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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016
OR

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

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.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by checkmark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by checkmark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant was approximately $1,991,870,000 as of June 30, 2016 (the last business day of the Registrant's most recently completed second fiscal quarter).

The number of shares of common stock outstanding as of February 15, 2017 was 39,585,320.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

CAUTIONARY STATEMENT

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

LTC Properties, Inc.

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PART I

Item 1. BUSINESS

General

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in senior housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and health care properties managed by experienced operators. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator, property type and form of investment.

We invest in the following type of properties:

- Skilled nursing facilities (or SNF) provide restorative, rehabilitative and nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals. Many skilled nursing facilities provide ancillary services that include occupational, speech, physical, respiratory and IV therapies, as well as sub-acute care services which are paid either by the patient, the patient's family, private health insurance, or through the federal Medicare or state Medicaid programs.

- Assisted living facilities (or ALF) serve people who require assistance with activities of daily living, but do not require the constant supervision skilled nursing facilities provide. Services are usually available 24 hours a day and include personal supervision and assistance with eating, bathing, grooming and administering medication. The facilities provide a combination of housing, supportive services, personalized assistance and health care designed to respond to individual needs.

- Independent living facilities (or ILF), also known as retirement communities or senior apartments, offer a sense of community and numerous levels of service, such as laundry, housekeeping, dining options/meal plans, exercise and wellness programs, transportation, social, cultural and recreational activities, on-site security and emergency response programs. Many offer on-site conveniences like beauty/barber shops, fitness facilities, game rooms, libraries and activity centers.

- Memory care facilities (or MC) offer specialized options for people with Alzheimer's disease and other forms of dementia. Purpose built, free-standing memory care facilities offer an attractive alternative for private-pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.

- Range of care facilities (or ROC) provide skilled nursing and any combination of assisted living, independent living and/or memory care services.

We were organized to qualify, and intend to continue to qualify, as a REIT. So long as we qualify, with limited exceptions, we may deduct distributions, both preferred dividends and common dividends, to our stockholders from our taxable income. We have made distributions, and intend to continue to make distributions to our stockholders, in order to eliminate any federal tax liability.

Portfolio

Our real estate investment in senior housing and health care properties is managed and conducted as a single operating segment for internal reporting and for internal decision-making purposes. ALF, ILF, MC, and combinations thereof are included in the ALF property type. Other properties (or Other) property type consists of land held-for-use and a behavioral health care hospital. In addition to the information below, see *Item 2. Properties* for more information about our portfolio.

The following table summarizes our real estate investment portfolio as of December 31, 2016 *(dollar amounts in thousands)*:

			Twelve Months Ended December 31, 2016				Number of	
Type of Property	**Gross Investments**	**Percentage of Investments**	**Rental Income[1]**	**Interest Income[2]**	**Percentage of Revenues**	**Number of Properties[3]**	**SNF Beds[4]**	**ALF Units[4]**
Skilled Nursing	$ 753,328	49.2 %	$ 61,429	$ 25,430	54.6 %	92	11,644	—
Assisted Living	711,645	46.4 %	64,380	1,171	41.2 %	112	—	5,985
Range of Care	43,140	2.8 %	5,774	—	3.6 %	7	634	274
Under Development[5]	14,142	0.9 %	—	—	— %	—	—	—
Other[6]	11,424	0.7 %	865	111	0.6 %	1	118	—
Totals	$ 1,533,679	100.0 %	$ 132,448	$ 26,712	100.0 %	212	12,396	6,259

(1) Excludes rental income from properties sold during 2016.

(2) Excludes interest income from mortgage loans paid off during 2016.

(3) We have investments in 30 states leased or mortgaged to 31 different operators.

(4) See *Item 2. Properties* for discussion of bed/unit count.

(5) Includes three development projects, consisting of two memory care communities with a total of 132 units, and a 143-bed skilled nursing center.

(6) Includes four parcels of land held-for-use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds which represents a $78.39 investment per bed.

As of December 31, 2016 we had $1.3 billion in carrying value of net real estate investment, consisting of $1.0 billion or 81.7% invested in owned and leased properties and $0.3 billion or 18.3% invested in mortgage loans secured by first mortgages.

Owned Properties. The following table summarizes our investment in owned properties at December 31, 2016 *(dollar amounts in thousands)*:

				Number of		
Type of Property	**Gross Investments**	**Percentage of Investments**	**Number of Properties[1]**	**SNF Beds [2]**	**ALF Units [2]**	**Average Investment per Bed/Unit**
Assisted Living	$ 698,279	53.6 %	104	—	5,715	$ 122.18
Skilled Nursing	535,786	41.2 %	69	8,611	—	$ 62.22
Range of Care	43,140	3.3 %	7	634	274	$ 47.51
Under Development[3]	14,142	1.1 %	—	—	—	—
Other[4]	10,216	0.8 %	1	118	—	—
Totals	$ 1,301,563	100.0 %	181	9,363	5,989	

(1) We have investments in 28 states leased to 27 different operators.

(2) See *Item 2. Properties* for discussion of bed/unit count.

(3) Includes three development projects, consisting of two MC communities with a total of 132 units, and one SNF center.

(4) Includes three parcels of land held- for-use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds which represents a $78.39 investment per bed.

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Many of the leases contain renewal options. The leases provide for fixed minimum base rent during the initial and renewal periods. The majority of our leases contain provisions for specified annual increases over the rents of the prior year and that increase is generally computed in one of four ways depending on specific provisions of each lease:

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

Each lease is a triple net lease which requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Generally our leases provide for one or more of the following: security deposits, property tax impounds, and credit enhancements such as corporate or personal guarantees or letters of credit. In addition, our leases are typically structured as master leases and multiple master leases with one operator are generally cross defaulted. The following table summarizes our top ten operators of owned properties for 2016 and percentage of rental revenue for those operators for 2016 and 2015:

Lessee	Property Type	Percent of Rental Revenue 2016	2015
Senior Lifestyle	ALF/ILF/MC/SNF	14.7 %	11.1 %
Brookdale Senior Living Communities, Inc.	ALF/ILF/MC	11.8 %	13.8 %
Senior Care Centers, LLC	ALF/ILF/MC/SNF	11.8 %	11.2 %
Preferred Care, Inc.	SNF/ALF/ILF	8.3 %	9.3 %
Anthem Memory Care	MC	6.3 %	3.7 %
Fundamental Long Term Care Company	SNF/MC	6.2 %	5.3 %
Genesis	SNF/ALF	5.8 %	6.7 %
Carespring Healthcare Management, LLC	SNF/ALF/ILF	5.7 %	6.8 %
Traditions Senior Management, Inc.	SNF/ALF/ILF	5.3 %	6.3 %
Juniper Communities, LLC	ALF/MC	5.0 %	5.9 %

During the years ended December 31, 2016 and 2015, we received $517,000 and $134,000, respectively, of contingent rental income. We received no contingent rental income for the year ended December 31, 2014.

Mortgage Loans. As part of our strategy of making long term investments in properties used in the provision of long term health care services, we provide mortgage financing on such properties based on our established investment underwriting criteria. We have also provided construction loans that by their terms converted into purchase/lease transactions or permanent financing mortgage loans upon completion of construction. The following table summarizes our investments in mortgage loans secured by first mortgages at December 31, 2016 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties(1)	Number of SNF Beds (2)	Number of ALF Units (2)	Investment per Bed/Unit
Skilled Nursing	$ 217,542	93.7 %	7	23	3,033	—	$ 71.73
Assisted Living	13,366	5.8 %	3	8	—	270	$ 49.50
Other(3)	1,208	0.5 %	1	—	—	—	—
Totals	$ 232,116	100.0 %	11	31	3,033	270	

(1) We have investments in 7 states that include mortgages to 8 different operators.

(2) See *Item 2. Properties* for discussion of bed/unit count.

(3) Includes a parcel of land secured under a short-term mortgage loan.

In general, the mortgage loans may not be prepaid except in the event of the sale of the collateral property to a third party that is not affiliated with the borrower, although partial prepayments (including the prepayment premium) are often permitted where a mortgage loan is secured by more than one property upon a sale of one or more, but not all, of the collateral properties to a third party which is not an affiliate of the borrower. The terms of the mortgage loans generally impose a premium upon prepayment of the loans depending upon the period in which the prepayment occurs, whether such prepayment was permitted or required, and certain other conditions such as upon the sale of the property under a pre-existing purchase option, destruction or condemnation, or other circumstances as approved by us. On certain loans, such prepayment amount is based upon a percentage of the then outstanding balance of the loan, usually declining ratably each year. For other loans, the prepayment premium is based on a yield maintenance formula. In addition to a lien on the mortgaged property, the loans are generally secured by certain non-real estate assets of the properties and contain certain other security provisions in the form of letters of credit, pledged collateral accounts, security deposits, cross-default and cross-collateralization features and certain guarantees.

Investment and Other Policies

Objectives and Policies. Our investment policy is to invest primarily in income-producing senior housing and health care properties. Over the past three years 2014 through 2016, we acquired SNF, ALF, IL, MC and combinations thereof, plus a behavioral health care hospital and 9 parcels of land for a total of approximately $306.7 million.

Our primary marketing and business development strategy is to increase awareness of our presence and build long term relationships in the seniors housing and care industry by supporting targeted industry trade organizations, attending industry specific conferences and events attended by seniors housing and care providers, and seeking out speaking engagements at industry related events as well as interviews in industry publications. We believe this targeted marketing and business development effort has increased deal flow and continues to provide opportunities for new investments in 2017. Since competition from investors as well as other capital providers for large transactions consisting of fully-marketed, multi-property portfolios generally result in valuations above our targeted investment criteria, our marketing and business development efforts focus on sourcing relationships with regionally based operating companies to execute on single property transactions (for acquisition, mortgage financing or development), or smaller multi-property portfolios that are not broadly marketed by third-party intermediaries which complement our historic investment execution and are priced at yields that are accretive to our stockholders.

Historically our investments have consisted of:

- fee ownership of seniors housing and skilled nursing properties that are leased to operators;
- mortgage loans secured by seniors housing and skilled nursing properties; or
- participation in such investments indirectly through investments in mezzanine loans and real estate partnerships or other entities that themselves make direct investments in such loans or properties.

In evaluating potential investments, we consider factors such as:

- type of property;
- the location;
- competition within the local market and evaluation of the impact resulting from any potential new development projects in construction or anticipated to be approved by local authorities;
- construction quality, condition and design of the property;
- the property's current and anticipated cash flow and its adequacy to meet operational needs and lease obligations or debt service obligations;
- the experience, reputation and solvency of the operating companies providing services;
- the payor mix of private, Managed Care, Medicare and Medicaid patients;
- the growth, tax and regulatory environments of the communities in which the properties are located;

· the occupancy and demand for similar properties in the area surrounding the property; and

· the Medicaid reimbursement policies and plans of the state in which the property is located.

Typically, prior to an investment, we conduct a property site review to assess the general physical condition of the property and the potential of additional services. In addition, we review third-party environmental reports, land surveys, and markets studies (if applicable) as well as conduct a financial due diligence review of the property before the investment is made.

