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

FORM 10-Q

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

For the quarterly period ended June 30, 2003

OR

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

For the Transition period from _______________ to _______________

Commission file number 1-11314

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

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

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

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

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

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

Shares of Registrant's common stock, $.01 par value, outstanding at August 8, 2003 – 17,802,351

LTC PROPERTIES, INC.

FORM 10-Q

June 30, 2003

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

	June 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2003 - $69,877; 2002 - $63,495	$ 372,503	$ 377,566
Land	25,934	25,812
Properties held for sale, net of accumulated depreciation and amortization: 2003 - $0; 2002 - $821	—	1,962
Mortgage loans receivable, net of allowance for doubtful accounts: 2003 - $1,280; 2002 - $1,280	83,642	82,675
REMIC Certificates	62,933	64,419
Real estate investments, net	545,012	552,434
Other Assets:		
Cash and cash equivalents	3,233	8,001
Debt issue costs, net	4,067	5,309
Interest receivable	4,014	3,781
Prepaid expenses and other assets	2,769	2,069
Notes receivable (includes $3,095 due from CLC Healthcare, Inc. in 2003 and 2002)	15,269	15,622
Marketable debt securities	9,650	7,968
Line of credit due from CLC Healthcare, Inc.	5,245	4,741
	44,247	47,491
Total Assets	$ 589,259	$ 599,925
LIABILITIES AND STOCKHOLDERS' EQUITY		
Bank borrowings	$ 49,557	$ 48,421
Mortgage loans and notes payable	129,479	136,971
Bonds payable and capital lease obligations	14,866	15,361
Senior mortgage participation payable	29,239	29,667
Accrued interest	1,288	1,293
Accrued expenses and other liabilities	5,227	6,419
Distributions payable	979	981
Total Liabilities	230,635	239,113
Minority interest	13,283	13,399
Stockholders' equity:		
Preferred stock $0.01 par value: 2003 - 15,000 shares authorized; shares issued and outstanding: 2003 - 7,052; 2002 - 7,062	164,986	165,183
Common stock: $0.01 par value; 2003 - 35,000 shares authorized; shares issued and outstanding: 2003 – 17,795; 2002 – 18,055	178	181
Capital in excess of par value	250,998	253,050
Cumulative net income	260,893	250,629
Other	(4,194)	(6,112)
Cumulative distributions	(327,520)	(315,518)
Total Stockholders' Equity	345,341	347,413
Total Liabilities and Stockholders' Equity	$ 589,259	$ 599,925

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
Rental income	$ 10,081	$ 10,536	$ 19,982	$ 21,057
Interest income from mortgage loans and notes receivable	2,489	2,525	4,996	5,118
Interest income from REMIC Certificates	2,551	3,219	5,337	6,486
Interest and other income	783	766	1,615	1,511
Total revenues	15,904	17,046	31,930	34,172
Expenses:				
Interest expense	5,001	5,310	10,193	10,736
Depreciation and amortization	3,255	3,663	6,457	7,207
Impairment charge	—	4,882	1,260	4,882
Legal expenses	408	74	776	136
Operating and other expenses	1,237	1,392	3,070	2,968
Total expenses	9,901	15,321	21,756	25,929
Income before minority interest	6,003	1,725	10,174	8,243
Minority interest	(326)	(335)	(647)	(656)
Income from continuing operations	5,677	1,390	9,527	7,587
Discontinued operations:				
Income (loss) from discontinued operations	24	(220)	58	(164)
Gain on sale of assets, net	679	13,192	679	13,120
Net income from discontinued operations	703	12,972	737	12,956
Net income	6,380	14,362	10,264	20,543
Preferred stock dividends	(3,756)	(3,761)	(7,517)	(7,519)
Net income available to common stockholders	$ 2,624	$ 10,601	$ 2,747	$ 13,024
Net Income (Loss) per Common Share from Continuing Operations Net of Preferred Stock Dividends:				
Basic	$ 0.11	$ (0.13)	$ 0.11	$ 0.00
Diluted	$ 0.11	$ (0.13)	$ 0.11	$ 0.00
Net Income per Common Share from Discontinued Operations:				
Basic	$ 0.04	$ 0.71	$ 0.04	$ 0.71
Diluted	$ 0.04	$ 0.71	$ 0.04	$ 0.71
Net Income per Common Share Available to Common Stockholders:				
Basic	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Diluted	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Comprehensive income				
Net income available to common stockholders	$ 2,624	$ 10,601	$ 2,747	$ 13,024
Unrealized gain (loss) on available for-sale securities	(451)	—	(451)	28
Reclassification adjustment	—	—	1,303	—
Net income available to common stockholders	$ 2,173	$ 10,601	$ 3,599	$ 13,052

See accompanying notes.

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

	Six Months Ended June 30,	
	2003	2002
OPERATING ACTIVITIES:		
Net income	$ 10,264	$ 20,543
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,507	7,384
Impairment charge	1,260	4,882
Other non-cash charges	2,221	2,278
Gain on sale of real estate investments, net	(679)	(13,120)
(Decrease) increase in accrued interest	(5)	162
Net change in other assets and liabilities	(2,316)	(1,743)
Net cash provided by operating activities	17,252	20,386
INVESTING ACTIVITIES:		
Investment in real estate mortgages	(1,707)	—
Investment in marketable debt securities	(1,744)	—
Investment in real estate properties and capital improvements, net	(1,665)	(1,091)
Proceeds from sale of real estate investments and other assets, net	2,815	9,520
Principal payments on mortgage loans receivable	709	5,356
Advances under line of credit to CLC Healthcare, Inc.	(1,450)	(792)
Payments from CLC Healthcare, Inc. on line of credit	946	656
Other	685	1,565
Net cash (used in) provided by investing activities	(1,411)	15,214
FINANCING ACTIVITIES:		
Borrowings under the line of credit	4,500	—
Repayments of bank borrowings under line of credit	(3,364)	(8,000)
Repayment of senior mortgage participation	(428)	—
Principal payments on mortgage loans payable and capital lease obligations	(7,987)	(5,058)
Redemption of convertible subordinated debentures	—	(2,408)
Repurchase of common and preferred stock	(3,461)	—
Distributions paid	(12,004)	(12,027)
Other	2,135	272
Net cash used in financing activities	(20,609)	(27,221)
(Decrease) increase in cash and cash equivalents	(4,768)	8,379
Cash and cash equivalents, beginning of period	8,001	6,322
Cash and cash equivalents, end of period	$ 3,233	$ 14,701
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 8,807	$ 10,051
Non-cash investing and financing transactions:		
Conversion of mortgage loans into owned properties	—	2,332
Increase in short term notes receivable related to the disposition of real estate assets	—	2,631
Assumption of mortgage loans payable for acquisitions of real estate assets	—	1,357

See accompanying notes.

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

1. General

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

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

We have prepared consolidated financial statements included herein without audit and in the opinion of management include all adjustments necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2003 and 2002 pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries and controlled partnerships. All significant intercompany accounts and transactions have been eliminated in consolidation. Control over those partnerships is based on the provisions of the partnership agreements that provide us with a controlling financial interest in the partnerships. Under the terms of the partnership agreements, our company, as general partner, is responsible for the management of the partnerships' assets, business and affairs. Our rights and duties in management of the partnerships include making all operating decisions, setting the capital budgets, executing all contracts, making all employment decisions, and the purchase and disposition of assets, among others. The general partner is responsible for the ongoing, major, and central operations of the partnership and makes all management decisions. In addition, the general partner assumes the risk for all operating losses, capital losses, and is entitled to substantially all capital gains (appreciation).

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

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

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation as required by Statement of Financial Accounting Standards ("SFAS") No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*." The results of operations for the three and six months ended June 30, 2003 are not necessarily indicative of the results for a full year.

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

2. Real Estate Investments

Owned Properties. At June 30, 2003, we owned 58 skilled nursing facilities with a total of 6,723 beds, 88 assisted living facilities with 4,182 units and one school located in 23 states.

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

During the three months ended June 30, 2003, we sold three skilled nursing facilities in Texas, one of which was formerly operated by Sun Healthcare Group, Inc. (“Sun”). We recognized a $679,000 gain on the sale and used the $2,595,000 of net proceeds to repay outstanding borrowings under our Senior Secured Revolving Line of Credit (“Secured Revolving Credit”). Also during the second quarter 2003, we acquired two skilled nursing facilities in New Mexico with a total of 98 beds from CLC Healthcare, Inc. (“CLC”). We paid cash of $1,215,000 for the two facilities which CLC used to repay the outstanding loan balance due to a REMIC pool we originated. We leased these facilities, along with two other facilities in New Mexico previously operated by Sun, to a third party operator under a master lease beginning July 1, 2003. This master lease provides for rents of $763,000 in the initial year with 2.0% increases annually for 15 years. We also leased to a third party operator four skilled nursing facilities in Georgia formerly operated by CLC for $720,000 in the initial year beginning July 1, 2003 with 3.0% increases annually for 15 years.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” which was required to be adopted in fiscal years beginning after December 15, 2001. SFAS No. 144 on asset impairment supercedes SFAS No. 121, “*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*,” and provides a single accounting model for long-lived assets to be disposed of. Subsequent to January 1, 2002, and in accordance with SFAS No. 144, properties held for sale on the balance sheet includes only those properties available for immediate sale in their present condition and for which management believes that it is probable that a sale of the property will be completed within one year. Properties held for sale are carried at the lower of cost or fair value less estimated selling costs. No depreciation expense is recognized on properties held for sale once they have been classified as such. In accordance with the implementation provisions of SFAS No. 144, the operating results of real estate assets designated as held for sale subsequent to January 1, 2002 are included in discontinued operations in the consolidated statement of operations. In addition, all gains and losses from real estate sold are also included in discontinued operations.

Set forth in the table below are the components of the net loss from discontinued operations for the three and six months ended June 30, 2003 and 2002 (unaudited, in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Rental income	$ 45	$ 194	$ 109	$ 541
Depreciation amortization	(20)	(8)	(50)	(177)
Operating and other expenses	(1)	(406)	(1)	(528)
Income (loss) from discontinued operations	$ 24	$ (220)	$ 58	$ (164)

Mortgage Loans. At June 30, 2003 we had 39 mortgage loans secured by first mortgages on 36 skilled nursing facilities with a total of 4,264 beds and eight assisted living facilities with a total of 369 units located in 20 states. At June 30, 2003, the mortgage loans had interest rates ranging from 9.4% to 12.9% and maturities ranging from 2003 to 2018. In addition, the loans contain certain guarantees, provide for certain facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

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

REMIC Certificates. As of June 30, 2003, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was $165,133,000 and 7.16%. As of June 30, 2003, the carrying value of the subordinated REMIC Certificates we held was $62,933,000. The effective yield on the subordinated REMIC Certificates we held, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses was 16.18% at June 30, 2003. During the second quarter of 2003, the 1993-1 REMIC was retired as the last loan in the pool was repaid.

