Multi-employer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect; and

(k) Requested Information — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

7.2 Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance — the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.2, Section 10.3, Section 10.10 and the requirements of any additional Financial Covenants incorporated herein pursuant to Section 10.11 during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, (i) the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence, and (ii) a reconciliation from GAAP, as reflected in the statements then being furnished, to the calculation of the financial covenants in Section 10.2, Section 10.3, Section 10.10 and any additional Financial Covenants incorporated herein pursuant to Section 10.11, after giving effect to the

(b) Event of Default — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

7.3 Visitation. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company’s officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

8 PREPAYMENT OF THE NOTES.

The Series A Notes, the Series B Notes and any Shelf Notes shall be subject to required prepayment as and to the extent provided in Section 8.1. The Series A Notes, the Series B Notes and any Shelf Notes shall also be subject to prepayment under the circumstances set forth in Section 8.2.

8.1 Required Prepayments.

(a) Series A-1 Notes. As provided therein, the entire unpaid principal balance of the Series A-1 Notes shall be due and payable on the stated maturity date thereof.

(b) Series A-2 Notes. On January 14, 2014 and on each January 14 thereafter to and including January 14, 2018 the Company will prepay \$4,166,666.67 principal amount (or such lesser principal amount as shall then be outstanding) of the Series A-2 Notes at par and without payment of the Make-Whole Amount or any premium; provided that upon any partial prepayment of the Series A-2 Notes pursuant to Section 8.2 or any partial purchase of Series A-2 Notes pursuant to Section 8.5, the principal amount of each required prepayment of the Series A-2 Notes becoming due under this Section 8.1(b) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series A-2 Notes is reduced as a result of such prepayment or purchase.

(c) Series B Notes. The Series B Notes shall be subject to required prepayments set forth in the Notes of such Series; provided that upon any partial prepayment of the Series B Notes pursuant to Section 8.2 or any partial purchase of Series B Notes pursuant to Section 8.5, the principal amount of each required prepayment of the Series B Notes becoming due under this Section 8.1(c) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of such Note is reduced as a result of such prepayment or purchase.

(d) Shelf Notes. Each Series of Shelf Notes shall be subject to required prepayments, if any, set forth in the Notes of such Series; provided that upon any partial prepayment of any Series of Shelf Notes pursuant to Section 8.2 or any partial purchase of any Series of Shelf Notes pursuant to Section 8.5, the principal amount of each required prepayment thereof becoming due on and after the date of such partial prepayment or purchase shall be reduced in the same proportion as the aggregate principal amount of such Note is reduced as a result of such prepayment or purchase.

8.2 Optional Prepayments with Make-Whole Amount.

The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes of any Series (to the exclusion of all other Series), in an amount not less than \$1,000,000 (and increments of \$100,000 in excess thereof) of the aggregate principal amount of the Notes of such Series then outstanding in the case of a partial prepayment, or such lesser principal amount of the Notes of such Series as shall then be outstanding, at 100% of the principal amount so prepaid, plus interest thereon to the prepayment date and the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes of such Series written notice of each optional prepayment under this Section 8.2 not less than 5 Business Days and not more than 60 days prior to the date (which shall be a Business Day) fixed for such prepayment. Each such notice shall specify such date, the Series of Notes to be prepaid, the

aggregate principal amount of such Notes to be prepaid on such date, the principal amount of each Note of such Series held by the registered holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid.

8.3 Allocation of Partial Prepayments.

In the case of each partial prepayment of the Notes of each Series under Section 8.1(b) or Section 8.2, the principal amount prepaid shall be allocated among the Notes of such Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore prepaid.

8.4 Maturity; Surrender, Etc.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount

26

accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

8.5 Purchase of Notes.

The Company will not, and will not permit any Affiliate to, purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes of any Series except (i) upon the payment or prepayment of the Notes of such Series in accordance with the terms of this Agreement and the Notes of such Series, or (ii) pursuant to a written offer to purchase any outstanding Notes of such Series made by the Company or an Affiliate pro rata to the holders of all Notes of such Series at the time outstanding upon the same terms and conditions. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement, and no Notes may be issued in substitution or exchange for any such Notes.

8.6 Make-Whole Amount.

The term “**Make-Whole Amount**” means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“**Called Principal**” means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

“**Discounted Value**” means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“**Reinvestment Yield**” means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, for actively traded United States treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date on the display designated as “Page PX1” on Bloomberg Financial Markets (“**Bloomberg**”) (or, if Bloomberg shall cease to report such yields on Page PX1 or shall cease to be PIM’s customary source of information for calculating make-whole amounts on privately placed notes, then such source as is then PIM’s customary source of such information), or if such yields shall not be reported as of

27

such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the second Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded United States treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting United States treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice, and (b) interpolating linearly between (1) the actively traded United States treasury security with the maturity closest to and greater than the Remaining Average Life of such Called Principal, and (2) the actively traded United States treasury security with the maturity closest to and less than the Remaining Average Life of such Called Principal. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

“**Remaining Average Life**” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each

Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or Section 12.1.

“Settlement Date” means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2, or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

9 AFFIRMATIVE COVENANTS

The Company covenants that during the Issuance Period and for so long thereafter as any of the Notes are outstanding or any amounts owing under the Transaction Documents remain unpaid:

9.1 Compliance with Law. (a) Without limiting Section 10.13, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA PATRIOT Act, Environmental Laws, and the other laws and regulations that are referenced in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective Properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that

28

non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Without limiting the agreements set forth in Section 9.1(a) above, for each of its owned Properties, respectively, the Company will, and will cause each of its Subsidiaries to, require that each tenant and subtenant, if any, of any of the Properties or any part thereof, at all times, do the following to the extent the failure to do so, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect: (i) comply in all material respects with all applicable Environmental Laws; (ii) obtain and maintain in full force and effect all material governmental approvals required by any applicable Environmental Law for operations at each of the Properties; (iii) cause to be cured any material violation by it or at any of the Properties of applicable Environmental Laws; (iv) not allow the presence or operation at any of the Properties of any (1) landfill or dump or (2) hazardous waste management facility or solid waste disposal facility as defined pursuant to RCRA or any comparable state law; (v) not manufacture, use, generate, transport, treat, store, release, dispose or handle any Hazardous Material at any of the Properties except in the ordinary course of its business and in de minimis amounts; (vi) within ten (10) Business Days notify the holders of Notes in writing of, and provide any reasonably requested documents upon learning of, any of the following in connection with the Company or any Subsidiary or any of the Properties: (1) any material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law, (2) any material Environmental Claim, (3) any material violation of an Environmental Law or material Release, threatened Release or disposal of a Hazardous Material, (4) any restriction on the ownership, occupancy, use or transferability arising pursuant to any (x) Release, threatened Release or disposal of a Hazardous Material or (y) Environmental Law, or (5) any environmental, natural resource, health or safety condition, which could reasonably be expected to have a Material Adverse Effect; (vii) conduct at its expense any investigation, study, sampling, testing, abatement, cleanup, removal, remediation or other response action necessary to remove, remediate, clean up or abate any material Release, threatened Release or disposal of a Hazardous Material as required by any applicable Environmental Law; (viii) abide by and observe any restrictions on the use of the Properties imposed by any governmental authority as set forth in a deed or other instrument affecting the Company’s or any Subsidiary’s interest therein; (ix) promptly provide or otherwise make available to the holders of Notes any reasonably requested environmental record concerning the Properties which the Company or any Subsidiary possesses or can reasonably obtain; and (x) perform, satisfy, and implement any operation or maintenance actions required by any governmental authority or Environmental Law, or included in any no further action letter or covenant not to sue issued by any governmental authority under any Environmental Law.