We believe skilled nursing facilities are the lowest cost provider for certain levels of acuity; therefore, such facilities play a vital role in our nation's health care delivery system. Our investments include direct ownership, development, first and second mortgages secured by skilled nursing centers and mezzanine loans. We prefer to invest in a property that has a significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.

We believe that assisted living, independent living and memory care facilities are an important sector in the long term care market and our investments include direct ownership, development, joint ventures, mezzanine loans and mortgages secured by assisted living, independent living and/or memory care communities. We have attempted to diversify our portfolio both geographically and across care levels.

Borrowing Policies. We may incur additional indebtedness when, in the opinion of our Board of Directors, it is advisable. We may incur such indebtedness to make investments in additional senior housing and health care properties or to meet the distribution requirements imposed upon REITs under the Internal Revenue Code of 1986, as amended. For other short-term purposes, we may, from time to time, negotiate lines of credit, or arrange for other short-term borrowings from banks or otherwise. We may also arrange for long term borrowings through public or private offerings or from institutional investors.

In addition, we may incur mortgage indebtedness on real estate which we have acquired through purchase, foreclosure or otherwise. We may also obtain mortgage financing for unleveraged or underleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis.

Competition

In the health care industry, we compete for real property investments with health care providers, other health care related REITs, real estate partnerships, banks, private equity funds, venture capital funds and other investors. Many of our competitors are significantly larger and have greater financial resources and lower cost of capital than we have available to us. Our ability to compete successfully for real property investments will be determined by numerous factors, including our ability to identify suitable acquisition targets, our ability to negotiate acceptable terms for any such acquisition and the availability and our cost of capital.

The lessees and borrowers of our properties compete on a local, regional and, in some instances, national basis with other health care providers. The ability of the lessee or borrower to compete successfully for patients or residents at our properties depends upon several factors, including the levels of care and services provided by the lessees or borrowers, the reputation of the providers, physician referral patterns, physical appearances of the properties, family preferences, financial condition of the operator and other competitive systems of health care delivery within the community, population and demographics.

Governmental Regulation

Health Care Regulation

Overview

The health care industry is heavily regulated by the government. Our borrowers and lessees who operate health care facilities are subject to extensive regulation by federal, state and local governments. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws, requirements and regulations could result in sanctions or remedies such as denials of payment for new Medicare and Medicaid admissions, civil monetary penalties, state oversight and loss of Medicare and Medicaid participation or licensure. Such action could affect our borrower's or lessee's ability to operate its facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to us.

The properties we own and the manner in which they are operated are affected by changes in the reimbursement, licensing and certification policies of federal, state and local governments. Properties may also be affected by changes in accreditation standards or procedures of accrediting agencies. In addition, expansion (including the addition of new beds or services or acquisition of medical equipment) and occasionally the discontinuation of services of health care facilities are, in some states, subjected to state and regulatory approval through "certificate of need" laws and regulations.

Health Care Reform and Other Legislative Developments

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended (the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. This sweeping law expanded the insured population, but also reduced federal health care spending and imposed additional requirements on our lessees and borrowers. Among other things, the Affordable Care Act: reduced Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains; required the development of a value-based purchasing program for Medicare skilled nursing facility services; established a national pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provided incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also required expanded public disclosure about nursing home ownership and operations, mandatory compliance and quality assurance programs, increased penalties for noncompliance, and expanded fraud and abuse enforcement and penalty provisions. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act have been implemented through regulations and subregulatory guidance, as discussed further below. Moreover, President Trump and some members of Congress have called for repeal of the Affordable Care Act and replacement with alternative reforms. The details and timing of any such actions are unknown at this time. There can be no assurance that the Affordable Care Act or any subsequent repeal and/or reform legislation will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

Under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. As amended by subsequent legislation, the Medicare sequestration cuts are currently scheduled to be applied through fiscal year 2025, although Congress and the Administration could enact legislation to extend or modify sequestration at any time, including through alternative budget legislation that includes alternative

Medicare or Medicaid savings. There can be no assurances that enacted or future budget control mechanisms will not have an adverse impact on the financial condition of our borrowers and lessees, which subsequently could materially adversely impact our company.

The Protecting Access to Medicare Act of 2014 requires the Secretary of the Department of Health and Human Services to develop a skilled nursing facility "value-based purchasing program," which will tie Medicare payments to skilled nursing facilities to their performance on certain new readmissions measures, applicable to services furnished beginning October 1, 2018. Furthermore, the Improving Medicare Post-Acute Care Transformation Act of 2014 requires the collection of standardized post-acute care assessment data, which eventually could be used as the basis for developing changes to Medicare post-acute care reimbursement policy. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual skilled nursing facility prospective payment system update for fiscal year 2018 at 1%. Additional reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Increasingly state Medicaid programs are providing coverage through managed care programs under contracts with private health plans, which is intended to decrease state Medicaid costs.

Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies, including potential changes in Medicare and Medicaid payment policy for skilled nursing facility services and other types of post-acute care. For instance, on November 24, 2015, the Centers for Medicare & Medicaid Services ("CMS") published a final rule that requires hospitals in selected geographic areas to participate in a new Medicare Comprehensive Care for Joint Replacement model beginning April 1, 2016, under which CMS provides a "bundled" payment to participant hospitals for an "episode of care" for lower extremity joint replacement surgery, covering all services provided during the inpatient admission through 90 days post-discharge, including skilled nursing facility care. In addition, on January 3, 2017, CMS published a final rule to establish an episode payment model program targeting care for Medicare beneficiaries receiving acute myocardial infarction, coronary artery bypass graft, and surgical hip/femur fracture treatment in designated geographic areas. Under this program, which is scheduled to begin July 1, 2017, all related care within 90 days of hospital discharge, including post-acute care, will be included in the episode payment. Additional changes in laws, new interpretations of existing laws, or other changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Reimbursement

The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that property to us. Revenues of our borrowers and lessees of skilled nursing centers are generally derived from payments for patient care. Sources of such payments for skilled nursing facilities include the federal Medicare program, state Medicaid programs, private insurance carriers, managed care organizations, preferred provider arrangements, and self-insured employers, as well as the patients themselves.

A significant portion of the revenue of our skilled nursing center borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant health care costs paid by such government programs, both federal and state governments have adopted and continue to consider various health care reform proposals to control health care costs. In many instances, revenues from Medicaid programs are insufficient to cover the actual costs incurred in providing care to Medicaid patients. Moreover, the Kaiser Commission on Medicaid and the Uninsured stated in October 2016 that 38 states reported implementing new Medicaid rate restrictions for at least one provider type in fiscal year 2016, compared to 45 states that implemented at least one provider increase. For fiscal year 2017, 41 states adopted provider rate restrictions while 40 plan rate increases. With regard to nursing facility rates in particular, 32 states increased rates in fiscal years 2016 and 2017, while 19 have adopted rate restrictions. In addition, most states have been making changes to their long term care delivery systems that emphasize home and community-based long term care services, in some cases coupled with cost controls for institutional providers. According to the Kaiser Commission, 46 states took action to expand home and community-based service programs in fiscal year 2016, and 47 took such action in 2017. The federal government also has adopted various policies to promote community-based alternatives to institutional services. The Trump Administration and Congress are also considering revising federal payments to state Medicaid programs to be in the form of block grants or per capita limits on federal Medicaid payments to states. As states and the federal government continue to respond to budget pressures, future reduction in Medicaid payments for skilled nursing facility services could have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

Over the years there also have been fundamental changes in the Medicare program that resulted in reduced levels of payment for a substantial portion of health care services, including skilled nursing facility services. CMS annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 30, 2015, CMS released its final skilled nursing facility prospective payment system update for fiscal year 2016, which began October 1, 2015. CMS projected that aggregate Medicare payments to skilled nursing facilities will increase by $430 million, or 1.2%, under the final rule. This increase reflects a 2.3% market basket increase, reduced by both a 0.6 percentage point forecast error adjustment and a 0.5 percentage point multifactor productivity adjustment mandated by the Affordable Care Act. On July 29, 2016, CMS issued a final rule updating fiscal year 2017 Medicare payment rates for skilled nursing facilities. The final rule provides for a net market basket increase of 2.4 %, beginning October 1, 2016. This reflects a 2.7% market basket increase, reduced by a 0.3 percentage point multifactor productivity adjustment. CMS estimates that aggregate payments to skilled nursing facilities under the final rule will increase by approximately $920 million. CMS also adopted new measures and policies for the Skilled Nursing Facility Quality Reporting Program and the Value-Based Purchasing Program. In addition, on October 4, 2016, CMS published a final rule that revises the requirements that long term care facilities must meet to participate in the Medicare and Medicaid programs. This major rule addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, binding arbitration agreements (currently not in effect due to litigation challenging the requirement), infection control, residents' rights, compliance and ethics programs, and several other areas. CMS estimates that the total cost of the final rule will be $831 million in the first year and $736 million annually thereafter, with per-facility costs of $62,900 in the first year and $55,000 annually thereafter. CMS also published a final rule on September 16, 2016 establishing emergency preparedness requirements for Medicare- and Medicaid-participating providers and suppliers, including long-term care facilities, to ensure that they can meet the needs of patients and residents during natural and man-made emergency situations. In addition, CMS published a final rule on May 4, 2016 amending fire safety standards applicable to long-term care facilities and certain other types of Medicare- and Medicaid-participating health care facilities. There can be no assurance that any future reductions in Medicare skilled nursing facility payment rates or other policy changes impacting long term care facilities would not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

Moreover, health care facilities continue to experience pressures from private payors attempting to control health care costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Governmental and public concern regarding health care costs may result in significant reductions in payment to health care facilities, and there can be no assurance that future payment rates for either governmental or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care could adversely affect revenues of our skilled nursing center borrowers and lessees and to a much lesser extent our assisted living community borrowers and lessees and thereby adversely affect those borrowers' and lessees' abilities to make their debt or lease payments to us. Failure of the borrowers or lessees to make their debt or lease payments would have a direct and material adverse impact on us.

Fraud and Abuse Enforcement

Various federal and state laws govern financial and other arrangements between health care providers that participate in, receive payments from, or make or receive referrals for work in connection with government funded health care programs, including Medicare and Medicaid. These laws, known as the fraud and abuse laws, include the federal anti-kickback statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration directly or indirectly in return for, or to induce, the referral, or arrange for the referral, of an individual to a person for the furnishing of an item or service for which payment may be made under federal health care programs. In addition, the federal physician self-referral law, commonly known as the Stark Law, prohibits physicians and certain other types of practitioners from making referrals for certain designated health services paid in whole or in part by Medicare and Medicaid to entities with which the practitioner or a member of the practitioner's immediate family has a financial relationship, unless the financial relationship fits within an applicable exception to the Stark Law. The Stark Law also prohibits the entity receiving the referral from seeking payment under the Medicare program for services rendered pursuant to a prohibited referral. Sanctions for violating the Stark Law include civil monetary penalties of up to $24,253 per prohibited service provided, assessments equal to three times the dollar value of each such service provided and exclusion from the Medicare and Medicaid programs. Many states have enacted similar fraud and abuse laws which are not necessarily limited to items and services for which payment is made by federal health care programs. Violations of these laws may result in fines, imprisonment, denial of payment for services, and exclusion from federal and/or other state-funded programs. Other federal and state laws authorize the imposition of penalties, including criminal and civil fines and exclusion from participation in federal health care programs for submitting false claims, improper billing and other offenses. Federal and state government agencies have continued rigorous enforcement of criminal and civil fraud and abuse laws in the health care arena. Our borrowers and lessees are subject to many of these laws, and some of them could in the future become the subject of a governmental enforcement action.