Interest only certificates and certificates with an investment rating of "BB" or higher are classified as available-for-sale and unrated certificates and certificates with an investment rating of "B" or lower are classified as held-to-maturity. As of June 30, 2003, available-for-sale certificates were recorded at their fair value of approximately $11,453,000. An unrealized holding loss on available-for-sale certificates of $451,000 was included in comprehensive income for the three months and six months ended June 30, 2003. An unrealized holding gain of $28,000 was recognized in the six months ended June 30, 2002. During the six months ended June 30, 2003, a $1,303,000 impairment charge was recorded related to certain interest-only REMIC Certificates we held. The impairment charge resulted from the changes in assumptions relating to the likelihood of occurrence of prepayments on mortgages underlying the REMIC Certificates. As such, the $1,303,000 impairment charge was reclassified from unrealized losses (related to fair market value adjustments on available-for-sale certificates) previously recorded in comprehensive income when we determined that the change in assumptions may result in declines in certificate values that would be other than temporary. See *Note 3. Impairment Charge* for further discussion.

At June 30, 2003 held-to-maturity certificates had a book value of $51,480,000 and a fair value of $37,128,000. As of June 30, 2003, the effective yield on the available-for-sale certificates and the held-to-maturity certificates, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and unanticipated credit losses, was 35.01% and 11.94%, respectively.

3. Impairment Charge

We periodically perform a comprehensive evaluation of our real estate investment portfolio. During 2002, we adopted SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" and therefore calculate the impairment losses as the excess of the carrying value over the fair value of assets to be held and used, and the carrying value over the fair value less cost to sell in instances where management has determined that we will dispose of the property. Prior to 2002, we calculated impairment losses using the same methodology as per SFAS No. 121 "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*." The long-term care industry has experienced significant adverse changes, which have resulted in continued operating losses by certain of our lessees and borrowers and in some instances the filing by certain lessees and borrowers for bankruptcy protection. As a result of the adverse changes in the long-term care industry, we have identified certain investments in skilled nursing properties that it determined had been impaired. These assets were determined to be impaired primarily because the estimated undiscounted future cash flows to be received from these investments are less than the carrying values of the investments.

We did not record an impairment charge during the second quarter of 2003; however, during the six months ended June 30, 2003, we recorded an impairment charge of $1,260,000. Of this charge, $31,000 was to fully reserve a mortgage loan on one skilled nursing facility that was closed in 2002 and not reopened or sold. Additionally, we recorded $1,303,000 impairment related to certain interest-only REMIC Certificates net of a $74,000 adjustment of an impairment loss, recognized in the fourth quarter

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

of 2002, related to our investment in REMIC Certificates. $1,303,000 of the net impairment charge had been previously recognized in comprehensive income as a fair market value adjustment on available-for-sale REMIC Certificates as described in *Note 2. Real Estate Investments*. As more fully described in *Note 2. Summary of Significant Accounting Policies* of our 10-K for the year ending December 31, 2002, to the extent there are defaults, unrecoverable losses or prepayments of principal on the underlying mortgages resulting in reduced cash flows, the subordinated REMIC Certificates we held would bear the first risk of loss. During management's periodic evaluation of the realizability of expected future cash flows from the mortgages underlying our REMIC Certificates, there were indications that certain expected future cash flows would not be realized by the REMIC Trust. Accordingly, we recorded a net $1,229,000 impairment charge during the six months ended June 30, 2003 to reflect the estimated impact on future cash flows from loan prepayments occurring during, or expected to occur subsequent to, the first quarter of 2003 related to certain subordinated REMIC Certificates we held.

During the six months ended June 30, 2002, we recorded an impairment charge of $4,882,000. Of this charge, $600,000 related to a loan on a skilled nursing facility that had ceased operating and $1,000,000 related to a loan on a skilled nursing facility whose owner requested financing modifications which were subsequently not granted. An additional $1,000,000 related to a valuation adjustment on one skilled nursing facility resulting from entering into a new lease with a new operator taking over the facility from the bankrupt previous operator and $2,282,000 related to two defaulted loans in two separate REMIC pools we originated.

We believe we have recorded valuation adjustments on all assets for which there are other than temporary impairments. However, the long-term care industry has experienced significant adverse changes, which have resulted in, continued operating losses by certain of our operators and in some instances the filing by certain operators for bankruptcy protection. Thus, we cannot predict what, if any, impairment charge may be needed in the future.

4. CLC Healthcare, Inc.

As of June 30, 2003, 19 skilled nursing facilities with 2,255 beds and a net book value of $40,043,000 or 6.8% of our total assets were operated by CLC Healthcare, Inc. ("CLC"). In 2002, we sold a wholly-owned subsidiary, LTC-Fort Tucum, Inc. to CLC for a $500,000 note bearing no interest for one year and thereafter interest at 8% annually for two years. LTC-Fort Tucum, Inc. then acquired two skilled nursing facilities in New Mexico subject to a mortgage loan payable to a REMIC pool we originated. During the quarter ended June 30, 2003, we acquired these two facilities for $1,215,000 in cash and forgave the $500,000 note, which we had fully reserved. CLC used the $1,215,000 cash to repay the outstanding loan balance that was due to a REMIC pool we originated. We leased these facilities, along with two other facilities in New Mexico previously operated by Sun, to a third party operator under a master lease beginning July 1, 2003. This master lease provides for rents of $763,000 in the initial year with 2.0% increases annually for 15 years. We also leased to a third party operator four skilled nursing facilities in Georgia formerly operated by CLC for $720,000 in the initial year beginning July 1, 2003 with 3.0% increases annually for 15 years. During the three and six months ended June 30, 2003, we were due rental income of approximately $0 (due to a forbearance agreement effective March 1, 2003) and $667,000, respectively, from CLC as compared to $750,000 and $1,275,000 during the same periods in 2002. For the three and six months ended June 30, 2003 and 2002, we classified the rents due from CLC as non-accrual rents.

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

CLC's Form 10-K for the year ended December 31, 2002 and Form 10-Q for the quarter ended March 31, 2003 contain "going concern" disclosures. CLC has sustained operating losses and net losses every year since inception and in the first quarter of 2003, currently has no outside financing availability other than the line of credit with us, discussed below, and at March 31, 2003 had recorded an actuarially based accrual for general and professional liability of approximately $13,234,000.

The independent directors of CLC's Board have agreed to permit us to solicit other lessees for properties CLC leases from us. We also agreed to give CLC a rent abatement effective March 1, 2003 on properties CLC leases from us. As discussed above, we entered into a lease with a third party operator for four skilled nursing facilities in Georgia previously operated by CLC and purchased the equipment, furniture and fixtures in these four facilities from CLC for $256,000 (CLC's net book value).

We have consented to allow CLC to enter into an at-risk, month-to-month management agreement beginning August 1, 2003 with a third party operator for the remaining 19 facilities. It is possible that we will purchase from CLC, for CLC's net book value, the equipment, furniture and fixtures in these 19 facilities should CLC forgo its leases with us in favor of a new operator.

Effective October 1, 2002, our company and CLC amended the secured line of credit we extended to CLC. The amendment reduced the line from $20,000,000 to $10,000,000 and added certain restrictions as to the use of funds drawn under the agreement. The line of credit continues to bear interest at 10%, mature on April 1, 2008 and contains a provision for acceleration should there be a change of control of CLC. The independent Board members of each company's board approved this amendment. At June 30, 2003 and December 31, 2002, there was $5,245,000 and $4,741,000, respectively, outstanding under the line of credit. During the three and six months ended June 30, 2003, we advanced CLC $500,000 and $1,450,000, respectively, under the line of credit and CLC paid $946,000 for rent and interest which we applied to reduce the line of credit. During the three and six months ended June 30, 2003 and 2002, we did not record interest income under the line of credit.

Additionally, we hold a Promissory Note ("Note") issued by Healthcare Holdings, Inc. ("Holdings"), a wholly owned subsidiary of CLC, in the face amount of $7,000,000. The Note was received in December 2001 in exchange for our right to receive 1,238,076 shares of Assisted Living Concepts, Inc. ("ALC") common stock distributed concurrently with ALC's emergence from bankruptcy on December 31, 2002. The Note is for a term of five years and bears interest at 5.0% compounded annually and accruing to the principal balance plus interest at 2.0% on the original principal of $7,000,000 payable in cash annually. We did not accrue any interest income on the Note during the first six months of 2003 or 2002. The Note is a full recourse obligation of Holdings and is secured by all the assets owned now or in the future by Holdings and contains a provision for acceleration should there be a change of control of Holdings or CLC. During the quarter ended June 30, 2003, we purchased from Holdings $1,177,000 face value of ALC Senior Subordinated Debentures for $1,177,000 plus accrued interest and $567,000 face value of ALC Junior Subordinated Debentures for $567,000. At June 30, 2003 Holdings owned 1,452,794 shares of ALC common stock with a fair market value based on the closing price of the stock

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

on June 30, 2003 of $8,354,000. At June 30, 2003, the book value of the Note was $3,095,000, which represented the fair market value of the 1,238,076 shares acquired by Holdings on December 31, 2001. Subsequent to June 30, 2003, we loaned Holdings an additional $2,000,000 and allowed Holdings to upstream the funds to CLC. Our company and Holdings are amending the Note to reflect this additional loan. The interest rate and payment terms will not be modified. CLC returned $1,200,000 to us, which was applied as a reduction in the line of credit with CLC.

Our Chairman, President and Chief Executive Officer, Chief Financial Officer, Chief Investment Officer and Vice President, Taxes served as officers of CLC and have resigned as officers of CLC. Our Chairman, President and Chief Executive Officer, Chief Financial Officer and Chief Investment Officer remain as Board members of CLC. Additionally, we have an indemnification agreement covering these officers who also serve as Board members of CLC and one current CLC independent director.

5. Debt Obligations

At June 30, 2003, $49,557,000 was outstanding under our Secured Revolving Credit and commitments were $68,300,000. During the six months ended June 30, 2003, pricing under the Secured Revolving Credit was LIBOR plus 2.25%. At June 30, 2003, the weighted average interest rate on the Secured Revolving Credit was 3.75%.

At maturity, January 2, 2002, we redeemed $2,408,000 of convertible subordinated debentures. During the six months ended June 30, 2003, we paid off $6,396,000 in mortgage notes payable to REMIC pools we originated.