9.2 Insurance. The Company will, and will cause each of its Subsidiaries to, maintain and cause their respective tenants to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business, similarly situated, and operating like **Properties**. The Company shall, upon the request of the Required Holders, furnish to the holders of Notes certificates of insurance setting forth in summary form the nature and extent of the insurance maintained on the Properties.

29

9.3 Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept (including, without limitation, by their respective tenants), their respective Properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its

Properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9.4 Payment of Taxes and Claims. The Company and Credit Parties will cause each of their respective tenants to duly pay and discharge, all taxes, rates, assessments, fees, and governmental charges upon or against it or its Property relating to such Property, that individually or collectively would materially impair the value of such Property, and in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their Properties, assets, income or franchises, to the extent the same have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on Properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax, assessment, charge, levy or claim if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary, or (ii) the nonpayment of all such taxes, assessments, charges, levies and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

9.5 Maintenance of Existence, Etc. Subject to Section 10.3, the Company will at all times preserve and keep in full force and effect its corporate or similar existence and the corporate or similar existence of each of its Subsidiaries (unless merged into the Company or a Wholly-Owned Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

9.6 Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary, as the case may be.

9.7 Maintenance of REIT Status. The Company will, at all times, conduct its affairs and the affairs of its Subsidiaries in a manner so as to continue to qualify as a REIT and elect to be treated as a REIT under all applicable laws, rules and regulations.

9.8 Listing of Common Stock; Filing of Reports. The Company will (i) at all times cause its common stock to be duly listed on the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers Automated Quotation or other national stock exchange, and (ii) timely file all reports required to be filed by it with the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers Automated Quotation and the Securities and Exchange Commission.

9.9 Additional Guarantors. Concurrent with any Person becoming a guarantor or other obligor under the Credit Agreement or any other Principal Credit Facility, the Company shall cause such Person to execute and deliver a Joinder to Multiparty Guaranty, together with such other instruments, documents, certificates, and opinions reasonably required by the Required Holders in connection therewith.

9.10 [Intentionally Omitted].

9.11 Information Required by Rule 144A. Upon the request of the holder of any Note, the Company will promptly provide to such holder, and to any Qualified Institutional Buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act.

9.12 UAP Properties. Upon not less than ten (10) Business Days prior written notice from the Company to the holders of Notes, the Company may from time to time designate that a Property be added (subject to the other requirements for a Property otherwise qualifying as a UAP Property) or deleted as a UAP Property. Such notice shall be accompanied by a certificate certifying that immediately before and after giving effect to such additions or deletions the Company is in compliance with Section 10.10 on a pro-forma basis as of the then most recently ended Fiscal Quarter and no Default or Event of Default exists or would result. Upon receipt by the holders of Notes of the forgoing, Schedule 5.25 hereof shall be deemed to have been updated to reflect the deletion or addition, as applicable.

10 NEGATIVE COVENANTS.

The Company covenants that, during the Issuance Period and for so long thereafter as any of the Notes are outstanding or any amounts owing under the Transaction Documents remain unpaid:

10.1 Liens, Etc. The Company will not, nor shall it permit any Subsidiary to, create, incur or permit to exist any Lien of any kind on any Property owned by any such Person; provided, however, that the foregoing shall not apply to nor operate to prevent any Permitted Liens. Without limitation of the immediately preceding sentence, the Company will not permit any Principal Credit Facility (including the Credit Agreement) to be secured by any consensual Lien unless the Notes are simultaneously secured pursuant to terms and provisions, including an intercreditor agreement, satisfactory to the Required Holders.

10.2 Investments, Acquisitions, Loans and Advances. The Company will not, nor will it permit any Subsidiary to, (i) directly or indirectly, make, retain or have outstanding any investments (whether through the purchase of stock or obligations or otherwise) in any Person, real property or improvement on real property, or any loans, advances, lines of credit, mortgage loans or other financings (including pursuant to sale/leaseback transactions) to any other Person, or (ii) acquire any real property, improvements on real property or all or any substantial part of the assets or business of any other Person or division thereof; provided, however, that the foregoing shall not apply to nor operate to prevent:

- (a) investments in direct obligations of the United States of America or any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America, provided that any such obligations shall mature within one year of the date of issuance thereof;
- (b) investments in commercial paper rated at least P-1 by Moody's and at least A-1 by S&P maturing within one year of the date of issuance thereof;
- (c) investments in certificates of deposit issued by any Lender (as defined in the Credit Agreement) or by any United States commercial bank having capital and surplus of not less than \$100,000,000 which have a maturity of one year or less;
- (d) investments in repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in subsection (a) above entered into with any bank meeting the qualifications specified in subsection (c) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System;
- (e) investments in money market funds that invest solely, and which are restricted by their respective charters to invest solely, in investments of the type described in the immediately preceding subsections (a), (b), (c), and (d) above;
- (f) the Company's investments from time to time in its Subsidiaries, and investments made from time to time by a Subsidiary in one or more of its Subsidiaries;
- (g) intercompany advances made from time to time among the Company and its Subsidiaries in the ordinary course of business to finance working capital needs;
- (h) investments in Permitted Acquisitions, other than those described in clauses (j), (k) or (l) below;
- (i) investments held by the Company and its Subsidiaries as of the date hereof and disclosed in Schedule 10.2;
- (j) excluding investments in joint ventures existing as of or prior to the date hereof and disclosed on Schedule 10.2, investments in joint ventures which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 15% of the Total Asset Value of the Company and its Subsidiaries at such time;

- (k) excluding Assets Under Development existing as of or prior to the date hereof and disclosed on Schedule 10.2, investments in Assets Under Development which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 20% of the Total Asset Value of the Company and its Subsidiaries at such time;
- (l) excluding investments in Redevelopment Assets existing as of or prior to the date hereof and disclosed on Schedule 10.2, investments in Redevelopment Asset which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 15% of the Total Asset Value of the Company and its Subsidiaries at such time;
- (m) investments received in connection with a workout of any obligation owed to the Company or its Subsidiaries; and
- (n) investments other than those otherwise permitted under this Section in an amount not to exceed in the aggregate at any one time outstanding 15% of the Total Asset Value of the Company and its Subsidiaries at such time.