Environmental Regulation

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender (such as us) may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). Such laws often impose such liability without regard to whether the owner or secured lender knew of, or was responsible for, the presence or disposal of such substances and may be imposed on the owner or secured lender in connection with the activities of an operator of the property. The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce our revenues.

Although the mortgage loans that we provide and leases covering our properties require the borrower and the lessee to indemnify us for certain environmental liabilities, the scope of such obligations may be limited and we cannot assure that any such borrower or lessee would be able to fulfill its indemnification obligations.

Insurance

It is our current policy, and we intend to continue this policy, that all borrowers of funds from us and lessees of any of our properties secure adequate comprehensive property and general and professional liability insurance that covers us as well as the borrower and/or lessee. Even though that is our policy, certain borrowers and lessees have been unable to obtain general and professional liability insurance in the specific amounts required by our leases or mortgages because the cost of such insurance and some insurers have stopped offering such insurance for long term care facilities. Additionally, in the past, insurance companies have filed for bankruptcy protection leaving certain of our borrowers and/or lessees without coverage for periods that were believed to be covered prior to such bankruptcies. The unavailability and associated exposure as well as increased cost of such insurance could have a material adverse effect on the lessees and borrowers, including their ability to make lease or mortgage payments. Although we contend that as a non-possessory landlord we are not generally responsible for what takes place on real estate we do not possess, claims including general and professional liability claims, may still be asserted against us which may result in costs and exposure for which insurance is not available. Certain risks may be uninsurable, not economically insurable or insurance may not be available and there can be no assurance that we, a borrower or lessee will have adequate funds to cover all contingencies. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could be subject to an adverse claim including claims for general or professional liability, could lose the capital that we have invested in the properties, as well as the anticipated future revenue for the properties and, in the case of debt which is with recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties. Certain losses, such as losses due to floods or seismic activity if insurance is available, may be insured subject to certain limitations including large deductibles or co-payments and policy limits.

Employees

At December 31, 2016, we employed 24 people. Our employees are not members of any labor union, and we consider our relations with our employees to be excellent.

Taxation of our Company

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code (or the Code). We believe that we have been organized and have operated in such a manner as to qualify for taxation as a REIT under the Code commencing with our taxable year ending December 31, 1992. We intend to continue to operate in such a manner, but there is no assurance that we have operated or will continue to operate in a manner so as to qualify or remain qualified.

If we continue to qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the "double taxation" (once at the corporate level when earned and once at stockholder level when distributed) that generally results from investment in a non-REIT corporation.

However, we will be subject to federal income tax as follows:

First, we will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains.

Second, under certain circumstances, we may be subject to the alternative minimum tax, if our dividend distributions are less than our alternative minimum taxable income.

Third, if we have (i) net income from the sale or other disposition of foreclosure property which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, we may elect to be subject to tax at the highest corporate rate on such income, if necessary to maintain our REIT status.

Fourth, if we have net income from "prohibited transactions" (as defined below), such income will be subject to a 100% tax.

Fifth, if we fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amount by which we fail the 75% or 95% test multiplied by (b) a fraction intended to reflect our profitability.

Sixth, if we fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

Seventh, if we acquire an asset which meets the definition of a built-in gain asset from a corporation which is or has been a C corporation (i.e., generally a corporation subject to full corporate-level tax) in certain transactions in which the basis of the built-in gain asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and if we subsequently recognize gain on the disposition of such asset during the five-year period, called the recognition period, beginning on the date on which we acquired the asset, then, to the extent of the built-in gain (i.e., the excess of (a) the fair market value of such asset over (b) our adjusted basis in such asset, both determined as of the beginning of the recognition period), such gain will be subject to tax at the highest regular corporate tax rate, pursuant to IRS regulations.

Eighth, if we have taxable REIT subsidiaries and they are required to be reported on a combined basis, we would be subject to corporate tax on the taxable income of the taxable REIT subsidiaries. In addition, we will also be subject to a tax of 100% on the amount of any rents from real property, redetermined TRS service income, deductions or excess interest paid to us by any of our taxable REIT subsidiaries that would be reduced through reapportionment under certain federal income tax principles in order to more clearly reflect income for the taxable REIT subsidiary.

Ninth, if we fail to satisfy any of the REIT asset tests, as described below, by more than a de minimus amount, due to reasonable cause and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets that caused us to fail such test.

Tenth, if we fail to satisfy any provision of the Code that would result in our failure to qualify as a REIT (other than a violation of the REIT gross income tests or certain violations of the asset tests described below) and the violation is due to reasonable cause, we may retain our REIT qualification but we will be required to pay a penalty of $50,000 for each such failure.

Finally, if we own a residual interest in a real estate mortgage investment conduit (or REMIC), we will be taxed at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our shares that is held in record name by “disqualified organization.” A “disqualified organization” includes the United States, any state or political subdivision thereof, any foreign government or international organization, any agency or instrumentality of any of the foregoing, any rural electrical or telephone cooperative and any tax- exempt organization (other than a farmer’s cooperative described in Section 521 of the Code) that is exempt from income taxation and from the unrelated business taxable income provisions of the Code. However, to the extent that we own a REMIC residual interest through a taxable REIT subsidiary, we will not be subject to this tax.

Requirements for Qualification. The Code defines a REIT as a corporation, trust or association:

(1) which is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(3) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation;

(4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (including specified entities);

(7) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets;

(8) that elects to be a REIT, or has made such election for a previous year, and satisfies the applicable filing and administrative requirements to maintain qualifications as a REIT; and

(9) that adopts a calendar year accounting period.

The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. For purposes of condition (6), pension funds and certain other entities are treated as individuals, subject to a “look- through” exception.

Pursuant to the Code and applicable Treasury Regulations, in order to be able to elect to be taxed as a REIT, we must maintain certain records and request certain information from our stockholders designed to disclose the actual ownership of our stock. Based on publicly available information, we believe we have satisfied the share ownership requirements set forth in conditions (5) and (6). In addition, Sections 9.2 and 9.3 of our Charter provide for restrictions regarding the transfer and ownership of shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6). These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in conditions (5) and (6).

We have complied with, and will continue to comply with, regulatory rules to send annual letters to certain of our stockholders requesting information regarding the actual ownership of our stock. If despite sending the annual letters, we do not know, or after exercising reasonable diligence would not have known, whether we failed to satisfy the ownership requirement set forth in condition (6) above, we will be treated as having satisfied such condition. If we fail to comply with these regulatory rules, we will be subject to a monetary penalty. If our failure to comply was due to intentional disregard of the requirement, the penalty would be increased. However, if our failure to comply was due to reasonable cause and not willful neglect, no penalty would be imposed.

Income Tests. There presently are two gross income requirements that we must satisfy to qualify as a REIT:

- *First,* at least 75% of our gross income (excluding gross income from "prohibited transactions," as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property, or from certain types of temporary investment income.
- *Second,* at least 95% of our gross income for each taxable year must be directly or indirectly derived from income that qualifies under the 75% test, and from dividends (including dividends from taxable REIT subsidiaries), interest and gain from the sale or other disposition of stock or securities.

Cancellation of indebtedness income generated by us is not taken into account in applying the 75% and 95% income tests discussed above. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business. Any gain realized from a prohibited transaction is subject to a 100% penalty tax.

Rents received by us will qualify as "rents from real property" for purposes of satisfying the gross income tests for a REIT only if several conditions are met:

- The amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will not be excluded merely because they are based on a fixed percentage or percentages of receipts or sales.
- Rents received from a tenant will not qualify as rents from real property if the REIT, or an owner of 10% or more of the REIT, also directly or constructively owns 10% or more of the tenant, unless the tenant is our taxable REIT subsidiary and certain other requirements are met with respect to the real property being rented.
- If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.
- We generally must not furnish or render services to tenants, other than through a taxable REIT subsidiary or an "independent contractor" from whom we derive no income, except that we may directly provide services that are "usually or customarily rendered" in the geographic area in which the property is located in connection with the rental of real property for occupancy only, or are not otherwise "rendered to the occupant for his convenience."

For taxable years beginning after August 5, 1997, a REIT has been permitted to render a de minimus amount of impermissible services to tenants and still treat amounts received with respect to that property as rents from real property. The amount received or accrued by the REIT during the taxable year for the impermissible services with respect to a property may not exceed 1% of all amounts received or accrued by the REIT directly or indirectly from the property. If the amount received or accrued by the REIT during the taxable year for impermissible services with respect to a property exceeds 1% of the total amounts received or accrued with respect to such property, then none of the rents received or accrued from such property shall be treated as rents from real property. The amount received for any service or management operation for this purpose shall be deemed to be not less than 150% of the direct cost of the REIT in furnishing or rendering the service or providing the management or operation. Furthermore, impermissible services may be furnished to tenants by a taxable REIT subsidiary subject to certain conditions, and we may still treat rents received with respect to the property as rent from real property.

The term “interest” generally does not include any amount if the determination of the amount depends in whole or in part on the income or profits of any person, although an amount generally will not be excluded from the term “interest” solely by reason of being based on a fixed percentage of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are eligible for relief. These relief provisions will be generally available if our failure to meet the tests was due to reasonable cause and not due to willful neglect and following the identification of the failure to satisfy one or both income tests, a description of each item of gross income is filed in accordance with IRS regulations.

It is not now possible to determine the circumstances under which we may be entitled to the benefit of these relief provisions. If these relief provisions apply, a 100% tax is imposed on an amount equal to (a) the gross income attributable to the greater of the amount by which we failed the 75% or 95% test, multiplied by (b) a fraction intended to reflect our profitability.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy several tests relating to the nature and diversification of our assets. At least 75% of the value of our total assets must be represented by real estate assets, cash, cash items (including receivables arising in the ordinary course of our operations), and government securities and qualified temporary investments. Although the remaining 25% of our assets generally may be invested without restriction, we are prohibited from owning securities representing more than 10% of either the vote or value of the outstanding securities of any issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary (the “10% vote and value test”). Further, no more than 25% of our total assets may be represented by securities of one or more taxable REIT subsidiaries (for tax years beginning prior to July 30, 2008 and after December 31, 2017, 20% of the total value of our assets) and no more than 5% of the value of our total assets may be represented by securities of any non-governmental issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary (or TRS). Each of the 10% vote and value test and the 25% and 5% asset tests must be satisfied at the end of any quarter. There are special rules which provide relief if the value related tests are not satisfied due to changes in the value of the assets of a REIT.