6. Senior Mortgage Participation Payable

On August 1, 2002, we completed a loan participation transaction whereby we issued a $30,000,000 senior participating interest in 22 of our first mortgage loans that had a total unpaid principal balance of $58,627,000 (the “Participation Loan Pool”) to a private bank. The Participation Loan Pool had a weighted average interest rate of 11.6% and a weighted average scheduled term to maturity of 77 months. The $30,000,000 senior participation is secured by the entire Participation Loan Pool. We received net proceeds from the issuance of the senior participation of $29,750,000 that were used to reduce commitments and amounts outstanding under our Secured Revolving Credit.

The senior participation receives interest at a rate of 9.25% per annum, payable monthly in arrears, on the then outstanding principal balance of the senior participation. In addition, the senior participation receives all mortgage principal collected on the Participation Loan Pool until the senior participation balance has been reduced to zero. We retain interest received on the Participation Loan Pool in excess of the 9.25% paid to the senior participation. The ultimate extinguishments of the senior participation are tied to the underlying maturities of loans in the Participation Loan Pool, which range from 1 to 182 months. We have accounted for the participation transaction as a secured borrowing under SFAS No. 140 “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.”

During the three and six months ended June 30, 2003, the senior participation received principal payments of $216,000 and $428,000, respectively. At June 30, 2003, $29,239,000 was outstanding under the senior mortgage participation.

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

7. Stockholders' Equity

Other equity consists of the following (unaudited, amounts in thousands):

	June 30, 2003	December 31, 2002
Notes receivable from stockholders	$ (6,324)	$ (7,227)
Unamortized balance on deferred compensation	—	(163)
Accumulated comprehensive income	2,130	1,278
Total Other Equity	$ (4,194)	$ (6,112)

Effective June 23, 2003, our Board of Directors reclassified 5,000,000 authorized but unissued shares of common stock to authorized but unissued preferred stock. As a result, our authorized capital now consists of 15,000,000 shares of preferred stock and 35,000,000 shares of common stock.

During the quarter ended June 30, 2003, one note receivable from a stockholder with a balance of $452,000 was repaid.

During the six months ended June 30, 2003, we declared and paid cash dividends on our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling $3,641,000, $2,239,000 and $1,636,000, respectively. During the first and second quarters of 2003 we declared and paid cash dividends of $0.10 per share and $0.15 per share, respectively, on our common stock totaling $4,486,000. During the first and second quarters of 2002 we declared and paid cash dividends of $0.10 per share on our common stock totaling $3,686,000.

Subsequent to June 30, 2003 we declared a cash dividend of $0.15 per share on our common stock payable on September 30, 2003 to stockholders of record on September 19, 2003.

During the six months ended June 30, 2003, a total of 228,000 stock options were exercised at a total option value of approximately $1,232,000 and a total market value as of the dates of exercise of approximately $1,574,000. Additionally, 2,500 restricted shares previously issued were cancelled as a result of an employee's resignation.

Subsequent to June 30, 2003, an additional 8,000 options were exercised for a total of approximately $40,000 and a market value of approximately $71,000.

For the six months ended June 30, 2003, we repurchased and retired 485,500 shares of our common stock for a total price of approximately $3,264,000, 5,000 shares of our Series A Preferred stock for a total purchase price of approximately $100,000 and 5,000 of our Series B Preferred stock for a total purchase of approximately $97,000.

The common shares were purchased under a Board authorization to purchase up to 5,000,000 common shares. A total of 2,350,900 shares have been purchased under this authorization. Therefore, we continue to have an open Board authorization to purchase an additional 2,649,100 common shares.

The preferred shares were purchased on the open market under a February 2003 Board authorization to purchase up to 100,000 shares each of our Series A and Series B Preferred Stock.

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

On July 18, 2003, we announced a postponement of a previously announced proposed offering of 3,000,000 shares of Series E Preferred Stock. At this time, we are reviewing our options regarding a possible restructuring of a preferred offering. No assurances can be given that we will proceed with this or any alternative financing at this time.

Prior to January 1, 2003, we accounted for stock option grants in accordance with APB Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25") and related Interpretations. Historically, we granted stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. Under APB 25, because the exercise price of our employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized. Effective January 1, 2003, we adopted SFAS No. 148, "*Accounting for Stock-Based Compensation – Transition and Disclosure*," on a prospective basis for all employee awards granted, modified or settled on or after January 1, 2003. We did not grant any options during the three or six months ended June 30, 2003.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income available to common stockholders, as reported	$2,624	$ 10,601	$2,747	$13,024
Add: Stock-based compensation expense in the quarter	—	—	—	—
Deduct:Total stock-based compensation expense determined under fair value method for all awards	(26)	(17)	(60)	(61)
Pro forma net income available to common stockholders	$2,598	$ 10,584	$2,687	$12,963
Net income per common share available to common stockholders:				
Basic – as reported	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Basic – pro forma	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Diluted – as reported	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Diluted – pro forma	$ 0.15	$ 0.58	$ 0.15	$ 0.71

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8. Major Operators

We have two operators that lease properties directly from us that each represent between 10% and 20% of our total assets. The following table summarizes our major lessees' assets, stockholders' equity, annual revenue and net income (loss) from continuing operations as of or for the three months ended March 31, 2003 per the lessees' public filings:

	Assisted Living Concepts, Inc.	Alterra Healthcare Corporation
	(unaudited, in thousands)	
Current assets	$ 21,190	$ 102,984
Non-current assets	192,931	492,971
Current liabilities	23,574	347,314
Non-current liabilities	160,581	749,764
Gross revenue	41,144	107,350
Operating expenses	36,846	113,985
Income (loss) from continuing operations	537	(9,285)
Net Income (loss)	1,031	(12,195)
Cash (used in) provided by operations	(76)	2,820
Cash provided by investing activities	2,455	70,701
Cash used in financing activities	(2,808)	(67,732)

Assisted Living Concepts, Inc. ("ALC") leases 37 assisted living properties with a total of 1,434 units we own representing approximately 12.5%, or $73,599,000, of our total assets at June 30, 2003.

Additionally, as of June 30, 2003 we own $7,979,000 face value of ALC's new Senior Subordinated Debentures bearing interest at 10% per annum, payable semi-annually in arrears, and $3,839,000 face value of new Junior Subordinated Debentures bearing interest payable in additional new Junior Subordinated Debentures for three years at 8% and thereafter payable in cash at 12% per annum, payable semiannually in arrears. See *Note 4. CLC Healthcare, Inc*. for a discussion of a note we have with Holdings which is secured by 1,452,794 shares of ALC's common stock owned by Holdings.

Alterra Healthcare Corporation ("Alterra") leases 35 assisted living properties with a total of 1,416 units we own representing approximately 12.3%, or $72,350,000, of our total assets at June 30, 2003. Alterra announced on January 22, 2003 that it had filed a voluntary petition with the U.S. Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the US Bankruptcy Code. On July 17, 2003, Alterra conducted an auction to obtain a new equity investor in the company. The auction process was completed, and on July 23, 2003, the Bankruptcy Court approved the winning bidder as the new investor in Alterra, subject to the Merger Agreement and confirmation of a Plan of Reorganization filed with the Bankruptcy Court. While there can be no certainty that our leases with Alterra will be assumed pursuant to Alterra's Plan of Reorganization, we expect such leases will be assumed consistent with Alterra management's representations to us. Such assumption would have no adverse impact on us. Alterra is current on all rents due to us through August 2003.

These two companies are publicly traded companies, and as such are subject to the filing requirements of the Securities and Exchange Commission. Our financial position and our ability to make distributions may be adversely affected by further financial difficulties experienced by ALC and Alterra or any of our other lessees and borrowers, including additional 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.

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

9. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income	$ 6,380	$ 14,362	$ 10,264	$ 20,543
Preferred stock dividends	(3,756)	(3,761)	(7,517)	(7,519)
Net income for basic net income per share	2,624	10,601	2,747	13,024
Effect of dilutive securities:				
Stock options	—	—	—	—
Other dilutive securities	—	—	—	—
Net income for diluted net income per share	$ 2,624	$ 10,601	$ 2,747	$ 13,024
Shares for basic net income per share	17,775	18,393	17,870	18,393
Effect of dilutive securities:				
Stock options	106	—	98	—
Other dilutive securities	—	—	—	—
Shares for diluted net income per share	17,881	18,393	17,968	18,393
Basic net income per share	$ 0.15	$ 0.58	$ 0.15	$ 0.71
Diluted net income per share	$ 0.15	$ 0.58	$ 0.15	$ 0.71

10. New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*, ("FIN No. 46"). FIN No. 46 changes the method for determining whether entities included in this scope should be consolidated by its sponsor, transferors or investors. Among other things, FIN No. 46 introduces a new consolidation model that would require consolidation of an entity which is deemed to be a variable interest entity by the entity deemed to be the primary beneficiary, as these terms are defined under FIN No. 46. FIN No. 46 is effective for our reporting period commencing on July 1, 2003. We are currently evaluating the provisions of FIN No. 46 in order to determine the effect, if any, on our financial reporting, financial positions or the results of our operations and cash flows. At this time, we have not determined what effect, if any, the adoption of FIN No. 46 would have on us.

In April 2003, the FASB issued Statement of Financial Account Standards ("SFAS") No. 149 "*Amendment of Statement 133 on Derivative and Hedging Activities*." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. At June 30, 2003, we had no interest rate contracts or any other derivative financial instrument outstanding. Therefore, the adoption of SFAS No. 149 will have no material effect on our financial statements.

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

In May 2003, the FASB issued SFAS No. 150 "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. At June 30, 2003, we had no such financial instruments outstanding. Therefore, the adoption of SFAS No. 150 will have no material effect on our financial statements.

For further description of our accounting policies, see *Note 2. Summary of Significant Accounting Policies* in our Annual Report filed on Form 10-K for the year ended December 31, 2002.