Investments made after the date hereof of the type described in Sections (j), (k), (l) and (n) immediately preceding shall at no time exceed in the aggregate at any one time outstanding 25% of the Total Asset Value of the Company and its Subsidiaries at such time. In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

10.3 Mergers, Consolidations and Sales. The Company will not merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or a series of transactions) any of its Property (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, any Person, or permit any Subsidiary to do so; provided, however, that the Company may merge or consolidate with another Person, including a Subsidiary, if (A) the Company is the surviving corporation, (B) the Company will be in pro forma compliance with all provisions of this Agreement upon and after such merger or consolidation, and (C) the Company will not engage in any

material line of business substantially different from that engaged in on the date hereof and; provided further, that so long as no Default or Event of Default exists this Section shall not apply to nor operate to prevent:

(a) the sale, transfer, lease or other disposition of Property of the Company and its Subsidiaries to one another in the ordinary course of its business;

(b) the merger of any Subsidiary with and into the Company or any other Subsidiary, provided that, in the case of any merger involving the Company, the Company is the corporation surviving the merger;

33

(c) the sale, transfer or other disposition of (i) any tangible personal property that, in the reasonable business judgment of the Company or its Subsidiary, has become obsolete or worn out, and which is disposed of in the ordinary course of business, or (ii) for the avoidance of doubt, capital stock of the Company held by the Company as treasury stock; and

(d) the sale, transfer, lease or other disposition of Property of the Company or any Subsidiary (including any disposition of Property as part of a sale and leaseback transaction); provided, that if such sale, transfer, lease or disposition during any Fiscal Quarter exceeds 2% of the Applicable Total Asset Value and together with any other sales, transfers, leases or dispositions made during such Fiscal Quarter in the aggregate exceed an amount equal to 10% of the Applicable Total Asset Value, then for such sales, transfers, leases or dispositions, the Company shall provide to the holders of Notes covenant calculations for the covenants contained in Section 10.10, showing that, after giving effect to such sales, transfers, leases or dispositions, the Company shall be in pro forma compliance with such covenants for the Fiscal Quarter then most recently ended for which financial statement have been provided hereunder.

10.4 Maintenance of Subsidiaries. The Company shall not assign, sell or transfer, nor shall it permit any Subsidiary to issue, assign, sell or transfer, any shares of capital stock or other equity interests of a Subsidiary; provided, however, that the foregoing shall not operate to prevent (a) Liens on the capital stock or other equity interests of Subsidiaries granted to a collateral agent for the benefit of the holders from time to time of the Notes and the Lenders under (and as defined in) the Credit Agreement (subject to compliance with Section 10.1), (b) the issuance, sale, and transfer to any person of any shares of capital stock of a Subsidiary solely for the purpose of qualifying, and to the extent legally necessary to qualify, such person as a director of such Subsidiary, and (c) any assignment, sale or transfer of the shares of capital stock or other equity interests of a Subsidiary if the conveyance, transfer, lease or other disposition of all of the assets of such Subsidiary would be permitted by Sections 10.3(a), (b) or (d) above.

10.5 No Burdensome Contracts With Affiliates. The Company shall not, nor shall it permit any Subsidiary to, enter into any contract, agreement or business arrangement with any of its Affiliates (other than with Wholly-owned Subsidiaries) on terms and conditions which are less favorable to the Company or such Subsidiary than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other.

10.6 No Changes in Fiscal Year. The fiscal year of the Company and its Subsidiaries ends on December 31st of each year; and the Company shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis.

10.7 Change in the Nature of Business. The Company will not, nor shall it permit any Subsidiary to, engage in any business or activity if as a result the general nature of the business of the Company and its Subsidiaries would be changed in any material respect from the general nature of the business engaged in by it as of the date hereof. As of the date hereof, the general nature of the business of the Company and its Subsidiaries is primarily the business of the acquisition, financing and ownership of Senior Housing Assets and other business activities incidental thereto.

34

10.8 Use of Proceeds of Notes. The Company will not use the credit extended under this Agreement for any purpose other than solely the purposes set forth in, or otherwise contemplated by, Section 5.14 hereof.

10.9 No Restrictions. Except as provided herein, the Company will not, nor will it permit any Subsidiary (except for bankruptcy remote subsidiaries established in connection with (i) any securitization or participation transaction or with any Permitted Lien, or (ii) any ownership of fee simple real estate Properties not exceeding \$200,000,000 individually or in the aggregate) to, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of the Company or any Subsidiary to: (a) pay dividends or make any other distributions on any Subsidiary's capital stock or other equity interests owned by the Company or any other Subsidiary, (b) pay any indebtedness owed to the Company or any other Subsidiary, (c) make loans or advances to the Company or any other Subsidiary, (d) transfer any of its Property to the Company or any other Subsidiary, provided however, that the foregoing does not impose any limitation on transfers of property that is subject to a Permitted Lien, or (e) guarantee the obligations evidenced by the Notes or under this Agreement and/or grant Liens on its assets to a collateral agent for the benefit of the holders from time to time of the Notes and the Lenders under (and as defined in) the Credit Agreement as required by the Transaction Documents.

10.10 Financial Covenants.

(a) **Maximum Total Indebtedness to Total Asset Value Ratio.** As of the last day of each Fiscal Quarter of the Company, the Company shall not permit the ratio of Total Indebtedness to Total Asset Value to be greater than 0.50 to 1.00.

(b) Maximum Secured Debt to Total Asset Value Ratio. As of the last day of each Fiscal Quarter of the Company, the Company shall not permit the ratio of Secured Debt to Total Asset Value to be greater than 0.35 to 1.00.

(c) Maximum Unsecured Debt to Unencumbered Asset Pool Value. As of the last day of each Fiscal Quarter of the Company, the Company shall not permit the ratio of Unsecured Debt of the Company and its Subsidiaries to Unencumbered Asset Pool Value to be greater than 0.60 to 1.00.

(d) Minimum EBITDA to Fixed Charges Ratio. As of the last day of each Rolling Period of the Company, the Company shall not permit the ratio of EBITDA for such Rolling Period to Fixed Charges for such Rolling Period to be less than 1.50 to 1.00.

(e) Maximum Secured Recourse Debt to Total Asset Value Ratio. As of the last day of each Fiscal Quarter of the Company, the Company shall not permit the ratio of Secured Recourse Debt to Total Asset Value to be greater than 0.10 to 1.00.

(f) Maintenance of Tangible Net Worth. The Company shall not permit at any time Tangible Net Worth to be less than the sum of (a) \$385,000,000 plus (b) 80% of the aggregate net proceeds received by the Company or any of its Subsidiaries after May 5, 2011 in connection with any offering of capital stock or other equity interests of the Company or the Subsidiaries, but only to the extent that such net proceeds are not used to redeem existing capital stock or other equity interests of the Company or the Subsidiaries.

35

(g) Floating Rate Debt. On any date, the Company and its Subsidiaries shall not, on a consolidated basis, have outstanding Indebtedness for Borrowed Money that is neither at a fixed rate nor hedged pursuant to a derivative contract greater than 40% of Total Asset Value.

(h) Minimum Eligible Property NOI to Interest Expense on Unsecured Debt. As of the last day of each Rolling Period of the Company, the Company shall not permit the ratio of Eligible Property NOI for such Rolling Period to Interest Expense on Unsecured Debt for such Rolling Period to be less than 2.25 to 1.00.