Investments in Taxable REIT Subsidiaries. For taxable years beginning after December 1, 2000, REITs may own more than 10% of the voting and value of securities in a TRS. A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with the REIT to be treated as a TRS. A TRS also includes any corporation other than a REIT with respect to which a TRS owns securities possessing more that 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a TRS may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A TRS is subject to income tax as a regular C corporation. In addition, a TRS may be prevented from deducting interest on debt funded directly or indirectly by its parent REIT if certain tests regarding the TRS’s debt to equity ratio and interest expense are not satisfied. A REIT’s ownership of a TRS will not be subject to the 10% or 5% asset tests described above, and its operations will be subject to the provisions described above. At this time, we do not have any taxable REIT subsidiaries.

REMIC. A regular or residual interest in a REMIC will be treated as a real estate asset for purposes of the REIT asset tests, and income derived with respect to such interest will be treated as interest on an obligation secured by a mortgage on real property, assuming that at least 95% of the assets of the REMIC are real estate assets. If less than 95% of the assets of the REMIC are real estate assets, only a proportionate share of the assets of and income derived from the REMIC will be treated as qualifying under the REIT asset and income tests. All of our historical REMIC certificates were secured by real estate assets, therefore we believe that our historic REMIC interests fully qualified for purposes of the REIT income and asset tests.

Ownership of Interests in Partnerships, Limited Liability Companies and Qualified REIT Subsidiaries. We own interests in various partnerships and limited liabilities companies. In the case of a REIT which is a partner in a partnership, or a member in a limited liability company treated as a partnership for federal income tax purposes, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company, based on its interest in partnership capital, subject to special rules relating to the 10% REIT asset test described above. Also, the REIT will be deemed to be entitled to its proportionate share of income of that entity. The assets and items of gross income of the partnership or limited liability company retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and the asset tests. Thus, our proportionate share of the assets and items of income of partnerships and limited liability companies taxed as partnerships, in which we are, directly or indirectly through other partnerships or limited liability companies taxed as partnerships, a partner or member, are treated as our assets and items of income for purposes of applying the REIT qualification requirements described in this Annual Report on Form 10-K (including the income and asset tests previously described).

We also own interests in a number of subsidiaries which are intended to be treated as qualified REIT subsidiaries. The Code provides that such subsidiaries will be ignored for federal income tax purposes and that all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as assets, liabilities and such items of our company. If any partnership or qualified real estate investment trust subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership or qualified real estate investment trust subsidiary) for federal income tax purposes, we would likely fail to satisfy the REIT asset test prohibiting a REIT from owning greater than 10% of the voting power of the stock or value of securities of any issuer, as described above, and would therefore fail to qualify as a REIT. We believe that each of the partnerships and subsidiaries in which we own an interest will be treated for tax purposes as a partnership or qualified REIT subsidiary, respectively, although no assurance can be given that the IRS will not successfully challenge the status of any such entity.

Annual Distribution Requirements. In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders annually in an amount at least equal to:

(1) the sum of:

(a) 90% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and our net capital gain); and

(b) 90% of the net income, if any (after tax), from foreclosure property; minus

(2) the excess of certain items of non-cash income over 5% of our real estate investment trust taxable income.

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation, within the five-year period following our acquisition of such asset, we would be required to distribute at least 90% of the after-tax gain, if any, we recognized on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset on the date we acquired the asset over (b) our adjusted basis in the asset on the date we acquired the asset.

We must pay these annual distributions (1) in the taxable year to which they relate or (2) in the following year if (i) we pay these distributions during January to stockholders of record in either October, November, or December of the prior year or (ii) we elect to declare the dividend before the due date of the tax return (including extensions) and pay on or before the first regular dividend payment date after such declaration.

Amounts distributed prior to January 1, 2015, must not be preferential; that is, every stockholder of the class of stock with respect to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class.

To the extent that we do not distribute all of our net long term capital gain or distribute at least 90% but less than 100%, of our "real estate investment trust taxable income," as adjusted, we will be subject to tax on such amounts at regular corporate tax rates. Furthermore, we would be subject to an excise tax, as described below, if we should fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates in the last three months of the calendar year, by the end of the following January) at least the sum of:

(1) 85% of our real estate investment trust ordinary income for such year,

(2) 95% of our real estate investment trust capital gain net income for such year, and

(3) 100% of taxable income from prior periods less 100% of distributions from prior periods

The excise tax to which we would be subject is 4% of the excess of such required distributions over the amounts actually distributed. Any real estate investment trust taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

We intend to make timely distributions sufficient to satisfy these annual distribution requirements and to avoid the imposition of the 4% excise tax.

Failure to Qualify. If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, nor will any distributions be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from re-electing our REIT status for the four taxable years following the year during which qualification was lost. It is not possible to state whether we would be entitled to the statutory relief in all circumstances. Failure to qualify as a REIT for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

State and local taxation. We may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or reside. The state and local tax treatment of our Company may not conform to the federal income tax consequences discussed above.

Taxation of our Stockholders

Taxation of Taxable U.S. Stockholders. The following summary applies to you only if you are a “U.S. stockholder.” A U.S. stockholder is a stockholder of our shares of stock who, for United State federal income tax purposes, is:

- a citizen or resident alien of the United States;
- a corporation or partnership or other entity classified as a corporation or partnership for these purposes, created or organized in or under laws of the United States or of any state or in the District of Columbia, unless, in the case of a partnership, Treasury Regulations provide otherwise;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons, within the meaning of the Code who have the authority to control all substantial decisions of the trust.

If a partnership or an entity treated as a partnership for federal income tax purposes holds our stock, the federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our stock, you should consult your tax advisor regarding the consequences of the ownership and disposition of shares of our stock by the partnership.

As long as we qualify as a REIT, distributions made to our taxable U.S. stockholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be taken into account by such U.S. stockholders as ordinary income and will not be eligible for the dividends received deduction for corporations. Distributions that are designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year or are designated as unrecaptured §1250 gain distributions, which are taxable at a 25% rate) without regard to the period for which the stockholder has held its stock. However, corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 generally reduced the maximum tax rate applicable on long term capital gains recognized on the sale or other disposition of shares of our stock from 20% to 15%. The Jobs and Growth Tax Relief Reconciliation Act of 2003 also generally reduced the maximum marginal rate of tax payable by individuals on dividends received from corporations that are subject to a corporate level of tax. As a result of the American Taxpayer Relief Act of 2012, qualified dividends and long term capital gains realized by noncorporate taxpayers are now subject to a 20% maximum tax rate (instead of the prior 15% maximum rate). Except in limited circumstances, this reduced tax rate does not apply to dividends paid to you by us on shares of our stock, because generally we are not subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our stockholders. The reduced maximum federal income tax rate will apply to that portion, if any, of dividends received by you with respect to shares of our stock held by you that are attributable to (1) dividends received by us from non-REIT corporations or taxable REIT subsidiaries, (2) income from the prior year with respect to which we were required to pay federal corporate income tax during the prior year (if, for example, we did not distribute 100% of our REIT taxable income for the prior year) and (3) distributions by us that we designate as long-term capital gains dividends (except for some distributions taxable to you at a maximum rate of 25%).

Distributions in excess of our current and accumulated earnings and profits will not be currently taxable to you to the extent that they do not exceed the adjusted basis of your stock, but rather will reduce the adjusted basis of such stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of your stock, such distributions will be included in income as long-term capital gain (or short-term capital gain if the stock has been held for one year or less) assuming you hold the stock as a capital asset. In addition, any distribution declared in October, November or December of any year and payable to you as a stockholder of record on a specified date in any such month, will be treated as both paid by us and received by you on December 31 of the applicable year, provided that we actually pay the distribution during January of the following calendar year. Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses.

If we elect to retain and pay income tax on any net long-term capital gain, you would include in income, as long-term capital gain, your proportionate share of this net long-term capital gain. You would also receive a refundable tax credit for your proportionate share of the tax paid by us on these retained capital gains and you would have an increase in the basis of your shares of our stock in an amount equal to your includable capital gains less your share of the tax deemed paid.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed under “Taxation of Our Company—General” and “Taxation of Our Company —Annual Distribution Requirements” above. As a result, you may be required to treat as taxable dividends certain distributions that would otherwise result in a tax-free return of capital. Moreover, any “deficiency dividend” will be treated as a dividend (an ordinary dividend or a capital gain dividend, as the case may be), regardless of our earnings and profits. Any other distributions in excess of current or accumulated earnings and profits will not be taxable to you to the extent these distributions do not exceed the adjusted tax basis of your shares of our stock. You will be required to reduce the tax basis of your shares of our stock by the amount of these distributions until the basis has been reduced to zero, after which these distributions will be taxable as capital gain, if the shares of our stock are held as a capital asset. The tax basis as so reduced will be used in computing the capital gain or loss realized upon sale of the shares of our stock. Any loss upon a sale or exchange of shares of our stock which were held for six months or less (after application of certain holding period rules) will generally be treated as a long-term capital loss to the extent you previously received capital gain distributions with respect to these shares of our stock.

Upon the sale or exchange of any shares of our stock to or with a person other than us or a sale or exchange of all shares of our stock (whether actually or constructively owned) with us, you will generally recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and your adjusted tax basis in these shares of our stock. This gain or loss will be capital if you held these shares of our stock as a capital asset.

If we redeem any of your shares in us, the treatment can only be determined on the basis of particular facts at the time of redemption. In general, you will recognize gain or loss (as opposed to dividend income) equal to the difference between the amount received by you in the redemption and your adjusted tax basis in your shares redeemed if such redemption results in a “complete termination” of your interest in all classes of our equity securities, is a “substantially disproportionate redemption” or is “not essentially equivalent to a dividend” with respect to you. In applying these tests, there must be taken into account your ownership of all classes of our equity securities (e.g., Common Stock or Preferred Stock). You also must take into account any equity securities that are considered to be constructively owned by you.

If, as a result of a redemption by us of your shares, you no longer own (either actually or constructively) any of our equity securities or only own (actually and constructively) an insubstantial percentage of our equity securities, then it is probable that the redemption of your shares would be considered “not essentially equivalent to a dividend” and, thus, would result in gain or loss to you. However, whether a distribution is “not essentially equivalent to a dividend” depends on all of the facts and circumstances, and if you rely on any of these tests at the time of redemption, you should consult your tax advisor to determine their application to the particular situation.

Generally, if the redemption does not meet the tests described above, then the proceeds received by you from the redemption of your shares will be treated as a distribution taxable as a dividend to the extent of the allocable portion of current or accumulated earnings and profits. If the redemption is taxed as a dividend, your adjusted tax basis in the redeemed shares will be transferred to any other shareholdings in us that you own. If you own no other shareholdings in us, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Gain from the sale or exchange of our shares held for more than one year is taxed at a maximum long-term capital gain rate, which is currently 20% for noncorporate taxpayers (prior to the effective date of the American Taxpayer Relief Act of 2012, described above, the maximum long-term capital gain rate was 15%). Pursuant to Internal Revenue Service guidance, we may classify portions of our capital gain dividends as gains eligible for the long-term capital gains rate or as gain taxable to individual stockholders at a maximum rate of 25%.