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

Operating Results

Three months ended June 30, 2003 compared to three months ended June 30, 2002

Revenues for the three months ended June 30, 2003 decreased to $15.9 million from $17.0 million for the same period in 2002. Rental income for the three months ended June 30, 2003 decreased $0.5 million compared to the same period of 2002 primarily as a result of the elimination of rents from sold properties ($0.2 million) and the effect of classifying nine properties leased to Sun Healthcare Group, Inc. as non-accrual rents ($0.9 million), partially offset by the receipt of past due rent that we had not accrued due to collectibility uncertainties ($0.5 million) and new leases and rental increases provided for in existing lease agreements ($0.1 million). Same store rental income, properties owned for the three months ended June 30, 2003 and the three months ended June 30, 2002, decreased $0.2 million due to the effect of classifying nine properties leased to Sun as non-accrual rents, partially offset by the receipt of past due rent that we had not accrued due to collectibility uncertainties and new leases and normal rental rate increases, as set forth in the lease agreements. Interest income from mortgage loans and notes receivable was comparable to prior year. Interest income from REMIC Certificates for the three months ended June 30, 2003 decreased $0.7 million compared to the same period of 2002 due to the amortization of the related asset and the early payoff of certain mortgage loans underlying our investment in REMIC Certificates. Interest and other income for the three months ended June 30, 2003 was comparable to prior year.

Interest expense decreased by $0.3 million to $5.0 million for the three months ended June 30, 2003 from $5.3 million during the same period in 2002, due to a decrease in average borrowings outstanding during the period and a decrease in interest rates on our Secured Revolving Credit partially offset by an increase in our overall weighted average interest rate resulting from the sale of the Senior Mortgage Participation as discussed in *Note 6. Senior Mortgage Participation Payable*. Depreciation and amortization expense for the second quarter of 2003 decreased $0.4 million from the second quarter of 2002 due to properties sold in 2002 and a lower basis of certain assets due to impairment charges taken in 2002. We recorded a $4.9 million impairment charge during the second quarter of 2002. See *Note 3. Impairment Charge* for further discussion. No impairment charge was taken in the second quarter of 2003. Legal expenses were $0.3 million higher in the second quarter of 2003 due to higher legal costs for general litigation defense. Operating and other expenses decreased $0.2 million due to lower property tax payments made on behalf of certain operators.

During the three months ended June 30, 2003, net income from discontinued operations was $0.7 million. During the second quarter of 2003, we sold three skilled nursing facilities in Texas, one of which was formerly operated by Sun. We recognized a $0.7 million gain on the sale and used the $2.6 million of net proceeds to repay outstanding borrowings under the Secured Revolving Credit. During the quarter ended June 30, 2002, we reported net income from discontinued operations of $13.0 million primarily as a result of a gain on sale of assets. This reclassification was made in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations." During the three months ended June 30, 2002, we sold five skilled nursing homes in Alabama for $24.0 million resulting in a net gain of approximately $13.2 million.

Net income available to common stockholders decreased to $2.6 million for the three months ended June 30, 2003 from $10.6 million for the same period in 2002 primarily due to the gain on sale of assets in 2002 as discussed above.

Six months ended June 30, 2003 compared to six months ended June 30, 2002

Revenues for the six months ended June 30, 2003 decreased to $31.9 million from $34.2 million for the same period in 2002. Rental income for the six months ended June 30, 2003 decreased $1.1 million compared to the same period of 2002 primarily as a result of the elimination of rents from sold properties ($0.7 million) and the effect of classifying nine properties leased to Sun Healthcare Group, Inc. as non-accrual rents ($1.6 million), partially offset by the receipt of past due rent that we had not accrued due to collectibility uncertainties ($0.5 million) and new leases and rental increases provided for in existing lease agreements ($0.7 million). Same store rental income, properties owned for the six months ended June 30, 2003 and the six months ended June 30, 2002, decreased $0.3 million due to the effect of classifying nine properties leased to Sun as non-accrual rents, partially offset by the receipt of past due rent that we had not accrued due to collectibility uncertainties and new leases and normal rental rate increases, as set forth in the lease agreements. Interest income from mortgage loans and notes receivable decreased $0.1 million primarily as a result of the early payoff of two mortgage loans. Interest income from REMIC Certificates for the six months ended June 30, 2003 decreased $1.1 million compared to the same period of 2002 due to the amortization of the related asset and the early payoff of certain mortgage loans underlying our investment in REMIC Certificates. Interest and other income for the six months ended June 30, 2003 increased $0.1 million from the same period in 2002 due primarily to the receipt of interest on our investment in ALC bonds.

Interest expense decreased by $0.5 million to $10.2 million for the six months ended June 30, 2003 from $10.7 million during the same period in 2002, due to a decrease in average borrowings outstanding during the period and a decrease in interest rates on our Secured Revolving Credit partially offset by an increase in our overall weighted average interest rate resulting from the sale of the Senior Mortgage Participation as discussed in *Note 6. Senior Mortgage Participation Payable*. Depreciation and amortization expense for the six months ended June 30, 2003 decreased $0.8 million from the same period in 2002 due to properties sold in 2002 and a lower basis of certain assets due to impairment charges taken in 2002. We recorded a $1.3 million impairment charge during the six months ended June 30, 2003. See *Note 3. Impairment Charge* for further discussion. A $4.9 million impairment charge was recorded in the same period of the prior year. Legal expenses were $0.6 million higher in the six months ended June 30, 2003 due to higher legal costs for general litigation defense. Operating and other expenses increased $0.1 million due to a one-time severance payment in 2003 partially offset by lower property tax payments made on behalf of operators in 2003 as compared to 2002.

During the six months ended June 30, 2003, net income from discontinued operations was $0.7 million. During this period, we sold three skilled nursing facilities in Texas, one of which was formerly operated by Sun. We recognized a $0.7 million gain on the sale and used the $2.6 million of net proceeds to repay outstanding borrowings under the Secured Revolving Credit. During the six months ended June 30, 2002, we reported net income from discontinued operations of $13.0 million. This reclassification was made in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations." During the six months ended June 30, 2002, we sold two skilled nursing facilities in Illinois and five skilled nursing facilities in Alabama resulting in a gain of $13.1 million.

Net income available to common stockholders decreased to $2.7 million for the six months ended June 30, 2003 from $13.0 million for the same period in 2002 primarily due to the gain on sale of assets in 2002 as discussed above.

Liquidity and Capital Resources

At June 30, 2003 our real estate investment portfolio (before accumulated depreciation and amortization) consisted of $468.3 million invested primarily in owned long-term care facilities, mortgage loans of approximately $83.6 million (net of a $1.3 million reserve) and subordinated REMIC Certificates of approximately $62.9 million with a weighted average effective yield of 16.2%. At June 30, 2003 the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC Certificates (all held by outside third parties) was $165.1 million and 7.2%. Our portfolio consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 94 skilled nursing facilities, 96 assisted living facilities and one school in 30 states.

For the six months ended June 30, 2003, we had net cash provided by operating activities of $17.3 million. We invested $0.2 million for renovation of owned properties, purchased equipment, furniture and fixtures in four Georgia facilities from CLC for $0.3 million, and acquired two skilled nursing facilities in New Mexico with a total of 98 beds from CLC as discussed in *Note 4. CLC Healthcare, Inc*. We paid cash of $1.2 million for the two facilities which CLC used to repay the outstanding loan balance due to a REMIC pool we originated. We leased these facilities, along with two other facilities in New Mexico previously operated by Sun, to a third party operator under a master lease beginning July 1, 2003. This master lease provides for rents of $0.8 million in the initial year with 2.0% increases annually for 15 years. We also leased to a third party operator four skilled nursing facilities in Georgia formerly operated by CLC for $0.7 million in the initial year beginning July 1, 2003 with 3.0% increases annually for 15 years. We sold three skilled nursing facilities in Texas, one of which was formerly operated by Sun, and sold licensed beds from two closed skilled nursing facilities resulting in net cash proceeds of $2.8 million. We received $0.7 million in principal payments on mortgage loans receivable. We advanced CLC $1.5 million under the line of credit and CLC repaid $0.9 million.

In addition, we purchased $1.2 million face value ALC Senior Subordinated Debentures for face value plus accrued interest and $0.5 million face value ALC Junior Subordinated Debentures for face value. See *Note 24. CLC Healthcare, Inc*. for further discussion. We also invested $1.7 million in one real estate mortgage.

During the six months ended June 30, 2003, $0.4 million in principal was received by the non-recourse senior mortgage participation holder and we paid $8.0 million in principal payments on mortgage loans and capital lease obligations including $6.4 million of mortgage debt. The three mortgages repaid were held in a REMIC pool we originated.

During the six months ended June 30, 2003, we declared and paid cash dividends on our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling $3.7 million, $2.2 million, and $1.6 million respectively. Additionally, we paid cash dividends on our common stock totaling $4.5 million. Subsequent to June 30, 2003 we declared a $0.15 dividend per share on our common stock payable on September 30, 2003.

During the six months ended June 30, 2003, we purchased and retired 485,500 shares of common stock for an aggregate purchase price of $3.3 million, an average of $6.72 per share. Additionally, we purchased and retired 10,000 shares of LTC Series A Preferred Stock and Series B Preferred Stock for an aggregate purchase price of $0.2 million, an average of $19.70 per share.

At June 30, 2003, $49.6 million was outstanding under our Secured Revolving Credit and commitments were $68.3 million. During the six months ended June 30, 2003, pricing under the line of credit was LIBOR plus 2.25%. At June 30, 2003, the weighted average interest rate on the line of credit was 3.75%.

On June 27, 2003, we announced a proposed public offering of 3,000,000 shares of Series E Cumulative Preferred Stock. The proceeds from such issue were to be used to first pay amounts outstanding under our Secured Revolving Credit and any balance would have been used to pre-pay mortgage debt. On July 18, 2003, we announced a postponement of this offering.

At this time, we are considering certain modifications to the originally proposed offering with the goal of completing an offering that would provide sufficient funds along with cash on hand to retire our Secured Revolving Credit. The line of credit does not mature until October 1, 2004; however, it is secured by substantially all of our unencumbered assets and if a financially feasible offering can be completed we hope to replace this line of credit with a more favorable bank facility.

There can be no assurance that we will be able to complete a financially feasible public financing at this time and there is no imminent need for us to raise funds at this time. Our next scheduled debt maturity, other than the line of credit, is January 2005.

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

Our investments, principally our investments in mortgage loans, REMIC Certificates, and owned properties, are subject to the possibility of loss of their carrying values as a result of changes in market prices, interest rates and inflationary expectations. The effects on interest rates may affect our costs of financing our operations and the fair market value of our financial assets. We generally made loans that have predetermined increases in interest rates and leases that have agreed upon annual increases. Inasmuch as we initially funded our investments with our Secured Revolving Credit, we are at risk of net interest margin deterioration if medium and long-term rates were to increase.