10.11 Two-Way Most Favored Lender. If at any time after the date hereof the Credit Agreement is amended or otherwise modified, or any agreement related to the Credit Agreement is entered into or is amended or otherwise modified, and as a result of any of the foregoing any Financial Covenant for the Bank Facility is modified (whether in a manner to be more beneficial or less beneficial to the lenders under the Credit Agreement) or eliminated, or any Financial Covenant is added for the Bank Facility (in each such case, a “**Modified Bank Financial Covenant**”), then (i) the corresponding Financial Covenant in this Agreement shall be deemed automatically modified in such manner or eliminated, as the case may be, or such additional Financial Covenant for the Bank Facility shall be deemed automatically incorporated by reference, in each case mutatis mutandis, as if such modified or additional Financial Covenant were set forth fully herein or such eliminated Financial Covenant were deleted herefrom, as applicable, and (ii) the Company shall promptly, and in any event within five (5) Business Days after entering into any such Modified Bank Financial Covenant, advise the holders of Notes in writing of such Modified Bank Financial Covenant. Thereafter, upon the request of the Required Holders, the Company shall enter into an amendment to this Agreement with the Required Holders evidencing the incorporation of such Modified Bank Financial Covenant, it being agreed that any failure to make such request or to enter into any such amendment shall in no way qualify or limit the effectiveness of the deemed modification or elimination, as the case may be, of the applicable Financial Covenant in this Agreement, or the incorporation by reference into this Agreement of the applicable additional Financial Covenant, in each case as described in clause (i) of the immediately preceding sentence.

Notwithstanding anything to the contrary in the immediately preceding paragraph of this Section 10.11: (a) no such modification of a Financial Covenant hereunder that would be less beneficial to the holders of the Notes, and no such elimination hereunder of a Financial Covenant, shall be effective if a Default or Event of Default has occurred and is continuing immediately prior to the time such Modified Bank Financial Covenant becomes effective; (b) no modification or series of modifications effected pursuant to the provisions of this Section 10.11 shall be effective to (w) increase the maximum permitted ratio of Total Indebtedness to Total Asset Value as set forth in Section 10.10(a) of this Agreement to a level greater than 0.60 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.10(a) from this Agreement, (x) increase the maximum permitted ratio of Secured Debt to Total Asset Value as set forth in Section 10.10(b) of this Agreement to a

36

level greater than 0.40 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.10(b) from this Agreement, (y) (i) increase the maximum permitted ratio of Unsecured Debt of the Company and its Subsidiaries to Unencumbered Asset Pool Value as set forth in Section 10.10(c) of this Agreement to a level greater than 0.6667 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement), or (ii) modify the definition of “Capitalization Rate” such that the capitalization rate for ALFs would be lower than 7.00%, the capitalization rate for continuum of care facilities would be lower than 7.50% or any capitalization rate set forth in such definition on the date hereof as 10% would be lower than 8.50%, or (iii) eliminate such Financial Covenant set forth in Section 10.10(c) from this Agreement unless (1) such Financial Covenant is replaced with a Financial Covenant prohibiting the ratio of Total Asset Value (but computed solely for unencumbered assets of the Company and its Subsidiaries) to Unsecured Debt, or a formulation for such replacement Financial Covenant which is substantially similar thereto, from being less than 1.50 to 1.00 as of the last day of each Fiscal Quarter of the Company, (2) a customary priority debt covenant satisfactory to the Required Holders is added to Section 10.10 and (3) Section 10.1 is modified in a manner consistent with such newly added priority debt covenant and reasonably satisfactory to the Required Holders, provided that if such Financial Covenant set forth in Section 10.10(c) is eliminated as provided in this clause (y)(iii), then the

immediately preceding clauses (y)(i) and (y)(ii) will not be applicable or (z) decrease the minimum required ratio of EBITDA for any Rolling Period to Fixed Charges for such Rolling Period as set forth in Section 10.10(d) of this Agreement to a level less than 1.50 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.10(d) from this Agreement; and (c) in the event the Bank Facility is terminated, all Financial Covenants hereunder shall be unaffected and shall remain in effect in the same manner as they existed immediately prior to such termination.

10.12 Redemption of Stock, Etc. The Company will not, and will not permit any Subsidiary to, (a) redeem, purchase or otherwise acquire, refinance or repay any preferred stock of the Company or any Subsidiary if an Event of Default exists at such time or immediately after giving effect thereto, or (b) redeem, purchase or otherwise acquire, refinance or repay any preferred stock of the Company or any Subsidiary with the proceeds from, or in exchange for, the issuance of capital stock which is mandatorily redeemable, preferred stock which is redeemable at the election of the holder thereof or preferred stock with respect to which any holder thereof has a put or similar right to require the Company or any Subsidiary to purchase, re-purchase or otherwise acquire such preferred stock.

10.13 Terrorism Sanctions Regulations. The Company will not and will not permit any Controlled Entity (a) to become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or any Person that is the target of sanctions imposed by the United Nations or by the European Union, or (b) directly or indirectly to have any investment in or engage in any dealing or transaction (including, without limitation, any investment, dealing or transaction involving the proceeds of the Notes) with any Person if such investment, dealing or transaction (i) would cause any holder to be in violation of any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any

U.S. Economic Sanctions, or (c) to engage, nor shall any Affiliate of either engage, in any activity that could subject such Person or any holder to sanctions under CISADA or any similar law or regulation with respect to Iran or any other country that is subject to U.S. Economic Sanctions.

11 EVENTS OF DEFAULT.

An “**Event of Default**” shall exist if any of the following conditions or events shall occur and be continuing:

- (a) The Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or
- (b) the Company defaults in the payment of any interest on any Note for more than three Business Days after the same becomes due and payable; or
- (c) the Company defaults in the performance of or compliance with any term contained in Sections 9.5 (to the extent that Section 9.5 pertains to the maintenance and keeping in full force and effect of the Company’s existence), 9.9 or 10; or
- (d) any Credit Party defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) or in any other Transaction Document and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default, and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a “notice of default” and to refer specifically to this paragraph (d) of Section 11); or
- (e) any representation or warranty made in writing by or on behalf of any Credit Party or by any officer of any Credit Party in this Agreement or in any other Transaction Document or in any writing furnished in connection with the transactions contemplated hereby or thereby proves to have been false or incorrect in any material respect on the date as of which made; or
- (f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness for Borrowed Money that is outstanding beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness for Borrowed Money or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness for Borrowed Money has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness for Borrowed Money to be), due and payable before its stated maturity or before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness for Borrowed Money to convert such Indebtedness for Borrowed Money into equity interests), (x) the Company or any Subsidiary has become

obligated to purchase or repay Indebtedness for Borrowed Money before its regular maturity or before its regularly scheduled dates of payment, or (y) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Indebtedness for Borrowed Money; provided that the aggregate amount of all Indebtedness for Borrowed Money to which such a payment default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or resale to the Company or any Subsidiary) shall occur and be continuing exceeds 2% of the Applicable Total Asset Value; or

(g) the Company or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of the Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of the Subsidiaries, or any such petition shall be filed against the Company or any of the Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) (a) a final judgment or judgments for the payment of money aggregating in excess of 2% of the Applicable Total Asset Value are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 30 days after the expiration of such stay;

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of the Pension Funding Rules for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under the Pension Funding Rules, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified any Credit Party or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate “amount of unfunded benefit liabilities” (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed 2% of the Applicable Total Asset Value, (iv) any Credit Party or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) any Credit Party or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) any Credit Party

39

or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of any Credit Party or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or

(k) a Change of Control shall occur; or

(l) [Intentionally Omitted]; or

(m) there shall be a determination from the applicable Governmental Authority from which no appeal can be taken that the Company’s tax status as a REIT has been lost; or

(n) the Company at any time hereafter fails to cause its common stock to be duly listed on the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers Automated Quotation; or

(o) any provision of any Transaction Document shall for any reason (other than pursuant to the terms thereof) cease to be valid and binding on or enforceable in any material respect against any Credit Party party to it, or any such Credit Party shall so state in writing.