Taxation of Tax-Exempt Stockholders. In general, a stockholder that is a tax-exempt entity not subject to tax on its investment income will not be subject to tax on our distributions. In Revenue Ruling 66-106, 1966-1 C.B. 151, the IRS ruled that amounts distributed as dividends by a REIT do not constitute unrelated business taxable income as defined in the Code when received by a qualified plan. Based on that ruling, regardless of whether we incur indebtedness in connection with the acquisition of properties, our distributions paid to a stockholder that is a tax-exempt entity will not be treated as unrelated business taxable income, provided that (i) the tax-exempt entity has not financed the acquisition of its stock with acquisition indebtedness within the meaning of the Code and the stock otherwise is not used in an unrelated trade or business of the tax-exempt entity and (ii) we are not a pension-held REIT. This ruling applies to a stockholder that is an organization that qualifies under Code Section 401(a), an IRA or any other tax-exempt organization that would compute unrelated business taxable income, if any, in accordance with Code Section 512(a)(1). However, if we are a pension-held REIT and a qualified plan owns more than 10% of the value of all of our stock, such stockholder will be required to recognize as unrelated business taxable income that percentage of the dividends that it receives from us as is equal to the percentage of our gross income that would be unrelated business taxable income to us if we were a tax-exempt entity required to recognize unrelated business taxable income. A REIT is a pension-held REIT if at least one qualified trust holds more than 25% of the value of all of our stock or one or more qualified trusts, each of whom own more than 10% of the value of all of our stock, hold more than 50% of the value of all of our stock.

For social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Code Sections 501(c)(7), (c)(9), (c)(17) and (c)(20), respectively, income from an investment in us will constitute unrelated business taxable income unless the organization is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the unrelated business taxable income generated by its investment in us. Such prospective stockholders should consult their own tax advisors concerning these “set aside” and reserve requirements.

Taxation of Foreign Stockholders. The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign stockholders are complex. We have not attempted to provide more than a summary of these rules. Prospective non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to an investment in stock, including any reporting requirements.

Distributions that are not attributable to gain from our sales or exchanges of U.S. real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions will ordinarily be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from the investment in the stock is treated as effectively connected with the non-U.S. stockholder's conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to a tax at graduated rates, in the same manner as U.S. stockholders are taxed with respect to such distributions and may also be subject to the 30% branch profits tax in the case of a stockholder that is a foreign corporation. We expect to withhold U.S. income tax at the rate of 30% on the gross amount of any such distributions made to a non-U.S. stockholder unless (i) a lower treaty rate applies and the holder provides us with a properly executed IRS Form W-8BEN (or successor form) or (ii) the non-U.S. stockholder provides us with a properly executed IRS Form W-8ECI (or successor form) claiming that the distribution is effectively connected income.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to a stockholder to the extent that such distributions do not exceed the adjusted basis of the stockholder's stock, but rather will reduce the adjusted basis of such stock. To the extent that distributions in excess of current accumulated earnings and profits exceed the adjusted basis of a non-U.S. stockholder's stock, such distributions will give rise to tax liability if the non-U.S. stockholder would otherwise be subject to tax on any gain from the sale or disposition of our stock, as described below. If it cannot be determined at the time a distribution is made whether or not distributions will be in excess of current and accumulated earnings and profit, the distributions will be subject to withholding at the same rate as dividends. However, amounts thus withheld are refundable if it is subsequently determined that such distribution was, in fact, in excess of our current and accumulated earnings and profits.

We are required to withhold 15% (10% for distributions prior to February 16, 2016) of any distribution that exceeds our current and accumulated earnings and profits, subject to certain exceptions provided in the applicable Treasury Regulations. Thus, to the extent we do not withhold 30% on the entire amount of any distribution, we will withhold at a rate of 15% on any portion of a distribution not subject to withholding at a rate of 30%.

For any year in which we qualify as a REIT, distributions that are attributable to gain from our sales or exchanges of U.S. real property interests will be taxed to a non-U.S. stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 or FIRPTA. Under FIRPTA, distributions attributable to gain from sales of U.S. real property interests are taxed to a non-U.S. stockholder as if such gain were effectively connected with a U.S. business. Non-U.S. stockholders would thus be taxed at the normal capital gain rates applicable to U.S. stockholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals) for distributions that are designated as capital gain dividends and at the normal graduated rates for US shareholders on distributions that are not so designated. Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax if a foreign corporate stockholder is not entitled to treaty exemption. We are required by applicable Treasury Regulations to withhold 35% for foreign individuals and 35% for foreign corporations of any distribution that we could designate as a capital gains dividend. This amount is creditable against the non-U.S. stockholder FIRPTA tax liability. If we designate prior distributions as capital gains dividends, then subsequent distributions up to the amount of such prior distributions will be treated as capital gains dividends for purposes of withholding.

Gain recognized by a non-U.S. stockholder upon a sale of our equity securities generally will not be taxed under FIRPTA if we are a "domestically controlled real estate investment trust," defined generally as a real estate investment trust in which at all times during a specified testing period less than 50% in value of the stock were held directly or indirectly by foreign persons. We currently anticipate that we will be a "domestically controlled real estate investment trust," and therefore the sale of equity securities will not be subject to taxation under FIRPTA. Additionally, the sale of our equity securities will not be taxed under FIRPTA if the class of stock is regularly traded on an established securities market and the selling non-U.S. stockholder has not held more than 10% (5% prior to December 18, 2015) of the class of stock at any time during the preceding five-year period. However, gain not subject to FIRPTA will be taxable to a non-U.S. stockholder if the investment in the stock is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain. Also, if the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax (unless reduced or exempted by treaty) on the individual's capital gains. A non-resident alien individual could, however, elect to treat such gain as effectively connected income and pay tax as a U.S. stockholder would. If the gain on the sale of stock were to be subject to taxation under FIRPTA, the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain.

If the proceeds of a disposition of our equity securities are paid by or through a U.S. office of a broker, the payment is subject to information reporting and to backup withholding unless the disposing non-U.S. stockholder certifies as to his name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a non-U.S. office of a non-U.S. broker. U.S. information reporting requirements (but not backup withholding) will apply, however, to a payment of disposition proceeds outside the United States if (i) the payment is made through an office outside the United States of a broker that is either (a) a U.S. person, (b) a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (c) a controlled foreign corporation for U.S. federal income tax purposes, or (d) a foreign partnership more than 50% of the capital or profits of which is owned by one or more U.S. persons or which engages in a U.S. trade or business and (ii) the broker fails to initiate documentary evidence that the stockholder is a non-U.S. stockholder and that certain conditions are met or that the non-U.S. stockholder otherwise is entitled to an exemption.

Recently enacted legislation will generally impose a 30% withholding tax on dividends paid on our stock, interest paid on our notes, and the gross proceeds of a disposition of our stock or notes paid to a foreign financial institution, unless such institution enters into an agreement with the U.S. government to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). This legislation will also generally impose a 30% withholding tax on dividends paid on our stock, interest paid on our notes, and the gross proceeds of a disposition of our stock or notes paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder of our common stock might be eligible for refunds or credits of such taxes and may be required to file a U.S. federal income tax return to claim such refunds or credits. Under recently promulgated Treasury Regulations, these rules will be phased in over the next several years. Investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our stock and notes.

Other Tax Consequences. You should recognize that the present federal income tax treatment of an investment in us may be modified by legislative, judicial or administrative action at any time and that any action may affect investments and commitments previously made. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in federal tax laws and interpretations of these laws could adversely affect the tax consequences of an investment in us.

Although the timing and nature of legislative changes is uncertain, based on recent comments made by the Administration and Congress, the possibility exists that there will be significant tax reform legislation considered by the current Congress. Among other things, measures impacting investments in real property could include tax rate reductions with base broadening including changes to the interest deduction, expensing of property improvements, and provisions related to infrastructure spending. Overseas property investment may also be impacted by international tax reform. Investments in pass-through entities may be impacted by tax reform. Any material alterations with respect to nonrecognition treatment for partnership contributions and distributions may affect the performance of our investment. Congress may enact all or none of these or adopt additional measures not mentioned. Consult a tax advisor with respect to legislative developments and their effect on an investment in us.

Investor Information

We make available to the public free of charge through our internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission (or

SEC). Our internet website address is *www.LTCreit.com*. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

Posted on our website *www.LTCreit.com* under “Corporate Governance” in the “Investors” section are our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee Charters, our Corporate Governance Guidelines, and Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the New York Stock Exchange (or NYSE), we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Directors. In addition, our website under “SEC Filings” in Investors section includes information concerning purchases and sales of our equity securities by our executive officers and directors.

You may read and copy materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy statements and other information we file. The address of the SEC website is *www.sec.gov.*

You also may contact our Investor Relations Department at:

LTC Properties, Inc.
2829 Townsgate Road, Suite 350
Westlake Village, California 91361
Attn: Investor Relations
(805) 981-8655

Item 1A. RISK FACTORS

This section discusses risk factors that may affect our business, operations, and financial condition. If any of these risks, as well as other risks and uncertainties that we have not yet identified or that we currently think are not material, actually occur, we could be materially adversely affected and the value of our securities could decline. In addition, these risk factors contain “forward-looking statements” as discussed above under the heading “Cautionary Statement.” The following information should be read in conjunction with Management’s Discussion and Analysis, and the consolidated financial statements and related notes in this Annual Report on Form 10- K.

A Failure to Maintain or Increase our Dividend Could Reduce the Market Price of Our Stock. The ability to maintain or raise our common dividend is dependent, to a large part, on growth of funds available for distribution. This growth in turn depends upon increased revenues from additional investments and loans, rental increases and mortgage rate increases.

At Times, We May Have Limited Access to Capital Which Will Slow Our Growth. A REIT is required to make dividend distributions and retains little cash flow for growth. As a result, growth for a REIT is generally through the steady investment of new capital in real estate assets. There may be times when we will have limited access to capital from the equity and/or debt markets. During such periods, virtually all of our available capital would be required to meet existing commitments and to reduce existing debt. We may not be able, during such periods, to obtain additional equity and/or debt capital or dispose of assets on favorable terms, if at all, at the time we require additional capital to acquire health care properties on a competitive basis or meet our obligations. At December 31, 2016, we had $8.0 million of cash on hand, $492.9 million available under our unsecured revolving line of credit and $22.5 million available under our shelf agreement with Prudential Investment Management, Inc. (or Prudential). Subsequent to December 31, 2016, we paid $4.2 million in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337.5 million. Additionally, subsequent to December 31, 2016, we sold 15-year senior unsecured notes in the aggregate amount of $100.0 million to a group of institutional investors, which included Prudential, in a private placement transaction. We used the proceeds to repay our outstanding balance under our unsecured revolving line of credit. Subsequent to these transactions, we have $36.7 million available under our amended shelf agreement with Prudential and $600.0 million available under our unsecured line of credit.