The REMIC Certificates we retained are subordinate in rank and right of payment to the certificates sold to third-party investors and as such would, in most cases, bear the first risk of loss in the event of impairment to any of the underlying mortgages. The returns on our investment in REMIC Certificates are subject to certain uncertainties and contingencies including, without limitation, the level of prepayments, estimated future credit losses, prevailing interest rates, and the timing and magnitude of credit losses on the underlying mortgages collateralizing the securities that are a result of the general condition of the real estate market or long-term care industry. As these uncertainties and contingencies are difficult to predict and are subject to future events that may alter management’s estimations and assumptions, no assurance can be given that current yields will not vary significantly in future periods. To minimize the impact of prepayments, the mortgage loans underlying the REMIC Certificates generally prohibit prepayment unless the property is sold to an unaffiliated third party (with respect to the borrower).

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

Critical Accounting Policies

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

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

As of June 30, 2003, there were 315,771 options outstanding subject to the disclosure requirements of SFAS No. 148. The fair value of these options was estimated utilizing the Black-Scholes valuation model and assumptions as of each respective grant date. In determining the estimated fair values for the options granted in prior years, the weighted average expected life assumption was five years, the weighted average volatility was 0.49 and the weighted average risk free interest rate was 3.80%. At June 30, 2003, the weighted average fair value of the options outstanding was estimated to be $0.82, the weighted average exercise price of the options was $5.64 and the weighted average remaining contractual life was 2.1 years. See *Note 7. Stockholder's Equity* for further discussion.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149 *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133 "*Accounting for Derivative Instruments and Hedging Activities*." In addition, SFAS No. 149 clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. In addition, all provisions of SFAS No. 149 should be applied prospectively. At June 30, 2003, we had no interest rate contracts or any other derivative financial instrument outstanding.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*, ("FIN No. 46"). FIN No. 46 changes the method for determining whether entities included in this scope should be consolidated by its sponsor, transferors or investors. Among other things, FIN No. 46 introduces a new consolidation model that would require consolidation of an entity which is deemed to be a variable interest entity by the entity deemed to be the primary beneficiary, as these terms are defined under FIN No. 46. FIN No. 46 is effective for our reporting period commencing on July 1, 2003. We are currently evaluating the provisions of FIN No. 46 in order to determine the effect, if any, on our financial reporting, financial positions or the results of our operations and cash flows. At this time, we have not determined what effect, if any, the adoption of FIN No. 46 would have on us.

For further discussion of our critical accounting policies, see our Annual Report filed on Form 10-K for the year ended December 31, 2002.

Statement Regarding Forward Looking Disclosure

Certain information contained in this report includes forward looking statements, which can be identified by the use of forward looking terminology such as "may," "will," "expect," "should" or comparable terms or negatives thereof. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include (without limitation) the following: the effect of economic and market conditions and changes in interest rates, government policy changes relating to the health care industry including changes in reimbursement levels under the Medicare and Medicaid programs, changes in reimbursement by other third party payors, the financial strength of the operators of our facilities as it affects the continuing ability of such operators to meet their obligations to us under the terms of our agreements with our borrowers and operators, the amount and the timing of additional investments, access to capital markets and changes in tax laws and regulations. Other important factors are identified in our annual report on Form 10-K for the year ended December 31, 2002, including factors identified under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, we assume no obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

We do not utilize interest rate swaps, forward or option contracts or foreign currencies or commodities, or other types of derivative financial instruments. The purpose of the following disclosure is to provide a framework to understand our sensitivity to hypothetical changes in interest rates as of June 30, 2003.

Our future earnings, cash flows and estimated fair values relating to financial instruments are dependent upon prevalent market rates of interest, such as LIBOR or term rates of U.S. Treasury Notes. Changes in interest rates generally impact the fair value, but not future earnings or cash flows, of mortgage loans receivable, our investments in REMIC Certificates and fixed rate debt. For variable rate debt, such as our Secured Revolving Credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows.

At June 30, 2003, based on the prevailing interest rates for comparable loans and estimates made by management, the fair value of our mortgage loans receivable was approximately $85.0 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately $3.3 million while a 1% decrease in such rates would increase their estimated fair value by approximately $3.5 million. A 1% increase or decrease in applicable interest rates would not have a material impact on the fair value of our investment in REMIC Certificates or fixed rate debt.

Assuming the borrowings outstanding under our Secured Revolving Credit at June 30, 2003, a 1% increase in interest rates would increase annual interest expense on our Secured Revolving Credit by approximately $0.5 million. Conversely, a 1% decrease in interest rates would decrease annual interest expense on our revolving line of credit by $0.5 million.

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

Item 4. CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2003 (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, these officers have concluded that as of June 30, 2003, our disclosure controls and procedures were adequate.

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

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PART II

LTC PROPERTIES, INC.

OTHER INFORMATION

Item 1. Legal Proceedings

We are 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. As of June 30, 2003, we have been voluntarily dismissed as a defendant in those prior cases previously reported in our annual report on Form 10-K for the year ended December 31, 2002. See "Item 3. LEGAL PROCEEDINGS" and "Item 8. FINANCIAL STATEMENTS—*Note 13. Contingencies*" in our annual report on Form 10-K for the year ended December 31, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

10.1	Amended and Restated Promissory Note between LTC Properties, Inc. and Healthcare Holdings, Inc. dated July 29, 2003
10.2	Amended and Restated Security Agreement between LTC Properties, Inc. and Healthcare Holdings, Inc. dated July 29, 2003
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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

(b) Reports on Form 8-K

On May 5, 2003 we filed a Current Report on Form 8-K dated May 5, 2003 reporting our press release announcing operating results for the three months ended March 31, 2003.

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SIGNATURES

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

LTC PROPERTIES, INC.
Registrant

Dated: August 13, 2003

By: /s/ WENDY L. SIMPSON

Wendy L. Simpson
Vice Chairman and Chief Financial Officer

Exhibit 10.1

AMENDED AND RESTATED PROMISSORY NOTE

DATE: July 29, 2003

Malibu, California

THIS AMENDED AND RESTATED PROMISSORY NOTE (THIS "NOTE"), SUPERSEDES AND REPLACES THAT CERTAIN PROMISSORY NOTE DATED DECEMBER 31, 2001 MADE BY HEALTHCARE HOLDINGS, INC., AS MAKER, IN FAVOR OF LTC PROPERTIES, INC., AS PAYEE IN THE ORIGINAL PRINCIPAL AMOUNT OF SEVEN MILLION DOLLARS ($7,000,000.00) (THE "ORIGINAL NOTE").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged, Maker and Payee agree as follows:

RECITALS

A. As of the date hereof, Maker certifies, acknowledges and agrees the outstanding principal balance of the Note plus accrued interest as of July 29, 2003 is $7,631,917.81 prior to any additional amounts borrowed under B below.

B. Subject to the limitations described herein, Maker desires to amend this Note from Payee to enable Maker to borrow from Payee up to an additional Two Million dollars ($2,000,000) and to allow Maker to "upstream" any additional advances to Maker's parent company, CLC Healthcare, Inc. ("CLC").

C. At Maturity Date, as hereinafter defined, for value received, Maker hereby promises to pay to the order of Payee, at Payee's principal place of business in Malibu, California, or such other place as Payee may from time to time designate, the principal sum then outstanding. Principal amounts outstanding will accrue interest at the rate of 5%, compounded annually, ("Compounded Interest"). In addition, during the term of the Note, Maker shall pay to Payee on an annual basis accrued interest at the rate of 2% ("Annual Interest") on the principal balance then outstanding on each December 31st and ending with the last payment of Annual Interest on December 31, 2006. All principal and accrued Compound Interest shall be due on or before December 31, 2006 (the "Maturity Date"). Principal and interest due hereunder shall be payable in lawful money of the United States.

1. Payments on Maturity Date. Assuming no acceleration by Payee and no prepayment in full of the Loan by Maker, on the Maturity Date, Maker shall pay to Payee the entire outstanding principal, compound interest and accrued interest owing to Payee by Maker under this Note.

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

3. Security Documents. This Note is a full recourse obligation of the Maker and is secured by all of the assets of Maker, whether heretofore or hereafter, including, but not limited to the Assisted Living Concepts, Inc. "(ALF") common shares currently held by Maker. Reference is made to the Security Documents for a description of the collateral provided for therein and the rights of Payee with respect to such collateral.

4. Sale of Collateral. Maker may not at any time sell all or a portion of the Collateral underlying this Note without Payee's written consent. One hundred percent (100%) of the proceeds, as hereinafter defined, must be remitted to the Payee within 3 business days of receipt of such proceeds. "Proceeds" is defined as total cash received before any costs, expenses or fees associated with such sale. Such Proceeds, to the extent of the proceeds, will first be applied to reduce any accrued but unpaid Annual Interest, second to reduce any accrued but unpaid Compounded Interest and finally to reduce the principal of the Note.

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

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

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

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

6. Acknowledgement and Restrictive Covenant of CLC Healthcare, Inc., parent of Maker ("CLC"). CLC hereby acknowledges that it has heretofore pledged as collateral all of the outstanding stock of Maker pursuant to that certain First Amendment to Second Amended and Restated Promissory Note and Security Agreement dated October 1, 2002, which obligation remains in effect, and hereby further covenants and agrees with Payee that, for so long as the obligations of Maker under this Note remain outstanding, CLC will not pledge the stock of Maker, or otherwise encumber the stock of Maker, in any manner for any reason.

7. Change of Control. Notwithstanding anything to the contrary contained herein, upon a Change of Control (as hereinafter defined) Payee may, in its sole discretion, declare the entire balance of principal and interest hereon immediately due and payable, together with all applicable charges and payments due hereunder, all costs of collection, including reasonable attorneys' fees and all other costs and expenses incurred, and shall have all remedies available under the Security Documents, at law or in equity. For purposes of this Note, a "Change of Control" shall mean and include (i) the sale by Maker, or CLC (each hereinafter referred to as "Party") and/or any subsidiary of either Party of all or substantially all of the assets of either Party and its subsidiaries taken as a whole, (ii) any Acquisition by any person or any persons acting together which would constitute a "group" for purposes of Section 13(d) of the Exchange Act (a "Group") of 30% or more of the total voting power of all classes of capital stock of either Party entitled to vote generally in the election of the Board of Directors of either Party, (iii) any Acquisition by any person or Group of the power to elect, appoint or cause the election or appointment of at least a majority of the members of the Board of Directors of either party, through beneficial ownership of the capital stock or otherwise, or, (iv) a majority of the members of the Boards of Directors of either Party cease to be Continuing Directors (as hereinafter defined). As used herein, "Continuing Directors" means, as of any date of determination, any member of the Board of Directors of either party, who (i) was a member of the Boards of Directors of either Party on the date of this Note, or (ii) was nominated for election or elected to such Board with the approval of a majority of the Continuing Directors who were members of such Boards at the time of such nomination or election. For the purposes of this definition, "Acquisition" of the power or properties and assets stated in the preceding sentence means the earlier of (a) the actual possession thereof and (b) the consummation of any transaction or series of related transactions which, with the passage of time, will give such Person or Persons that actual possession thereof. As used herein, "Person" shall mean an individual, corporation, trust, partnership, joint venture, unincorporated organization, government agency or any agency or political subdivision thereof, or other entity.