As used in Section 11(j), the terms “**employee benefit plan**” and “**employee welfare benefit plan**” shall have the respective meanings assigned to such terms in Section 3 of ERISA.

12 REMEDIES ON DEFAULT, ETC.

12.1 Acceleration.

(a) If an Event of Default with respect to any Credit Party described in Section 11(g) or (h) (other than an Event of Default described in clause (i) of Section 11(g) or described in clause (vi) of Section 11(g) by virtue of the fact that such clause encompasses clause (i) of Section 11(g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any Event of Default described in Section 11(a) or (b) has occurred and is continuing, in addition to any action that may be taken pursuant to Section 12.1(c), any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

(c) If any other Event of Default has occurred and is continuing, any holder or holders of a majority in principal amount of the Notes of any Series at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes of such Series then outstanding to be immediately due and payable.

40

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate) and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from prepayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

12.2 Other Remedies.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

12.3 Rescission.

At any time after any Notes of any Series have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of not less than a majority in principal amount of the Notes of such Series then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes of such Series, all principal of and Make-Whole Amount, if any, on any Notes of such Series that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes of such Series, at the Default Rate, (b) neither the Company nor any other Person shall have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

12.4 No Waivers or Election of Remedies, Expenses, Etc.

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement, any Note or any other Transaction Document upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company

will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

13 REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

13.1 Registration of Notes.

The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

13.2 Transfer and Exchange of Notes.

Upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)), for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more replacement Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such replacement Note shall be payable to such Person as such holder may request and shall be substantially in the form of the Note so surrendered. Each such replacement Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$1,000,000; provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes of a Series, one Note may be in a

denomination of less than \$1,000,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

13.3 Replacement of Notes.

Upon receipt by the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

42

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least \$5,000,000 or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof, within ten Business Days thereafter, the Company at its own expense shall execute and deliver, in lieu thereof, a replacement Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon; provided, that in no event shall the Company be required to pay any interest or principal with respect to a replacement Note if such amounts have previously been paid with respect to the original Note.

14 PAYMENTS ON NOTES.

14.1 Place of Payment.

Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of JPMorgan Chase Bank in such jurisdiction. The holder of a Note may at any time, by notice to the Company, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

14.2 Home Office Payment.

So long as a Purchaser or its nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose, in the case of the Series A Notes or the Series B Notes, on the Purchaser Schedule Relating to Series A Notes or Purchaser Schedule Relating to Series B Notes, as applicable, attached hereto as Schedule A and, in the case of any Shelf Note, on the Purchaser Schedule attached to the Confirmation of Acceptance with respect to such Note, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by any Purchaser or its nominee such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a replacement Note or

43

Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Purchaser under this Agreement and that has made the same agreement relating to such Note as each Purchaser has made in this Section 14.2.

15 EXPENSES, ETC.

15.1 Transaction Expenses.

Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by PIM, the Purchasers or any holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Notes or any of the other Transaction Documents (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Notes or any of the other Transaction Documents or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Notes or any of the other Transaction Documents, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company, any Guarantor or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby, by the Notes and the other Transaction Documents. The Company will pay, and will save PIM, each Purchaser and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders.

15.2 Survival.

The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

16 SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein or in any of the other Transaction Documents shall survive the execution and delivery of this Agreement, the Notes and the other Transaction Documents, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of any Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of any Credit Party or any Subsidiary pursuant to this Agreement or any of the other Transaction Documents shall be deemed representations and warranties of such Credit Party or Subsidiary under this Agreement or such other Transaction Document. Subject to the preceding sentence, this Agreement (including the Multiparty Guaranty), the Notes and the other Transaction Documents embody the entire agreement and understanding among PIM, the Purchasers and the Credit Parties and supersede all prior agreements and understandings relating to the subject matter hereof.

44

17 AMENDMENT AND WAIVER.

17.1 Requirements.

This Agreement, the Notes and the other Transaction Documents may be amended, and any Credit Party may take any action herein or therein prohibited, or omit to perform any act herein required to be performed by it, if the Credit Parties shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) of the Notes of each Series *except that*, (i) with the written consent of the holders of all Notes of a particular Series, and if an Event of Default shall have occurred and be continuing, of the holders of all Notes of all Series, at the time outstanding (and not without such written consents), the Notes of such Series may be amended or the provisions thereof waived to change the maturity thereof, to change or affect the principal thereof, or to change or affect the rate or time of payment of interest on or any Make-Whole Amount payable with respect to the Notes of such Series, (ii) without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to or waiver of the provisions of this Agreement shall change or affect the provisions of Section 12 or this Section 17 insofar as such provisions relate to proportions of the principal amount of the Notes of any Series, or the rights of any individual holder of Notes, required with respect to any declaration of Notes to be due and payable or with respect to any consent, amendment, waiver or declaration, (iii) with the written consent of PIM (and not without the written consent of PIM) the provisions of Section 2B may be amended or waived (except insofar as any such amendment or waiver would affect any rights or obligations with respect to the purchase and sale of Notes which shall have become Accepted Notes prior to such amendment or waiver), and (iv) with the written consent of all of the Purchasers which shall have become obligated to purchase Accepted Notes of any Series (and not without the written consent of all such Purchasers), any of the provisions of Sections 2B and 4 may be amended or waived insofar as such amendment or waiver would affect only rights or obligations with respect to the purchase and sale of the Accepted Notes of such Series or the terms and provisions of such Accepted Notes. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this Section 17, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent.

17.2 Solicitation of Holders of Notes.

(a) **Solicitation.** The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

45

(b) **Payment.** The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

17.3 Binding Effect. Etc.

Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between any Credit Party and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

17.4 Notes Held by Company, Etc.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes or any Series thereof then outstanding have approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes or any Series thereof, or have directed the taking of any action provided herein or in the Notes or any Series thereof to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes or any Series thereof then outstanding, Notes directly or indirectly owned by any Credit Party or any of its Affiliates shall be deemed not to be outstanding.

18 NOTICES.

All notices and communications provided for hereunder (other than communications provided for in Section 2) shall be in writing and sent (a) by facsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Series A Purchaser or its nominee or any Series B Purchaser or its nominee, to such Person at the address specified for such communications in the Purchaser Schedule Relating to Series A Notes or Purchaser Schedule Relating to Series B Notes, as applicable, attached hereto as Schedule A and, in the case of a Purchaser of any Shelf Note or its nominee, to such Person at the address specified for such communications in the Purchaser Schedule attached to the Confirmation of Acceptance with respect to such Shelf

46

Note, or at such other address as such Person or it shall have specified to the Company in writing;

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing; or

(iii) if to any Credit Party, to such Credit Party care of the Company, at its address set forth at the beginning hereof to the attention of the Chief Financial Officer, or at such other address as the Company, shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed to have been given and received when delivered at the address so specified. Any communication pursuant to Section 2 shall be made by the method specified for such communication in Section 2, and shall be effective to create any rights or obligations under this Agreement only if, in the case of a telephone communication, an Authorized Officer of the party conveying the information and of the party receiving the information are parties to the telephone call, and in the case of a facsimile communication, the communication is signed by an Authorized Officer of the party conveying the information, addressed to the attention of an Authorized Officer of the party receiving the information, and in fact received at the facsimile number that is listed for the party receiving the communication on the Information Schedule or at such other facsimile number as the party receiving the information shall have specified in writing to the party sending such information.