Also, we also have the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our equity distribution agreement and an indeterminate amount through the issuance of debt and/or equity securities under an effective shelf registration statement. Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million under our equity distribution agreement. Accordingly, we have $185.2 million available under this agreement.

As a result, we currently believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, meet debt service obligations (both principal and interest), make dividend distributions and finance some future investments should we determine such future investments are financially feasible.

Income and Returns from Health Care Facilities Can be Volatile. The possibility that the health care properties in which we invest will not generate income sufficient to meet operating expenses, will generate income and capital appreciation, if any, at rates lower than those anticipated or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in health care related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws and government payment), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply of and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as hurricanes, earthquakes and floods) or similar factors.

We Depend on Lease Income and Mortgage Payments from Real Property. Approximately 99.5% of our revenue for the year ended December 31, 2016, was derived from lease income and mortgage payments from real property. Our revenue would be adversely affected if a significant number of our borrowers or lessees were unable to meet their obligations to us or if we were unable to lease our properties or make mortgage loans on economically favorable terms. There can be no assurance that any lessee will exercise its option to renew its lease upon the expiration of the initial term. There can be no assurance that if such failure to renew were to occur, or if we did not re-lease a property to a current lessee, we could lease the property to others on favorable terms, at the same rent as the current rent, or on a timely basis.

We Rely on our Operators. Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in owned properties and mortgage loans represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by any of our lessees or borrowers, including bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

Our Borrowers and Lessees Face Competition in the Health Care Industry. The long term care industry is highly competitive and we expect that it may become more competitive in the future. Our borrowers and lessees are competing with numerous other companies providing similar long term care services or alternatives such as home health agencies, hospices, life care at home, community-based service programs, retirement communities and convalescent centers. There can be no assurance that our borrowers and lessees will not encounter increased competition in the future which could limit their ability to attract residents or expand their businesses and therefore affect their ability to make their debt or lease payments to us.

The Health Care Industry is Heavily Regulated by the Government. Our borrowers and lessees who operate health care facilities are subject to extensive regulation by federal, state and local governments. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws, requirements and regulations could affect its ability to operate its facility or facilities and could adversely affect such lessee's or borrower's ability to make lease or debt payments to us.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended (the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of this sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduced Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains beginning in fiscal year 2012; required the development of a value-based purchasing program for Medicare skilled nursing facility services; established a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provided incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also expanded public disclosure about nursing home ownership and operations, instituted mandatory compliance and quality assurance programs, increased penalties for noncompliance, and expanded fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act have been implemented through regulations and subregulatory guidance. Moreover, President Trump and some members of Congress have called for repeal of the Affordable Care Act and replacement with alternative reforms. The details and timing of any such actions are unknown at this time. There can be no assurance that the Affordable Care Act or any subsequent repeal and/or reform legislation will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

The Protecting Access to Medicare Act of 2014 requires the Secretary of the Department of Health and Human Services to develop a skilled nursing facility "value-based purchasing program," which will tie Medicare payments to skilled nursing facilities to their performance on certain new readmissions measures, applicable to services furnished beginning October 1, 2018. Furthermore, the Improving Medicare Post-Acute Care Transformation Act of 2014 requires the collection of standardized post-acute care assessment data, which eventually could be used as the basis for developing changes to Medicare post-acute care reimbursement policy. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual skilled nursing facility prospective payment system update for fiscal year 2018 at 1%.

Additional reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies along with other cost-control measures. For instance, under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. As amended by subsequent legislation, the Medicare sequestration cuts are currently scheduled to be applied through fiscal year 2025, although Congress and the Administration could enact legislation at any time that modifies sequestration.

CMS has also adopted regulations that impose new standards that long-term care facilities must meet to participate in the Medicare and Medicaid programs, including an October 4, 2016 final rule that addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, binding arbitration agreements, infection control, residents' rights, compliance and ethics programs, and several other areas. Separately, CMS published a final rule on September 16, 2016 establishing emergency preparedness requirements for Medicare- and Medicaid-participating providers and suppliers, including long-term care facilities, to ensure that they can meet the needs of patients and residents during natural and man-made emergency situations. In addition, CMS published a final rule on May 4, 2016 amending fire safety standards applicable to long-term care facilities and certain other types of Medicare- and Medicaid-participating health care facilities. These and other changes in the law or regulations, such as the adoption of new requirements for participation in the Medicare and Medicaid programs, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Federal and State Health Care Cost Containment Measures Including Reductions in Reimbursement From Third Party Payors Such as Medicare and Medicaid Could Adversely Affect Us and The Ability of Our Operators to Make Payments to Us. The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that property to us. Revenues of our borrowers and skilled nursing center lessees are generally derived from payments for patient care. Sources of such payments include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans, health maintenance organizations, preferred provider arrangements, self-insured employers, as well as the patients themselves.

The health care industry continues to face increased government and private payor pressure on health care providers to control costs. Certain of these initiatives have had the result of limiting Medicare and Medicaid reimbursement for nursing facility services. Federal legislative and regulatory policies have been adopted and may continue to be proposed that would reduce Medicare and/or Medicaid payments to nursing facilities. Moreover, state budget pressures continue to result in adoption of Medicaid provider payment reductions in some states. No assurances can be given that any additional Medicare or Medicaid legislation or regulatory policies adopted by the federal government or the states would not reduce Medicare or Medicaid reimbursement to nursing facilities or result in additional costs for operators of nursing facilities.

Congress also has given states greater flexibility to expand access to home and community based services as an alternative to nursing facility services. These provisions could further increase state funding for home and community based services, while prompting states to cut funding for nursing facilities and homes for persons with disabilities. The Trump Administration and Congress are also considering revising federal payments to state Medicaid programs to be in the form of block grants or per capita limits on federal Medicaid payments to states. In light of continuing federal and state Medicaid program reforms, budget cuts, and regulatory initiatives, no assurance can be given that the implementation of such regulations and reforms will not have a material adverse effect on the financial condition or results of operations of our lessees and/or borrowers which, in turn, could affect their ability to meet their contractual obligations to us.

We Could Incur More Debt. We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. We may incur additional debt by borrowing under our unsecured revolving line of credit or the uncommitted private shelf agreement, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders, including affecting our ability to obtain, in the future, additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

We Could Fail to Collect Amounts Due Under Our Straight-line Rent Receivable Asset. GAAP accounting requires us to calculate the total rent we will receive as a fixed amount over the life of the lease and recognize that revenue evenly over that life. In a situation where a lease calls for fixed rental increases during the life of the lease, rental income recorded in the early years of a lease is higher than the actual cash rent received which creates an asset on the consolidated balance sheet called straight-line rent receivable. At some point during the lease, depending on the rent levels and terms, this reverses and the cash rent payments received during the later years of the lease are higher than the rental income recognized which reduces the straight-line rent receivable balance to zero by the end of the lease. We periodically assess the collectability of the straight-line rent receivable. If during our assessment we determined that we were unlikely to collect a portion or the entire straight-line rent receivable asset, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion or up to its full value that we estimate may not be recoverable.

Our Assets May be Subject to Impairment Charges. We periodically but not less than quarterly evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have a material adverse effect on our results of operations and a non-cash impact on funds from operations in the period in which the write-off occurs.

A Failure to Reinvest Cash Available to Us Could Adversely Affect Our Future Revenues and Our Ability to Increase Dividends to Stockholders; There is Considerable Competition in Our Market for Attractive Investments. From time to time, we will have cash available from (1) proceeds of sales of shares of securities, (2) proceeds from new debt issuances, (3) principal payments on our mortgages and other investments, (4) sale of properties, and (5) funds from operations. We may reinvest this cash in health care investments and in accordance with our investment policies, repay outstanding debt or invest in qualified short term or long term investments. We compete for real estate investments with a broad variety of potential investors. The competition for attractive investments negatively affects our ability to make timely investments on acceptable terms. Delays in acquiring properties or making loans will negatively impact revenues and perhaps our ability to increase distributions to our stockholders.

Our Failure to Qualify as a REIT Would Have Serious Adverse Consequences to Our Stockholders. We intend to operate so as to qualify as a REIT under the Code. We believe that we have been organized and have operated in a manner which would allow us to qualify as a REIT under the Code beginning with our taxable year ended December 31, 1992. However, it is possible that we have been organized or have operated in a manner which would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify. Qualification as a REIT requires us to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must pay dividends to stockholders aggregating annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding capital gains). Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification. If we lose our REIT status, our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved. In addition, we would no longer be required to make distributions to stockholders.

Provisions in Our Articles of Incorporation May Limit Ownership of Shares of Our Capital Stock. In order for us to qualify as a REIT, no more than 50% in value of the outstanding shares of our stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year. To ensure qualification under this test, our Articles of Incorporation provide that, subject to exceptions, no person may beneficially own more than 9.8% of outstanding shares of any class or series of our stock, including our common stock. Our Board of Directors may exempt a person from the 9.8% ownership limit upon such conditions as the Board of Directors may direct. However, our Board of Directors may not grant an exemption from the 9.8% ownership limit if it would result in the termination of our status as a REIT. Shares of capital stock in excess of the 9.8% ownership limitation that lack an applicable exemption may lose rights to dividends and voting, and may be subject to redemption. As a result of the limitations on ownership set forth in our Articles of Incorporation, acquisition of any shares of capital stock that would result in our disqualification as a REIT may be limited or void. The 9.8% ownership limitation also may have the effect of delaying, deferring, or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our capital stock.

Our Real Estate Investments are Relatively Illiquid. Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. All of our properties are “special purpose” properties that cannot be readily converted to general residential, retail or office use. Health care facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance, and may be excluded from the programs—in some cases without a prior hearing—for failure to meet program requirements. Transfers of operations of nursing homes and other health care-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less than the net book value or the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our income and cash flows from operations would be adversely affected.

Our Remedies May Be Limited When Mortgage Loans Default. To the extent we invest in mortgage loans, such mortgage loans may or may not be recourse obligations of the borrower and generally will not be insured or guaranteed by governmental agencies or otherwise. In the event of a default under such obligations, we may have to foreclose on the property underlying the mortgage or protect our interest by acquiring title to a property and thereafter make substantial improvements or repairs in order to maximize the property's investment potential. Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If a borrower seeks bankruptcy protection, the Bankruptcy Court may impose an automatic stay that would preclude us from enforcing foreclosure or other remedies against the borrower. Declines in the value of the property may prevent us from realizing an amount equal to our mortgage loan upon foreclosure.

We are Subject to Risks and Liabilities in Connection with Properties Owned Through Limited Liability Companies and Partnerships. We currently have an investment in a limited liability company and we may make additional investments through these ventures in the future. Partnership or limited liability company investments may involve risks such as the following:

- our partners or co-members might become bankrupt (in which event we and any other remaining general partners or members would generally remain liable for the liabilities of the partnership or limited liability company);
- our partners or co-members might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals;
- our partners or co-members may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT; and
- agreements governing limited liability companies and partnerships often contain restrictions on the transfer of a member's or partner's interest or "buy-sell" or other provisions which may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms.