8. Late Payment Charge; No Waiver. MAKER ACKNOWLEDGES THAT LATE PAYMENT TO PAYEE OF ANY SUMS DUE HEREUNDER WILL CAUSE PAYEE TO INCUR COSTS NOT CONTEMPLATED HEREUNDER, THE EXACT AMOUNT OF WHICH WILL BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO ASCERTAIN. SUCH COSTS INCLUDE, BUT ARE NOT LIMITED TO, PROCESSING AND ACCOUNTING CHARGES. ACCORDINGLY, IF ANY INSTALLMENT IS NOT RECEIVED BY PAYEE WHEN DUE, OR IF ANY REMAINING PRINCIPAL AND ACCRUED BUT UNPAID INTEREST OWING UNDER THIS NOTE IS NOT PAID IN FULL ON THE MATURITY DATE, MAKER

SHALL THEN PAY TO PAYEE AN ADDITIONAL SUM OF FIVE PERCENT (5%) OF THE OVERDUE AMOUNT AS A LATE CHARGE. THE PARTIES HEREBY AGREE THAT THE LATE CHARGE REPRESENTS A FAIR AND REASONABLE ESTIMATE OF THE COSTS PAYEE WILL INCUR BY REASON OF LATE PAYMENT. THIS PROVISION SHALL NOT, HOWEVER, BE CONSTRUED AS EXTENDING THE TIME FOR PAYMENT OF ANY AMOUNT HEREUNDER, AND ACCEPTANCE OF SUCH LATE CHARGE BY PAYEE SHALL IN NO EVENT CONSTITUTE A WAIVER OF MAKER'S DEFAULT WITH RESPECT TO SUCH OVERDUE AMOUNT NOR PREVENT PAYEE FROM EXERCISING ANY OF ITS OTHER RIGHTS AND REMEDIES WITH RESPECT TO SUCH DEFAULT.

INITIAL:_________
Maker

9. <u>Default</u>. The occurrence of any of the following shall constitute an event of default ("Event of Default") under this Note:

(a) failure to make any payment of principal, interest, or any other sums due hereunder within five (5) business days of the date due;

(b) the occurrence of any breach or default of any other obligation of Maker, CLC, or any of their respective subsidiaries, monetary or otherwise, hereunder or otherwise, which breach or default (except as provided below) shall continue for more than ten (10) calendar days after Maker or CLC has received written notice thereof from Payee;

(c) notwithstanding anything to the contrary contained in this Section, immediately upon the breach or default of any provision of Sections 4, 5 and 6 hereof; or

(d) a breach or default under the Security Documents.

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

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

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

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

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

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

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

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

(b) If at any time interest on the Loan, together with any fees and additional amounts payable hereunder or under any other agreements or instruments that are deemed to constitute interest under Applicable Usury Laws (the "Additional Interest"), exceeds the Highest Lawful Rate, then the amount of interest to accrue pursuant to this Note shall be limited, notwithstanding anything to the contrary in this Note, or any other agreement or instrument, to the amount of interest that would accrue at the Highest Lawful Rate; provided, however, that to the fullest extent permitted by Applicable Usury Laws, any subsequent reductions in the interest rate shall not reduce the interest to accrue pursuant to this Note below the Highest Lawful Rate until the aggregate amount of interest actually accrued pursuant to this Note, together with all Additional Interest, equals the amount of Interest which would have accrued if the Highest Lawful Rate had at all times been in effect and such Additional Interest, if any, had been paid in full.

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

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

If to Maker:	Healthcare Holdings, Inc. 7610 N. Stemmons Fwy, Suite 500 Dallas, Texas 75247 Attention: Chief Financial Officer
with a copy to:	Healthcare Holdings, Inc. 7610 N. Stemmons Fwy, Suite 500 Dallas, Texas 75247 Attention: Legal Department
If to Parent:	CLC Healthcare, Inc. 7610 N. Stemmons Fwy, Suite 500 Dallas, Texas 75247 Attention: Chief Financial Officer
If to Payee:	LTC Properties, Inc. 22917 Pacific Coast Hwy, Suite 350 Malibu, California 90265 Attention: Chief Financial Officer
with a copy to:	LTC Properties, Inc. 22917 Pacific Coast Hwy, Suite 350 Malibu, California 90265 Attention: Legal Department

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

[SIGNATURE PAGE FOLLOWS]

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

MAKER:

HEALTHCARE HOLDINGS, INC.,
a Nevada corporation

By: /s/ KIMBERLY DAUGHERTY

Name: **Kimberly Daugherty**
Its: **Senior Vice President**

PARENT:

CLC HEALTHCARE, INC.,
a Nevada corporation

By: /s/ ANDREW KERR

Name: **Andrew Kerr**
Its: **Chief Financial Officer**

Exhibit 10.2

AMENDED AND RESTATED SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made and entered into as of the 29th day of July, 2003 by Healthcare Holdings, Inc., a Nevada corporation ("Debtor"), in favor of LTC Properties, Inc., a Maryland corporation ("Secured Party"), with reference to the following facts and circumstances.

A. Secured Party has agreed to amend and restate a Promissory Note (the "Note") to Debtor, which Note is evidenced by that certain Amended and Restated Promissory Note of even date herewith executed by Debtor in favor of Secured Party (the "Note").

B. To secure its obligations under the Loan, Debtor has agreed, among other things, to grant Secured Party a continuing security interest in all assets of Maker, whether heretofore or hereafter acquired.

NOW, THEREFORE, IN CONSIDERATION of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Debtor and Secured Party hereby agree as follows:

1. Grant of Security Interest. As security for Debtor's due and punctual performance of the Obligations (as hereinafter defined), Debtor hereby pledges with and delivers to Secured Party the Collateral (as hereinafter defined), and grants, assigns, transfers and conveys to Secured Party a continuing security interest in all of Debtor's right, title and interest in and to the Collateral.

2. Obligations. This Agreement, and Debtor's pledge of and grant to Secured Party of a security interest in and to the Collateral, is made to secure: (i) due and punctual performance of Debtor's obligation to make any and all payments when and as due under the Note, and any other note or instrument executed by Debtor and payable to Secured Party which recites that it is secured hereby, including any and all amendments, modifications, renewals, extensions, substitutions or replacements hereof or thereof, including any future advances which are made pursuant to the terms of the Note or any such note or instrument and the performance and discharge of each and every obligation of Debtor set forth in the Note or any such note or notes; (ii) payment of all other sums, with interest thereon, herein or in the Note, or any such note or notes, or any part thereof; (iii) due, prompt and complete observance and performance of each and every obligation, covenant and agreement of Debtor contained herein, in the Note, or in any other instrument executed by Debtor for the purpose of further securing the indebtedness evidenced by the Note, or such note or notes, or any part thereof (collectively, the "Obligations").

3. Collateral. As used herein, the term "Collateral" shall collectively and severally mean all assets of Maker, including, but not limited to the following:

(a) 1,452,794 shares of Assisted Living Concepts, Inc. ("ALF") common stock.

(b) Accounts. All accounts, general intangibles, chattel paper, instruments (as defined in the California Uniform Commercial Code (the "Code")), and other obligations of any kind, now owned or held or hereafter acquired by the Debtor, including, without limitation, insurance claims, insurance settlement proceeds, tax refund claims and tax refunds arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, general intangibles, chattel paper, instruments or obligations, and all books and records relating to any of the foregoing (any and all of the foregoing being the "Accounts");

(c) Instruments. All notes and other instruments and any instrument which constitutes a part of chattel paper, and other evidences of indebtedness in which the Debtor now or hereafter has any interest, to the extent of that interest;

(d) Documents. All documents (as defined in the Code) in which the Debtor now or hereafter has any interest, to the extent of that interest;

(e) Chattel Paper. All chattel paper in which the Debtor now or hereafter has any interest;

(f) General Intangibles. All General Intangibles (as hereinafter defined) in which the Debtor now or hereafter has any interest, to the extent of that interest. "General Intangibles" means any "general intangibles," as such term is defined in the Code, and shall include, without limitation, (i) all patents, patent applications, trademarks, trademark registrations, trade names and trademark applications; (ii) license agreements with any other party, whether the Debtor is a licensor or licenses under any such license agreement, and the right to prepare for sale, sell and advertise for sale all inventory now or hereafter covered by such licenses; (iii) all of the Debtor's books, records and files, including computer software and tapes and all other forms of electronic information storage; (iv) copyrights and other rights in intellectual property; (v) interests in partnerships, joint ventures and other business associations; (vi) licenses and permits; (vii) trade secrets, proprietary or confidential information, customer lists, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records, and goodwill; (viii) claims in or under insurance policies, including unearned premiums; (ix) uncertificated securities; (x) deposit accounts; (xi) rights to receive tax refunds and other payments; (xii) rights of indemnification; and (xiii) all of the Debtor's rights under any warranties or guaranties of any kind, including equipment, machinery or services;

(g) Contracts. All of the Debtor's rights under all contracts undertakings or agreements (other than rights evidenced by chattel paper, documents or instruments) in or under which the Debtor may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof;

(h) Money and Other Personal Property. All money (as defined in the Code) and all other goods and personal property in which the Debtor has any interest, to the extent of that interest, whether now or hereafter owned or existing, leased, consigned by or to or acquired by the Debtor and wherever located; and

(i) Stock. All of the outstanding capital stock of Debtor and its subsidiaries now formed or to be formed.

(j) Proceeds and Products. All proceeds and products of the foregoing (including, without limitation, cash proceeds and noncash proceeds resulting from the sale or other voluntary or involuntary disposition thereof or any other realization in respect thereof) and including, but not limited to, all property of any type that is acquired with any cash proceeds, and all guarantees, insurance and rights against sureties the Debtor may have in connection therewith and all proceeds and products relating thereto or therefrom, and all the Debtor's right, title and interest in and to additions, accessions, replacements and substitutions to and for the foregoing, and all documents, ledger sheets and files of the Debtor relating thereto. The term "proceeds" as used herein shall include, without limitation, all accounts, chattel paper, deposit accounts, instruments, equipment, inventory, documents, general intangibles and other proceeds that arise from the sale, lease, transfer or other use or disposition of any kind of any of the Collateral described in the foregoing paragraphs (a) through (j), inclusive, or proceeds, and all proceeds of any type described above acquired with cash proceeds.