19 REPRODUCTION OF DOCUMENTS.

This Agreement, and all documents relating hereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser on any Closing Day (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Purchaser may destroy any original document so reproduced. To the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit any party hereto from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

20 MULTIPARTY GUARANTY.

The multiparty guaranty under this Section 20 (as amended or otherwise modified from time to time, the “**Multiparty Guaranty**”) is made jointly and severally by each of the Guarantors in favor of the Purchasers and their respective successors, assigns and transferees (each of such Persons being referred to herein as a “**Beneficiary**” and collectively, as the “**Beneficiaries**”).

47

20.1 Unconditional Guaranty.

(a) Unconditional Guaranty.

Each Guarantor hereby unconditionally, absolutely and irrevocably guarantees to each of the Beneficiaries the prompt and complete payment when due (whether at stated maturity, by acceleration or otherwise) and performance of all Guaranteed Obligations. The term

“Guaranteed Obligations” shall mean all loans, advances, debts, liabilities and obligations for monetary amounts and otherwise from time to time owing by the Company, in the Company’s capacity as the issuer of Notes, to the Purchasers in connection with this Agreement, the Notes and the other Transaction Documents, whether due or to become due, matured or unmatured, liquidated or unliquidated, contingent or non-contingent, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or instrument, arising under or in respect of this Agreement, the Notes or the other Transaction Documents (it being understood that this term includes all principal, interest (including interest that accrues after the commencement by or against the Company of any action under bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect), the Make-Whole Amount, if any, premium or other prepayment consideration, fees, expenses, costs or other sums (including, without limitation, all fees and disbursements of any law firm or other external counsel) chargeable to the Company, in the Company’s capacity as the issuer of Notes, under this Agreement, the Notes or the other Transaction Documents).

(b) Reimbursement of Expenses.

Each Guarantor also agrees to pay upon demand all costs and expenses (including, without limitation, all fees and disbursements of any law firm or other external counsel) incurred by any Beneficiary in enforcing any rights under this Multiparty Guaranty.

(c) Guaranteed Obligations Unaffected.

No payment or payments made by any other Guarantor or other Credit Party, or by any other guarantor or other Person, or received or collected by any of the Beneficiaries from any other Guarantor or other Credit Party or from any other guarantor or other Person by virtue of any action or proceeding or any setoff or appropriation or application at any time or from time to time in reduction of or in payment of the Guaranteed Obligations shall be deemed to modify, release or otherwise affect the liability of each of the Guarantors hereunder which shall, notwithstanding any such payments, remain liable for the Guaranteed Obligations, subject to Section 20.5 below, until the Guaranteed Obligations are indefeasibly paid in full.

(d) Joint and Several Liability.

All Guarantors and their respective successors and assigns shall be jointly and severally liable for the payment of the Guaranteed Obligations and the expenses required to be reimbursed to the holders of the Notes pursuant to Section 20.1(b), above, notwithstanding any relationship or contract of co-obligation by or among the Guarantors or their successors and assigns.

48

(e) Enforcement of Guaranteed Obligations.

Upon the occurrence and during the continuance of an Event of Default, then and in any such event all of the Guaranteed Obligations shall automatically become due and payable (in the case of an Event of Default described in Section 11(g) or (h)) and all or any part of the Guaranteed Obligations may, at the option of (i) any holder of any Note (in the case of an Event of Default described in Section 11(a) or (b)), and (ii) the Required Holders (in the case of any Event of Default described in Section 11 other than those described in Section 11(g) or (h)) and without demand, notice or legal process of any kind, be declared, and immediately shall become, due and payable.

(f) Tolling of Statute of Limitations.

Each Guarantor agrees that any payment, performance or other act that tolls any statute of limitations applicable to the obligations, liabilities and indebtedness of the Company owing to the Beneficiaries under this Agreement, the Notes or any of the other Transaction Documents shall also toll the statute of limitations applicable to such Guarantor’s liability under this Multiparty Guaranty to the extent permitted by law.

(g) Rights of Contribution.

The Company and each Guarantor hereby agree that, to the extent that a Guarantor shall have paid an amount hereunder to any Beneficiary that is greater than the net value of the benefits received, directly or indirectly, by such paying Guarantor as a result of the issuance and sale of the Notes, such paying Guarantor shall be entitled to contribution from the Company or any Guarantor that has not paid its proportionate share, based on benefits received as a result of the issuance and sale of the Notes, of the Guaranteed Obligations. Any amount payable as a contribution under this Section 20.1(g) shall be determined as of the date on which the related payment or distribution is made by the Guarantor seeking contribution, and each of the Company and the Guarantors acknowledges that the right to contribution hereunder shall constitute an asset of such Guarantor to which such contribution is owed. Notwithstanding the foregoing, the provisions of this Section 20.1(g) shall in no respect limit the obligations and liabilities of any Guarantor to the Beneficiaries hereunder or under any other Transaction Document, and each Guarantor shall remain liable for the full payment and performance guaranteed hereunder. Any indebtedness or other obligations of the Company or a Guarantor now or hereafter held by or owing to any Guarantor is hereby subordinated in time and right of payment to all indebtedness or other obligations of the Company and the Guarantors to any or all of the Beneficiaries under the Notes, this Agreement or any other Transaction Document.

49

20.2 Subrogation.

Notwithstanding any payment or payments made by any Guarantor hereunder, each Guarantor hereby irrevocably waives, solely with respect to such payment or payments, any and all rights of subrogation to the rights of the Beneficiaries against the Company and, except to the extent otherwise provided in Section 20.1(g), any and all rights of contribution, reimbursement, assignment, indemnification or implied contract or any similar rights against the Company, any endorser or other guarantor of all or any part of the Guaranteed Obligations, in each case until such time as the Guaranteed Obligations have been indefeasibly paid in full (subject to Section 20.5 below). If, notwithstanding the foregoing, any amount shall be paid to any Guarantor on account of such subrogation or other rights at any time when all of the Guaranteed Obligations shall not have been indefeasibly paid in full, such amount shall be held by such Guarantor in trust for the Beneficiaries, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to each Beneficiary (ratably based on the principal amount outstanding of Notes held by such Beneficiary at such time as a percentage of the aggregate principal amount outstanding of Notes held by all the Beneficiaries at such time) in the exact form received by such Guarantor (duly endorsed by such Guarantor to such Beneficiary if required), to be applied against the Guaranteed Obligations, whether matured or unmatured, in such order as such Beneficiary may determine.