We will, however, generally seek to maintain sufficient control of our partnerships and limited liability companies to permit us to achieve our business objectives. Our organizational documents do not limit the amount of available funds that we may invest in partnerships or limited liability companies. The occurrence of one or more of the events described above could have a direct and adverse impact on us.

Risks Associated with Property Development that Can Render a Project Less Profitable or Not Profitable, and, Under Certain Circumstances, Prevent Completion of Development Activities Undertaken. Our business includes development of senior housing and health care properties. Ground up development presents additional risk, including but not limited to the following:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make completion of the development project less profitable;

- construction and/or permanent financing may not be available on favorable terms or at all;
- the project may not be completed on schedule, which can result in increases in construction costs and debt service expenses as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, results of operations and financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Here and throughout this Form 10-K wherever we provide details of our properties' bed/unit count, the number of beds/units applies to skilled nursing, assisted living, independent living, memory care and behavioral health care properties only. This number is based upon unit/bed counts shown on operating licenses provided to us by lessees/borrowers or units/beds as stipulated by lease/mortgage documents. These numbers often differ, usually not materially by property, from units/beds in operation at any point in time. The differences are caused by such things as operators converting a patient/resident room for alternative uses, such as offices or storage, or converting a multi-patient room/unit into a single patient room/unit. We monitor our properties on a routine basis through site visits and reviews of current licenses. In an instance where such change would cause a de-licensing of beds or in our opinion impact the value of the property, we may take action against the lessee/borrower to preserve the value of the property/collateral.

Owned Properties. The following table sets forth certain information regarding our owned properties as of December 31, 2016 (*dollars amounts in thousands*):

Location	No. of SNFs	No. of ALFs	No. of ROCs	No. of UDPs	No. of Others	No. of Beds/Units	Encumbrances	Remaining Lease Term[1]	Gross Investments
Alabama	2	—	1	—	—	459	$ —	70	$ 18,622
Arizona	5	—	—	—	—	967	—	40	40,764
California	2	3	—	—	—	574	—	81	62,889
Colorado	2	13	1	—	—	980	—	122	114,923
Florida	5	7	—	—	—	852	—	103	74,609
Georgia	2	1	—	—	—	327	—	158	19,242
Illinois	—	3	—	— (2)	—	286	—	153	63,233
Indiana	—	3	—	—	—	140	—	177	10,104
Iowa	6	1	1	—	—	579	—	80	17,630
Kansas	3	8	—	—	—	689	—	115	70,569
Kentucky	1	1	—	— (3)	—	203	—	124	43,628
Michigan	—	—	—	—	— (4)	—	—	—	943
Mississippi	—	1	—	—	—	62	—	96	9,430
Nebraska	—	4	—	—	—	157	—	177	9,595
Nevada	—	—	—	—	1	118	—	98	9,274
New Jersey	—	4	—	—	—	205	—	134	62,042
New Mexico	7	—	—	—	—	843	—	109	50,913
N. Carolina	—	5	—	—	—	210	—	48	13,096
Ohio	2	11	—	—	—	772	—	99	99,300
Oklahoma	—	6	—	—	—	219	—	48	12,315
Oregon	1	1	—	—	—	135	—	34	7,347
Pennsylvania	—	3	—	—	—	199	—	103	18,040
S. Carolina	—	4	2	—	—	428	—	104	35,290
Tennessee	2	—	—	—	—	141	—	84	5,275
Texas	24	16	1	—	—	4,340	—	126	268,955
Virginia	3	—	1	—	—	500	—	97	29,378
Washington	1	—	—	—	—	123	—	55	8,024
Wisconsin	1	9	—	—	—	844	—	168	126,133
TOTAL	69	104	7	—	1	15,352	$ —	117	$ 1,301,563

(1) Weighted average remaining months in lease term as of December 31, 2016.

(2) Includes two MC development with a total of 132 units.

(3) Includes one SNF developments with 143 beds.

(4) Includes three parcels of land held-for-use.

The following table sets forth certain information regarding our lease expirations for our owned properties as of December 31, 2016 *(dollars amounts in thousands):*

Year	No. of SNFs	No. of ALFs	No. of ROCs	No. of Others	No. of Beds/Units	No. of Operators	Annualized Rental Income[(1)]	% of Annualized Rental Income Expiring
2017	1	—	—	—	60	1	359	0.3 %
2018	2	9	1	—	1,061	4	9,297	6.7 %
2019	3	—	—	—	613	1	1,571	1.1 %
2020	1	35	—	—	1,639	2	13,826	9.9 %
2021	26	—	4	—	3,450	4	14,091	10.1 %
2022	1	—	—	—	121	1	771	0.6 %
2023	4	—	—	—	326	2	2,539	1.8 %
2024	—	10	—	—	471	1	2,611	1.9 %
2025	6	3	—	1	1,166	3	11,181	8.0 %
2026	11	—	2	—	1,755	2	15,490	11.0 %
Thereafter	14	46	—	—	4,654	7	67,992	48.6 %
TOTAL	69	103 [(2)]	7	1	15,316	[(3)]	$ 139,728	100.0 %

(1)Annualized rental income is the total rent, including amortization of lease incentives, over the life of the lease recognized evenly over that lease term as of December 31, 2016.

(2) Excludes a closed assisted living community.

(3)We have a total of 27 operators. One of our operators is a party to multiple leases with dissimilar expirations; therefore, the sum of the number of operators by maturity does not equal our total number of operators.

Mortgage Loans. The following table sets forth certain information regarding our mortgage loans as of December 31, 2016 (*dollars amounts in thousands*):

Location	No. of SNFs	No. of ALFs	No. of OTHs	No. of Beds/ Units	Interest Rate	Average Months to Maturity	Original Face Amount of Mortgage Loans	Gross Investments	Current Annual Debt Service[(1)]
Arizona	—	1	—	100	7.5%	31	$ 3,257	$ 3,210	$ 357
Michigan	20	—	—	2,748	9.41%-9.53%	314	207,639	214,142	20,227
Missouri	1	—	—	100	11.6%	12	1,500	2,120	487
Pennsylvania	—	1	—	70	7.32%	3	5,100	4,686	418
Texas	1	6	—	201	10.70%-13.95%	18	8,315	5,593	1,046
Utah	1	—	—	84	11.05%	35	1,400	1,158	174
Virginia	—	—	— (2)	—	9.00%	3	1,208	1,207	112
TOTAL	23	8	—	3,303		291	$ 228,419	$ 232,116	$ 22,821

(1) Includes principal and interest payments.

(2) Includes a parcel of land secured under a short-term mortgage loan.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NYSE under the symbol "LTC". Set forth below are the high and low reported sale prices for our common stock as reported on the NYSE for each of the periods indicated.

	2016		2015	
	High	Low	High	Low
First quarter	$ 46.29	$ 40.55	$ 48.85	$ 41.42
Second quarter	$ 51.74	$ 44.90	$ 46.98	$ 40.70
Third quarter	$ 54.20	$ 49.83	$ 44.77	$ 38.64
Fourth quarter	$ 52.05	$ 43.17	$ 44.84	$ 40.02

Holders of Record

As of February 15, 2017 we had approximately 391 stockholders of record of our common stock.

Dividend Information

We declared and paid total cash distributions on common stock as set forth below:

	Declared		Paid	
	2016	2015	2016	2015
First quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Second quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Third quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Fourth quarter	$ 0.57	$ 0.54	$ 0.57	$ 0.54
	$ 2.19	$ 2.07	$ 2.19	$ 2.07

We intend to distribute to our stockholders an amount at least sufficient to satisfy the distribution requirements of a REIT. Cash flows from operating activities available for distribution to stockholders will be derived primarily from interest and rental payments from our real estate investments. All distributions will be made subject to approval of our Board of Directors and will depend on our earnings, our financial condition and such other factors as our Board of Directors deem relevant. In order to qualify for the beneficial tax treatment accorded to REITs by Sections 856 through 860 of the Internal Revenue Code, we are required to make distributions to holders of our shares equal to at least 90% of our REIT taxable income. (See "Annual Distribution Requirements".)

Issuer Purchases of Equity Securities

The number of shares of our Common Stock purchased and the average prices paid per share for each month in the quarter ended December 31, 2016 are as follows:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan [2]	Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1- October 31, 2016	—	$ —	—	—
November 1 - November 30, 2016	—	$ —	—	—
December 1 - December 31, 2016	311	$ 47.00	—	—
Total	311		—	—

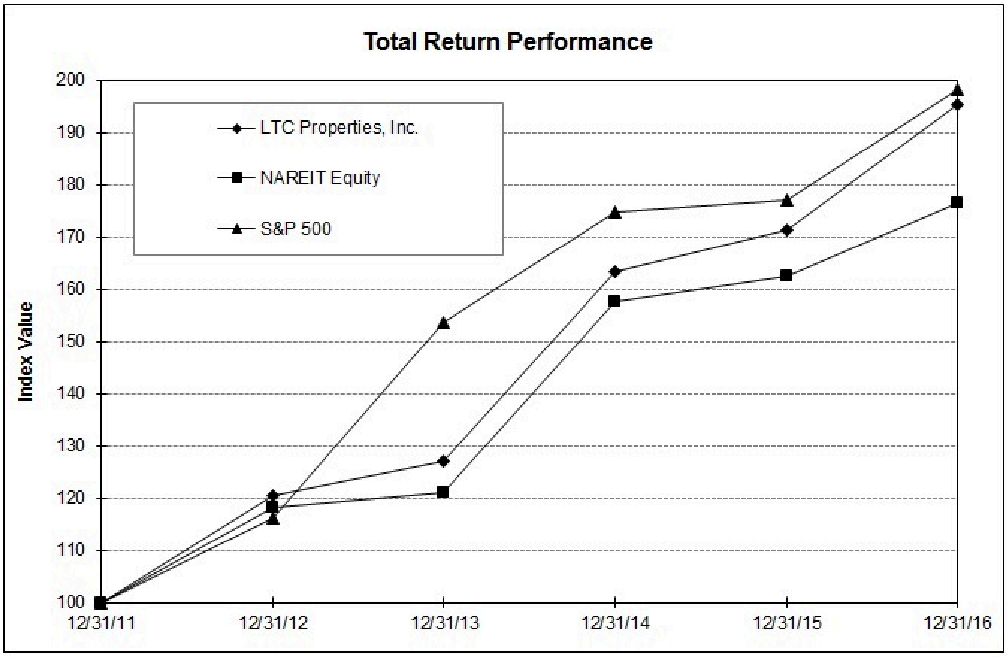
(1)During the three months ended December 31, 2016, we acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

(2) No shares were purchased as part of publicly announced plans or programs.

Stock Performance Graph

The National Association of Real Estate Investment Trusts (or NAREIT), an organization representing U.S. REITs and publicly traded real estate companies, classifies a company with 50% or more of assets directly or indirectly in the equity ownership of real estate as an equity REIT. Our equity ownership of real estate assets was more than 75% during 2016.