4. Delivery of Collateral. Concurrently with the execution and delivery of this Agreement, Debtor shall deliver to Secured Party debentures and all stock certificates representing the Collateral set forth in Section 3 above. Debtor agrees to deliver to Secured Party stock certificates representing all the outstanding shares of any subsidiaries owned by Debtor and formed hereafter.

5. Declaration of Trust. If Debtor shall become entitled to receive or shall receive any goods, instruments, documents, accounts, general intangibles or other property of any kind or nature delivered to Debtor on account of or in connection with Debtor's ownership of the Collateral, Debtor shall accept and hold the same as Secured Party's agent, in trust for Secured Party, and shall forthwith, without notice or demand, endorse, transfer and deliver the same to Secured Party, accompanied, where necessary or appropriate, by assignments duly executed in blank, to be held by Secured Party as part of the Collateral.

6. Powers of Secured Party. Debtor appoints Secured Party its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and

may be exercised from time to time by Secured Party's officers, employees or agents, or any of them, whether or not an Event of Default has occurred: (i) to liquidate any certificate of deposit pledged to Secured Party hereunder prior to its maturity date and to apply the proceeds thereof to payment of the Obligations or hold such proceeds as part of the Collateral, notwithstanding the fact that such liquidation may give rise to penalties for early withdrawals of funds; (ii) to sell, exchange or otherwise dispose of any portion of the Collateral if Secured Party deems such transaction reasonably necessary to preserve the value of its security interest, and to apply the proceeds thereof to payment of the Obligations, to hold such proceeds as part of the Collateral or to use such proceeds to purchase similar items of Collateral that Secured Party, in its sole discretion, deems necessary or advisable to preserve the value of its security interest; (iii) to notify any person obligated on any security, instrument or other document subject to this Agreement of Secured Party's rights hereunder; (iv) to collect by legal proceedings or otherwise all dividends, interest, principal or other sums now or hereafter payable upon or on account of the Collateral; (v) to enter into any extension, reorganization, deposit, merger or consolidation agreement, or any other agreement relating to or affecting the Collateral or proceeds, and in connection therewith to deposit or surrender control of the Collateral, accept other property in exchange for the Collateral, and do and perform such acts and things as Secured Party may deem proper, and any money or property received in exchange for the Collateral may be applied to the Obligations or held by Secured Party under this Agreement; (vi) to make any compromise or settlement Secured Party deems necessary, desirable or proper in respect of the Collateral; (vii) to insure, process and preserve the Collateral; and (viii) to perform any obligation of Debtor under this Agreement, in Debtor's name or otherwise. To effect the purposes of this Agreement, or otherwise upon instructions of Debtor, Secured Party may cause the Collateral to be transferred to Secured Party's name or the name of Secured Party's nominee.

7. Secured Party's Care and Delivery of Collateral. Secured Party's obligation with respect to Collateral in its possession shall be strictly limited to the duty to exercise reasonable care in the custody and preservation of such Collateral, and such duty shall not include any obligation to ascertain or to initiate any action with respect to or to inform Debtor of maturity dates, conversion, call, or exchange rights, or offers to purchase the Collateral, or any similar matters, notwithstanding the Secured Party's knowledge of the same. Secured Party shall have no duty to take any steps necessary to preserve the rights of Debtor against prior parties, or to initiate any action to protect against the possibility of a decline in the market value of the Collateral. Secured Party shall not be obligated to take any action with respect to the Collateral requested by Debtor unless such request is made in writing, and Secured Party determines, in its sole discretion, that the requested actions would not unreasonably jeopardize the value of the Collateral as security for the Obligations. Secured Party may at any time deliver the Collateral, or any part thereof, to Debtor, and the receipt thereof by Debtor shall be a complete and full acquittance for the Collateral and proceeds so delivered, and Secured Party shall thereafter be discharged from any liability or responsibility therefor.

8. Representations and Warranties. Debtor represents and warrants to Secured Party as follows:

(a) Debtor is a Nevada corporation, duly incorporated, validly existing and in good standing under the laws of the State of the State of Nevada. Debtor is qualified to do business as a foreign corporation in every state in which Debtor is required to be so qualified.

(b) Debtor has all requisite capacity and power to execute, deliver and perform its obligations under this Agreement. This Agreement has been duly and validly executed and delivered by Debtor, and constitutes a valid and binding obligation of Debtor, enforceable in accordance with its terms.

(c) Debtor owns the Collateral free and clear of all liens, claims, encumbrances, security interests or equities, other than the security interest created hereby.

(d) Debtor has not sold, transferred, assigned or conveyed the Collateral, or any portion thereof, to any person other than Secured Party.

9. Covenants and Agreements of Debtor. Debtor covenants and agrees with Secured Party that from the date hereof and until payment and satisfaction in full of each and all of the Obligations, unless Secured Party shall otherwise consent in writing, Debtor will:

(a) Duly observe and perform each and every term and condition of any and all agreements, instruments and documents relating to the Collateral, and diligently protect and enforce its rights under all such agreements.

(b) Give Secured Party ten (10) days prior written notice before changing its principal residence or place of business or moving its books and records to a location other than that set forth in Section 17 hereof.

(c) Not sell, lease, assign, transfer, convey, pledge, hypothecate, mortgage or further encumber any of the Collateral, provided that Debtor may sell Inventory in the ordinary course of business.

(d) Promptly pay or otherwise cause to be discharged any lien, charge, security interest or other encumbrance that may attach to the Collateral, or any portion thereof, other than pursuant to this Agreement.

(e) Promptly notify Secured Party of any attachment or other legal process levied against any of the Collateral and any information received by Debtor relating to the Collateral, or to other persons obligated in connection therewith, and of any threatened or filed claims or proceedings, that might in any way affect or impair Secured Party's security interest in the Collateral or the rights and remedies of Secured Party with respect thereto.

(f) Defend the Collateral against all claims, liens, security interests, demands and other encumbrances of third parties at any time claiming an interest in the Collateral that is adverse to Secured Party's interest in the Collateral hereunder.

(g) Notify Secured Party in the event of any occurrence that may materially or adversely affect the security interest of Secured Party in the Collateral.

(h) At the request of Secured Party, execute and permit to be filed one or more financing statements, and amendments thereto, under the California Uniform Commercial Code and any other applicable state's Uniform Commercial Code naming Debtor as debtor and Secured Party as secured party and indicating therein the types or describing the Collateral.

(i) Not, without the prior written consent of Secured Party, execute, file or authorize or permit to be filed in any jurisdiction or with any governmental authority any financing or similar statement relating to the Collateral, or any portion thereof, in which any person other than Secured Party is named as a secured party thereunder.

(j) Reimburse Secured Party upon demand for any costs and fees, including reasonable attorneys' fees and accountants' fees and other expenses, incurred in collecting any sums payable by Debtor under any of the Obligations secured hereby, enforcing any term or provision of this Agreement or otherwise in the collection of the Collateral and the preparation and enforcement of any agreement relating thereto.

(k) Upon request of Secured Party, furnish within ten (10) days thereafter to Secured Party or to any proposed assignee of Secured Party, a written statement in form satisfactory to Secured Party, duly acknowledged, certifying the amount of the principal and interest then owing under the obligations and liabilities set forth in the Note, and stating that no claims, offsets or defenses exist with respect to the Note, this Agreement or any of the Loan Documents of any nature whatsoever.

(l) Execute and deliver to Secured Party any and all further agreements, instruments, or documents and take any and all such further action as Secured Party, in its sole discretion, may deem necessary or advisable in order to evidence, effectuate, perfect, protect, maintain, or realize upon Secured Party's security interest in the Collateral or the priority thereof.

10. Events of Default. The occurrence of any of the following shall constitute an “Event of Default” hereunder:

(a) Failure to make prompt and punctual payment or performance when due of any of the Obligations, including without limitation, any Event of Default under the Note.

(b) Any representation or warranty herein, in the Note, or in any other instrument executed by Debtor in connection with its obligations hereunder, proves materially false or misleading in any way.

(c) Breach of any covenant or promise contained herein or in any other instrument executed by Debtor in connection with its obligations hereunder.

(d) Debtor becomes insolvent, generally is not paying its debts as such debts become due, or makes an assignment for the benefit of creditors.

(e) Any case is commenced by or against Debtor, under any bankruptcy, reorganization, arrangement, readjustment of debt or moratorium law or similar statute if, with respect to a case commenced against Debtor, such case is not dismissed within sixty (60) days.

(f) Any writ of attachment, garnishment, execution or other legal process is issued against any property of Debtor, if such writ, garnishment, execution or other process is not fully vacated within sixty (60) days.

(g) Debtor seeks, consents to, acquiesces in or fails to cause to be vacated or stayed within sixty (60) days (or vacated within sixty (60) days of any such stay) the appointment of a receiver, trustee or conservator of all or any substantial portion of Debtor’s property.

11. Secured Party’s Remedies. If an Event of Default or Change of Control (as defined in the Note) occurs hereunder, then, Secured Party may, at its option, but is not required to, do any one or more of the following without demand or notice to Debtor:

(a) Declare all of the Obligations immediately due and payable in full, notwithstanding the terms of any other writing or evidence of debt;

(b) Transfer the Collateral into Secured Party’s name or that of its nominee;

(c) From time to time, proceed with the foreclosure of Secured Party’s security interest and sale of the Collateral, or any portion of it, in any manner permitted by law or provided for herein;

(d) Take possession of and retain the Collateral in satisfaction of the Obligations; or

(e) Exercise any and all remedies of a secured party under the California Uniform Commercial Code or as otherwise provided by law.

12. Application of Proceeds. After the occurrence of an Event of Default, all income and distributions with respect to the Collateral and all proceeds from any sale of the Collateral pursuant hereto shall be applied as follows:

(a) First, in such order as Secured Party shall in its sole discretion determine, (i) to the payment of all costs and expenses incurred by Secured Party in connection with any sale of the Collateral, including, without limitation, all court costs and the reasonable fees and expenses of counsel for Secured Party in connection therewith; and (ii) the payment of any and all other costs and expenses paid or incurred by Secured Party in connection with this Agreement or otherwise in connection with the Obligations or the exercise of any right or remedy hereunder;

(b) Second, to the payment of interest on the Obligations;

(c) Third, to the payment or satisfaction of the Obligations; and

(d) Fourth, any amounts remaining after the foregoing applications shall be remitted to Debtor or as a court of competent jurisdiction may otherwise direct.