20.3 Amendments, Etc. with Respect to Guaranteed Obligations.

Each Guarantor shall remain obligated hereunder notwithstanding that: (a) any demand for payment of any of the Guaranteed Obligations made by any Beneficiary may be rescinded by such Beneficiary, and any of the Guaranteed Obligations continued; (b) this Multiparty Guaranty, the Guaranteed Obligations, or the liability of any other party upon or for any part of the Guaranteed Obligations, or any collateral security or guaranty therefor or right of setoff with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by any Beneficiary or such other party; (c) this Agreement, the Notes, the other Transaction Documents and any other document executed in connection with any of them may be renewed, extended, amended, modified, supplemented or terminated, in whole or in part; or (d) any guaranty, collateral or right of setoff at any time held by any Person for the payment of any of the Guaranteed Obligations may be sold, exchanged, waived, surrendered or released. When making any demand hereunder against any Guarantor, each Beneficiary may, but shall be under no obligation to, make a similar demand on any other Credit Party or any other Person, and any failure by such Beneficiary to make any such demand or to collect any payments from any other Credit Party or any other Person or any release of any such other Credit Party or Person shall not impair or affect the rights and remedies, express or implied, or as a matter of law, of such Beneficiary against the Guarantors. For the purposes hereof “demand” shall include the commencement and continuance of any legal proceedings.

20.4 Guaranty Absolute and Unconditional; Termination.

(a) Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by any Beneficiary upon this Multiparty Guaranty or acceptance of this Multiparty Guaranty. This

Agreement, the Notes, the other Transaction Documents and the Guaranteed Obligations in respect of any of them, shall conclusively be deemed to have been created, contracted for or incurred in reliance upon this Multiparty Guaranty; and all dealings between any of the Company or the Guarantors, on the one hand, and any of the Beneficiaries, on the other, shall likewise conclusively be presumed to have been had or consummated in reliance upon this Multiparty Guaranty. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon any Credit Party or any other guarantor with respect to the Guaranteed Obligations. Except as provided in Section 20.4(b), this Multiparty Guaranty shall be construed as a continuing, irrevocable, absolute and unconditional guaranty of payment, performance and compliance when due (and not of collection) and is a primary obligation of each Guarantor without regard to (a) the validity or enforceability of the provisions of this Agreement (other than the Multiparty Guaranty), the Notes, the other Transaction Documents, any of the Guaranteed Obligations or any other guaranty or right of setoff with respect thereto at any time or from time to time held by any Beneficiary, (b) any defense, setoff or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by any of the Credit Parties against any Beneficiary, or (c) any other circumstance whatsoever (with or without notice to or knowledge of any Credit Party or guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of any Credit Party or any other guarantor of the Guaranteed Obligations, in bankruptcy or in any other instance (other than payment or performance in full of the Guaranteed Obligations). Each of the Guarantors hereby agrees that it has complete and absolute responsibility for keeping itself informed of the business, operations, properties, assets, condition (financial or otherwise) of the Company, the other Guarantors, any and all endorsers and any and all guarantors of the Guaranteed Obligations and of all other circumstances bearing upon the risk of nonpayment of the obligations evidenced by the Notes or the Guaranteed Obligations, and each of the Guarantors further agrees that the Beneficiaries shall have no duty, obligation or responsibility to advise it of any such facts or other information, whether now known or hereafter ascertained, and each Guarantor hereby waives any such duty, obligation or responsibility on the part of the Beneficiaries to disclose such facts or other information to such Guarantor.

When pursuing its rights and remedies hereunder against any of the Guarantors, any Beneficiary may, but shall be under no obligation to, pursue such rights and remedies as it may have against any other Credit Party or any other Person under a guaranty of the Guaranteed Obligations or any right of setoff with respect thereto, and any failure by such Beneficiary to pursue such other rights or remedies or to collect any payments from any such other Credit Party or Person or to realize upon any such guaranty or to exercise any such right of setoff, or any release of any such other Credit Party or Person or any such guaranty or right of setoff, shall not relieve the Guarantors of any liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of each of the Beneficiaries against the Guarantors. This Multiparty Guaranty shall remain in full force and effect until all Guaranteed Obligations shall have been satisfied by payment or performance in full, upon the occurrence of which this Multiparty Guaranty shall, subject to Section 20.5 below, terminate.

(b) Each Guarantor shall be released and discharged automatically from its obligations under this Multiparty Guaranty provided that (i) such Guarantor concurrently is released and discharged from its obligations as a guarantor under the Credit Agreement and each other

giving effect to such release and discharge, (iii) no remuneration (whether by way of supplemental or additional interest, fee or otherwise) or alternative credit support (whether by way of another guaranty, collateral security, a letter of credit or otherwise) is provided to any lender under the Credit Agreement or any other Principal Credit Facility as compensation for such release of such Guarantor under the Credit Agreement or such other Principal Credit Facility (provided that the foregoing shall not apply to facility fees, structuring fees, arrangement fees or similar up-front fees in connection with the extension or replacement of the Credit Agreement or any other Principal Credit Facility so long as the primary purpose of such fees is not compensation for the release of any Guarantor), and (iv) the Company has delivered an Officer's Certificate certifying as to the conditions in each of the immediately preceding clauses (i), (ii) and (iii) and setting forth the date of effectiveness for such release and discharge.

20.5 Reinstatement.

This Multiparty Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time the payment, or any part thereof, of any of the Guaranteed Obligations is rescinded or otherwise must be restored or returned by any Beneficiary in connection with the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Credit Party upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, any Credit Party or any substantial part of their respective property or assets, or otherwise, all as though such payments had not been made.

20.6 Payments.

Each Guarantor hereby agrees that the Guaranteed Obligations will be paid to each of the Beneficiaries pursuant to this Agreement without setoff or counterclaim in immediately available funds at the location and in the currency or currencies specified by such Beneficiary pursuant to this Agreement.

20.7 Bound by Other Provisions.

Each Guarantor agrees that it is bound by each covenant set forth in this Agreement and that it shall make each representation and warranty set forth in this Agreement, in each case to the extent the applicable provision pertains to a Subsidiary.

20.8 Additional Guarantors.

The initial Guarantors shall be such Persons as are identified as "Guarantors" on the signature pages hereof. From time to time subsequent to the date hereof, additional Persons that are Subsidiaries or other Affiliates of any Credit Party may become parties hereto, as additional Guarantors (each an "**Additional Guarantor**"), by executing a Joinder to Multiparty Guaranty. Upon delivery of any such Joinder to Multiparty Guaranty to each of the Beneficiaries, notice of which is hereby waived by the Guarantors, each such Additional Guarantor shall be a Guarantor and shall be as fully a party hereto in such capacity as if such Additional Guarantor were an original signatory hereof. Each Guarantor expressly agrees that its obligations arising hereunder shall not be affected or diminished by the addition or release of any other Guarantor hereunder, nor by any election of the Beneficiaries not to cause any Subsidiary of any Credit Party to become an Additional Guarantor hereunder. This Multiparty Guaranty shall be fully effective as to any Guarantor that is or becomes a party hereto regardless of whether any other Person becomes or fails to become or ceases to be a Guarantor hereunder.

21 CONFIDENTIALITY.

For the purposes of this Section 21, "**Confidential Information**" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary, or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 21, (iii) any other holder of any Note, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 21), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 21), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any

litigation to which such Purchaser is a party, or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 21 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 21.

22 MISCELLANEOUS.

22.1 Successors and Assigns.

All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including any subsequent holder of a Note) whether so expressed or not.

22.2 Payments Due on Non-Business Days.

Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in Section 8.4 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a New York Business Day shall be made on the next succeeding New York Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding New York Business Day; provided that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

22.3 Accounting Terms.

All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (i) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (ii) all financial statements shall be prepared in accordance with GAAP. If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 7.1(b) hereof for the fiscal year ended December 31, 2012 and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Company or the Required Holders may by notice to the holders of the Notes and the Company, respectively, require that the holders of the Notes and the Company negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Company and its Subsidiaries shall be the same as if such change had not been made. No delay by the Company or the Required Holders in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 22.3, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles.

22.4 Severability.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

22.5 Construction.

Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

22.6 Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

22.7 Governing Law.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such state that would permit the application of the laws of a jurisdiction other than such state.

22.8 Jurisdiction and Process. (a) Each Credit Party irrevocably submits to the non-exclusive jurisdiction of any New York State or federal court sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Agreement (including the Multiparty Guaranty) or the Notes. To the fullest extent permitted by applicable law, each Credit Party irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) Each Credit Party consents to process being served by or on behalf of any holder of Notes in any suit, action or proceeding of the nature referred to in Section 22.8(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 18 or at such other address of which such holder shall then have been notified pursuant to said Section. Each Credit Party agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding, and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

55

(c) Nothing in this Section 22.8 shall affect the right of any holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against any Credit Party in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

22.9 Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT (INCLUDING THE MULTIPARTY GUARANTY), THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HERewith OR THEREWITH.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY, if an action or other proceeding is brought in the State of California and if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them concerning this Agreement (including the Multiparty Guaranty), the Notes, the other Transaction Documents and the matters contemplated hereby or thereby (each, a "Claim"), including any and all questions of law or fact relating thereto, shall be determined by judicial reference pursuant to the California Code of Civil Procedure ("Reference"). The parties shall select a single neutral referee, who shall be a retired state or federal judge. In the event that the parties cannot agree upon a referee, the referee shall be appointed by the court. The referee shall report a statement of decision to the court. Nothing in this paragraph shall limit the right of any party at any time to exercise any self-help remedies, foreclose against any collateral or obtain provisional remedies. The Company shall bear the fees and expenses of the referee unless the referee orders otherwise. The referee shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

22.10 Transaction References. The Company agrees that Prudential Capital Group may (a) refer to its role in the origination of the purchase of the Notes from the Company, as well as the identity of the Company and the aggregate principal amount and issue date of the Notes, on its internet site or in marketing materials, press releases, published "tombstone" announcements or any other print or electronic medium, and (b) display the Company's corporate logo in conjunction with any such reference.

22.11 No Novation. This Agreement amends, restates and replaces (subject to Section 4C) the Prior Agreement and is not intended to constitute a novation thereof (it being acknowledged and agreed that the Company's covenants in the Prior Agreement shall remain operative for periods prior to the effectiveness of this Agreement, and any unwaived breach of such covenants or any unwaived breach of representations and warranties under the Prior Agreement made prior to the effectiveness of this Agreement, in each case if such unwaived breach constituted a Default or Event of Default under the Prior Agreement immediately prior to the effectiveness of this Agreement, shall constitute a Default or Event of Default, as applicable, under this Agreement).

* * * * *

56

THE COMPANY:

Very truly yours,

LTC PROPERTIES, INC.

By: /s/ Wendy Simpson
Name: Wendy Simpson
Title: Chairman, Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler
Name: Pamela J. Shelley-Kessler

Title: Executive Vice President, Chief Financial Officer and Secretary

THE GUARANTORS: Each of the undersigned Guarantors (i) agrees to be bound by each provision hereof applicable to it as a Guarantor, and (ii) consents and agrees to the amendments and other modifications effected in this Second Amended and Restated Note Purchase and Private Shelf Agreement and the transactions contemplated hereby, and reaffirms its obligations under the Multiparty Guaranty and its waivers, as set forth in the Multiparty Guaranty, of each and every one of the possible defenses to such obligations. In addition, each undersigned Guarantor reaffirms that its obligations under the Multiparty Guaranty are separate and distinct from the Company's obligations under the Transaction Documents.

**FLORIDA-LTC, INC.
LTC GPI, INC.
LTC-GARDNER, INC.
LTC-GRIFFIN, INC.
LTC-JONESBORO, INC.**

By: /s/ Wendy Simpson
Name: Wendy Simpson
Title: Chief Executive Officer and President

On behalf of each of the foregoing Guarantors

By: /s/ Pamela Shelley-Kessler
Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial Officer and Secretary

On behalf of each of the foregoing Guarantors

**ALBUQUERQUE REAL ESTATE
INVESTMENTS, INC.**

By: /s/ Wendy Simpson
Name: Wendy Simpson
Title: Chief Executive Officer and President

**ALBUQUERQUE REAL ESTATE
INVESTMENTS, INC.**

By: /s/ Pamela Shelley-Kessler
Name: Pamela J. Shelley-Kessler
Title: Chief Financial Officer and Treasurer

BEAUMONT REAL ESTATE INVESTMENTS, LP

By: L-Tex GP, Inc., its General Partner

By: /s/ Wendy Simpson
Name: Wendy Simpson
Title: Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler
Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial Officer and Corporate Secretary

TEXAS-LTC LIMITED PARTNERSHIP

By: L-Tex GP, Inc., its General Partner

By: /s/ Wendy Simpson
Name: Wendy Simpson
Title: Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler

Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial
Officer and Corporate Secretary

**TEXAS-LTC WOODRIDGE LIMITED
PARTNERSHIP**

By: L-Tex GP, Inc., its General Partner

By: /s/ Wendy Simpson

Name: Wendy Simpson
Title: Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler

Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial
Officer and Corporate Secretary

**NORTH CAROLINA REAL ESTATE
INVESTMENTS, LLC**

By: LTC-Dearfield, Inc., its Member

By: /s/ Wendy Simpson

Name: Wendy Simpson
Title: Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler

Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial
Officer and Corporate Secretary

By: LTC-Richmond, Inc., its Member

By: /s/ Wendy Simpson

Name: Wendy Simpson
Title: Chief Executive Officer and President

By: /s/ Pamela Shelley-Kessler

Name: Pamela J. Shelley-Kessler
Title: Executive Vice President, Chief Financial
Officer and Corporate Secretary

The foregoing is hereby agreed to as of the date thereof.

**PRUDENTIAL INVESTMENT
MANAGEMENT, INC.**

By: /s/ Cornelia Cheng
Vice President

**THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA**, as a holder of Series A-1 Notes and Series B
Notes

By: /s/ Cornelia Cheng
Vice President

PRUCO LIFE INSURANCE COMPANY, as a holder
of Series A-2 Notes and Series B Notes

By: /s/ Cornelia Cheng
Assistant Vice President

**UNITED OF OMAHA LIFE INSURANCE
COMPANY**, as a holder of Series A-2 Notes

By: Prudential Private Placement Investors, L.P., asset
manager

By: Prudential Private Placement Investors, Inc.,
general partner

By: /s/ Cornelia Cheng
Title: Vice President

**PRUDENTIAL RETIREMENT INSURANCE AND
ANNUITY COMPANY**, as a holder of Series B Notes

By: Prudential Investment Management, Inc., as
investment advisor

By: /s/ Cornelia Cheng
Title: Vice President

**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

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

November 4, 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)
November 4, 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 September 30, 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
Chairman, Chief Executive Officer and President
November 4, 2013

/s/ PAMELA SHELLEY-KESSLER

Pamela Shelley-Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
November 4, 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.