13. Power of Attorney.

(a) Debtor does hereby irrevocably make, constitute and appoint Secured Party or any of its officers or designees its true and lawful attorney-in-fact with full power in the name of Secured Party or Debtor to receive, open and dispose of all mail relating to the Collateral addressed to Debtor (provided, however, that Secured Party shall provide Debtor with a copy of any mail so received), and to endorse any notes, checks, drafts, money orders or other evidence of payment relating to the Collateral that may come into the possession of Secured Party, and to do any and all other acts necessary or proper to carry out the intent of this Agreement, and Debtor hereby ratifies and confirms all that Secured Party or its substitutes shall properly do by virtue hereof;

(b) Debtor does hereby further irrevocably make, constitute and appoint Secured Party or any of its officers or designees its true and lawful attorney-in-fact in the name of Secured Party or Debtor, (i) to enforce all Debtor's rights under and pursuant to all agreements with respect to the Collateral, all for the sole benefit of Secured Party, and to enter into such other agreements as may be necessary to protect Secured Party's rights and interest in and to the Collateral; (ii) to enter into and perform such agreements as may be necessary in order to carry out the terms, covenants and conditions of this Agreement that are required to be observed or performed by Debtor; (iii) to execute such other and further pledges and assignments of the Collateral as Secured Party may reasonably require for the purpose of protecting, maintaining or enforcing the security interest granted to the Secured Party herein; and (iv) to do any and all other things necessary or proper to carry out the intention of this Agreement; and Debtor ratifies and confirms all that Secured Party as such attorney-in-fact or its substitutes shall properly do by virtue of this power of attorney; and

(c) Each of the foregoing appointments shall be deemed coupled with an interest and irrevocable.

14. Private Sale.

(a) Debtor recognizes that Secured Party may be unable to effect a public sale of all or part of the Collateral. Debtor may, at its sole discretion, consent to a private sale even though such sale may be at prices and upon terms less favorable than if the Collateral were sold at public sales. Debtor agrees that consented private sales will be deemed to have been made in a commercially reasonable manner.

(b) Debtor recognizes that a sale, public or private, of the Collateral may not be able to be effected and Secured Party or its assignee are hereby expressly authorized at their election to retain the Collateral until a sale can be effected. Until such sale, Secured Party or its assignee may elect to hold the Collateral and be treated as the owner thereof, and shall be entitled to collect all income thereon.

(c) The purchaser or purchasers at any public or private sale of the Collateral shall take the Collateral free of any right or equity of redemption in Debtor, which rights and equities Debtor hereby expressly waives.

(d) Debtor agrees that written notice mailed to Debtor ten (10) business days prior to the date of public sale consented to by a Secured Party of the Collateral or ten (10) business days prior to the date after which private sale consented to by a Secured Party or any other disposition of the Collateral consented to by a Secured Party will be made shall constitute reasonable notice for such sales.

15. Financing Statements and Payment Directions. To the extent permitted by law, Debtor hereby authorizes Secured Party to file any amendments to or continuations of any financing statement filed with regard to

the Collateral without the signature of Debtor. Debtor further authorizes Secured Party upon an Event of Default to notify any account custodian of the Collateral that all sums payable to Debtor relating to the Collateral shall be paid directly to Secured Party.

16. Termination. Upon satisfaction in full of all of the Obligations, and the satisfaction of all additional costs and expenses of Secured Party as provided herein, this Agreement shall terminate and Secured Party shall deliver to Debtor, at Debtor's expense, such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to this Agreement; provided that if Secured Party is required to return any amounts received by Secured Party on account of the Obligations, the security interests provided hereunder shall reattach.

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

If to Debtor:	Healthcare Holdings, Inc. 7610 N. Stemmons Fwy, Suite 500 Dallas, TX 75247 Attention: President
with a copy to:	Healthcare Holdings, Inc. 7610 N. Stemmons Fwy, Suite 500 Dallas, TX 75247 Attention: Legal Department
If to Secured Party:	LTC Properties, Inc. 22917 Pacific Coast Hwy, Suite 350 Malibu, California 90265 Attention: Chief Financial Officer
with a copy to:	LTC Properties, Inc. 22917 Pacific Coast Hwy, Suite 350 Malibu, California 90265 Attention: Legal Department

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

18. Survival of Representations. All covenants, agreements or representations and warranties made herein and in any documents delivered pursuant hereto shall survive the execution hereof.

19. Assignments. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of Debtor contained in this Agreement shall bind and inure to the benefit of the successors and assigns of Secured Party and Debtor.

20. California Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without regard to conflict of laws principles.

21. No Implied Waivers by Secured Party. Neither any failure nor any delay on the part of Secured Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights, remedies and benefits of Secured Party herein expressly specified are cumulative and not exclusive of any other

rights, remedies or benefits that Secured Party may have at law, in equity, by statute or otherwise. Without limiting the generality of the foregoing, Secured Party shall have all rights and remedies of a secured party under Division 9 of the California Uniform Commercial Code, as it may be amended or superseded from time to time.

22. Modifications and Waivers.

(a) No modification, amendment or waiver of any provision of this Agreement, nor consent to any departure of Debtor herefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(b) No notice or demand on Debtor in any case shall entitle Debtor to any other or further notice or demand in the same, similar or other circumstances.

(c) Debtor hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing the liability of Debtor in respect of the Obligations or the Collateral and any and all other notices and demands whatsoever, whether or not relating to such instruments.

(d) The Obligations shall not be affected by (i) the failure of Secured Party to assert any claim or demand or to enforce any right or remedy against Debtor; (ii) any extension or renewal thereof; (iii) any rescission, waiver, amendment or modification of any of the terms or provisions of this Agreement or of any other agreement; or (iv) the release of any collateral held by Secured Party for the Obligations or any of them.

23. Severability. In case any one or more of the provisions contained in this Agreement should be determined by a court of law to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. Service of Process.

(a) Debtor hereby irrevocably submits itself to the jurisdiction of the state courts of the State of California and to the jurisdiction of the United States District Court for the Central District of California, for the purpose of any suit, action or other proceedings arising out of or based upon this Agreement or the subject matter hereof brought by Secured Party or its successors or assigns.

(b) Debtor hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court.

(c) Debtor hereby waives any right to jury trial and any offsets or counterclaims in any such action, suit or proceeding (other than compulsory counterclaims).

(d) Debtor hereby consents to service of process by registered mail at the address to which notices are to be given. Debtor agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of Secured Party.

(e) Final judgment against Debtor in any such action, suit or proceeding shall be conclusive, and may be enforced in other jurisdictions (i) by suit, action or proceeding on the judgment, a certified or true copy of which shall be conclusive evidence of the fact and of the amount of any indebtedness or liability of Debtor therein described; or (ii) in any other manner permitted by applicable law, provided, however, that Secured Party may at its option bring suit, or institute other judicial proceedings against any of Debtor's assets in any state or federal court of the United States or of any country or place where such assets may be found.

25. Indemnity and Reimbursement of Secured Party.

(a) Debtor agrees (i) to indemnify and hold harmless Secured Party, to the fullest extent permitted by law, from and against any and all claims, demands, losses, judgments and liabilities (including liabilities for penalties) arising out of, resulting from or relating to any of the Collateral, this Agreement or the administration, enforcement, exercise or defense of any right or remedy granted to Secured Party herein; and (ii) to reimburse Secured Party for all costs and expenses, including legal fees and disbursements, incurred after the date hereof and arising out of, resulting from or relating to any of the Collateral, this Agreement or the administration, enforcement, exercise or defense of any right or remedy granted to Secured Party herein. The foregoing indemnity includes any reasonable costs incurred by Secured Party in connection with any litigation relating to the Collateral whether or not Secured Party shall be a party to such litigation, including, but not limited to, the reasonable fees and disbursements of counsel to Secured Party and any out-of-pocket costs incurred by Secured Party in appearing as a witness or in otherwise complying with legal process served upon it. In no event shall Secured Party be liable to Debtor for any matter or thing in connection with this Agreement other than to account for moneys actually received by it in accordance with the terms hereof.

(b) If Debtor shall fail to do any act or thing that it has covenanted to do hereunder or under any of the Loan Documents or any representation of warranty of Debtor to Secured Party shall have been breached, Secured Party may, but shall not be obligated to, do the same or cause it to be done or remedy any such breach and there shall be added to the Obligations hereunder the cost of such expense incurred by Secured Party in so doing, and any and all amounts expended by Secured Party in taking any such action shall be repayable to it upon its demand therefor and shall bear interest at the applicable interest rate under the Note from the date such amounts are expended to the date of repayment.

26. Captions. The captions in this Agreement are inserted only as a matter of convenience and for reference and shall not be deemed to define, limit, enlarge, or describe the scope of this Agreement or the relationship of the parties, and shall not affect this Agreement or the construction of any provisions herein.

27. Pronouns. Whenever the context so requires, the masculine shall include the feminine and the neuter, and the singular shall include the plural, and conversely.

28. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

29. Joint and Several Obligations. Whenever Debtor comprises one or more persons or entities, the obligations and promises set forth herein shall be joint and several undertakings of each of the persons or entities executing this Agreement as Debtor, and Secured Party may proceed hereunder against any one or more of said persons or entities without waiving its right to proceed against any of the others.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

DEBTOR:

HEALTHCARE HOLDINGS, INC.,
a Nevada corporation

By: /s/ KIMBERLY DAUGHERTY

Name: **Kimberly Daugherty**
Its: **Senior Vice President**

By: /s/ ANDREW KERR

Name: **Andrew Kerr**
Its: **President and Chief Financial Officer**

SECURED PARTY:

LTC PROPERTIES, INC.,
a Maryland corporation

By: /s/ WENDY SIMPSON

Name: **Wendy Simpson**
Its: **Vice Chairman and Chief Financial Officer**

By: /s/ ALEX CHAVEZ

Name: **Alex Chavez**
Its: **Sr. Vice President and Treasurer**

Exhibit 31.1

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

I, Andre C. Dimitriadis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ANDRE C. DIMITRIADIS

Andre C. Dimitriadis
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
August 13, 2003

Exhibit 31.2

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

I, Wendy L. Simpson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LTC Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ WENDY L. SIMPSON

Wendy L. Simpson
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)
August 13, 2003

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

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), each of the undersigned officers of LTC Properties, Inc. (the "Company") hereby certifies with respect to the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission (the "Report") that to his or her knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ANDRE C. DIMITRIADIS

Andre C. Dimitriadis
Chairman, President and Chief Executive Officer
August 13, 2003

/s/ WENDY L. SIMPSON

Wendy L. Simpson
Vice Chairman and Chief Financial Officer
August 13, 2003

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