This graph compares the cumulative total stockholder return on our common stock from December 31, 2011 to December 31, 2016 with the cumulative stockholder total return of (1) the Standard & Poor's 500 Stock Index and (2) the NAREIT Equity REIT Index. The comparison assumes $100 was invested on December 31, 2011 in our common stock and in each of the foregoing indices and assumes the reinvestment of dividends.



	Period Ending					
Index	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
LTC Properties, Inc.	$ 100.00	$ 120.42	$ 127.11	$ 163.38	$ 171.22	$ 195.28
NAREIT Equity	100.00	118.06	120.97	157.43	162.46	176.30
S&P 500	100.00	116.00	153.57	174.60	177.01	198.18

The stock performance depicted in the above graph is not necessarily indicative of future performance.

The stock performance graph shall not be deemed incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such Acts.

Item 6. SELECTED FINANCIAL DATA

The following table of selected financial information should be read in conjunction with our financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

	2016	2015	2014	2013	2012
	(In thousands, except per share amounts)				
Operating information:					
Total revenues	$ 161,583	$ 136,203	$ 118,961	$ 104,974	$ 92,482
Income from continuing operations	85,115	73,081	73,399	55,405	50,306
Income allocated to non-controlling interests[(1)]	—	—	—	—	37
Income allocated to participating securities	385	484	481	383	377
Income allocated to preferred stockholders	—	2,454	3,273	3,273	3,273
Net income available to common stockholders	84,730	70,143	69,645	54,159	47,640
Per share information:					
Net income per common share from continuing operations available to common stockholders:					
Basic	$ 2.21	$ 1.97 [(2)]	$ 2.01	$ 1.56	$ 1.54
Diluted	$ 2.21	$ 1.94 [(2)]	$ 1.99	$ 1.56	$ 1.54
Net income per common share available to common stockholders:					
Basic	$ 2.21	$ 1.97 [(2)]	$ 2.01	$ 1.64	$ 1.58
Diluted	$ 2.21	$ 1.94 [(2)]	$ 1.99	$ 1.63	$ 1.57
Common stock distributions declared	$ 2.19	$ 2.07	$ 2.04	$ 1.91	$ 1.79
Common stock distributions paid	$ 2.19	$ 2.07	$ 2.04	$ 1.91	$ 1.79
Balance sheet information:					
Total assets	$ 1,394,896	$ 1,275,424	$ 964,770	$ 930,305	$ 788,446
Total debt[(3)]	609,391 [(4)]	571,872 [(4)]	280,584	277,730	302,789

(1) During 2012, our limited partners exercised their rights to convert all of their 112,588 partnership units. As a result, we subsequently terminated the limited partnership.

(2) Decreased primarily as a result of an impairment charge related to a contingent agreement to sell an assisted living community, partially offset by a gain related to the sale of a skilled nursing center in 2015.

(3) Includes bank borrowings, senior unsecured notes (net of debt issue costs) and bonds payable.

(4) Increase primarily due to the sale of senior unsecured term notes.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Business and Investment Strategy

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in seniors housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in seniors housing and health care properties managed by experienced operators. Our primary seniors housing and health care property classifications include skilled nursing centers (or SNF), assisted living communities (or ALF), independent living communities (or ILF), memory care communities (or MC) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property classification. Range of care communities (or ROC) property classification consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. As of December 31, 2016, seniors housing and long-term health care properties comprised approximately 99% of our real estate investment portfolio. We have been operating since August 1992.

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

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

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

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

Portfolio Overview

The following table summarizes our real estate investment portfolio as of December 31, 2016 (*dollar amounts in thousands*):

Type of Property	Gross Investments	Percentage of Investments	Twelve Months Ended December 31, 2016 Rental Income[(1)]	Interest Income[(2)]	Percentage of Revenues	Number of Properties[(3)]	Number of SNF Beds[(4)]	ALF Units[(4)]
Skilled Nursing	$ 753,328	49.2 %	$ 61,429	$ 25,430	54.6 %	92	11,644	—
Assisted Living	711,645	46.4 %	64,380	1,171	41.2 %	112	—	5,985
Range of Care	43,140	2.8 %	5,774	—	3.6 %	7	634	274
Under Development[(5)]	14,142	0.9 %	—	—	— %	—	—	—
Other[(6)]	11,424	0.7 %	865	111	0.6 %	1	118	—
Totals	$ 1,533,679	100.0 %	$ 132,448	$ 26,712	100.0 %	212	12,396	6,259

(1) Excludes rental income from properties sold during 2016.

(2) Excludes interest income from mortgage loans paid off during 2016.

(3) We have investments in 30 states leased or mortgaged to 31 different operators.

(4) See *Item 2. Properties* for discussion of bed/unit count.

(5) Includes three development projects, consisting of two memory care communities with a total of 132 units, and a 143-bed skilled nursing center.

(6) Includes four parcels of land held-for-use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds.

As of December 31, 2016 we had $1.3 billion in carrying value of net real estate investments, consisting of $1.0 billion or 81.7% invested in owned and leased properties and $0.3 billion or 18.3% invested in mortgage loans secured by first mortgages.

For the year ended December 31, 2016, rental income and interest income from mortgage loans represented 82.6% and 16.9%, respectively, of total gross revenues. In most instances, our lease structure contains fixed or estimable annual rental escalations, which are generally recognized on a straight-line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved. For the year ended December 31, 2016, we recognized $13.5 million in straight-line rental income and recorded $0.1 million of straight-line rent receivable reserve. For the remaining leases in place at December 31, 2016, assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight-line rental income will decrease from $13.5 million in 2016 to $8.8 million for projected annual 2017. Conversely, our cash rental income is projected to increase from $122.0 million in 2016 to $133.3 million for projected annual 2017. During the year ended December 31, 2016, we received $122.0 million of cash rental revenue and recorded $1.9 million of lease incentives. At December 31, 2016, the straight-line rent receivable balance, net of reserves, on the consolidated balance sheet was $55.3 million.

Many of our existing leases contain renewal options that, if exercised, could result in the amount of rent payable upon renewal being greater or less than that currently being paid. During the year ended December 31, 2016, there were no lease renewals. During 2016, we amended an existing master lease to extend the terms for an additional five years. Additionally during 2016, we consolidated six individual master leases with three operators into three single master leases.

2016 Transaction overview

Investment in Owned Properties

The following table summarizes our acquisitions for the twelve months ended December 31, 2016 *(dollar amounts in thousands):*

Type of Property	Purchase Price	Transaction Costs[1]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing[2]	$ 16,000	$ 45	$ 16,045	1	126
Assisted Living[3]	53,550	423	53,973	4	250
Land[4]	6,891	108	6,999	—	—
Totals	$ 76,441	$ 576	$ 77,017	5	376

(1)Represents cost associated with our acquisitions; however, depending on the accounting treatment of our acquisitions, transaction costs may be capitalized to the properties' basis and, for our land purchases with forward development commitments, transaction costs are capitalized as part of our construction in progress. Additionally, transaction costs may include costs related to the prior year due to timing and may include costs related to terminated transactions.

(2) We acquired a newly constructed 126-bed skilled nursing center in Texas.

(3)We acquired a newly constructed memory care community in Kentucky for $14,250 which includes a $2,000 holdback, a newly constructed assisted living and memory care community in Georgia for $14,300 and two memory care communities in Kansas for an aggregate purchase price of $25,000.

(4)We acquired a parcel of land and improvements and entered into a development commitment of up to $24,325, including the land and bed rights purchase, for the development of a 143-bed skilled nursing center in Kentucky. Also, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals approximately $14,500, including the land purchase.

Sold Properties

During 2016, we sold a 48-unit assisted living community located in Florida for $1.8 million which was previously written down to its estimated sale price in the fourth quarter of 2015. Additionally, we sold two skilled nursing centers in Texas and an assisted living community in Florida for an aggregate price of $11.9 million. As a result of these sales, we recognized a net gain on sale of $3.8 million. Also, we sold a school in New Jersey for $3.9 million and recorded a net loss on sale in the amount of $193,000. Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1.2 million. We performed a recoverability analysis on the property as of December 31, 2016 and determined that a portion of the carrying value of the property was not recoverable. Accordingly, we recorded an impairment charge of $0.8 million to write the property down to its estimated sale price at December 31, 2016.

During 2015, we sold a 112-bed skilled nursing center located in Texas for $1.6 million, resulting in net sales proceed of $1.5 million and a net gain on sale of $0.6 million. No properties were sold during 2014.

Development Projects

The following table summarizes our investment in development and improvement projects for the year ended December 31, 2016 *(in thousands)*:

	Development	Improvements
ALF/ ILF/ MC	$ 41,859	$ 3,034
SNF	483	3,758
	$ 42,342	$ 6,792

Completed Developments

During the twelve months ended December 31, 2016, we completed the following projects *(dollar amounts in thousands):*

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	2016 Funding	Total Funding
Development	1	MC	66	Illinois	$ 2,980	$ 12,248
Development	1	MC	56	Texas	1,110	11,776
Development	1	MC	66	Illinois	7,331	11,962
Development	1	MC	66	California	7,716	12,400
Development	1	ALF/MC	89	South Carolina	9,170	15,080
Development	1	ILF	108	Kansas	11,235	13,423
Improvement	1	SNF	160	Arizona	3,432	4,672
	7		611		$ 42,974	$ 81,561

Investment in Mortgage Loans

A summary of our mortgage loan origination and funding for the year ended December 31, 2016, is as follows *(in thousands):*

Origination/Funding	$ 20,685
Pay-offs	6,036
Scheduled principal payments received	2,242

Investment in Unconsolidated Joint Ventures

We have made a preferred equity investment in an entity (or the JV) that owns four properties in Arizona that provide independent, assisted living and memory care services. At closing, we provided an initial preferred capital contribution of $20.1 million and have committed to provide an additional preferred capital contribution of $5.5 million for a total preferred capital contribution of $25.6 million. As the preferred member of the JV, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be paid upon redemption. During 2016, we provided an additional preferred capital contribution of $1.8 million. Accordingly, we have a remaining preferred capital contribution commitment of $3.7 million.

Additionally, during 2016 we entered into a $3.4 million seven-year term mezzanine loan commitment for the development of a 127-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. In accordance with the terms of the loan agreement, we are entitled to receive a 15% preferred return, a portion of which, subject to minimum payment requirements, is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. We evaluated this acquisition, development and construction (or ADC) arrangement and determined that the characteristics are similar to a jointly-owned investment or partnership, and accordingly, the investment is accounted for as an unconsolidated joint venture under the equity method of accounting instead of loan accounting.

Notes Receivable

The following table summarizes our notes receivable activities *(dollar amounts in thousands):*

	2016
Advances and originations under notes receivable	$ 14,969
Principal payments received under notes receivable	(100)
Reclassified to real estate under development [1]	(237)
Notes receivable reserve	(166)
Net increase in notes receivable	$ 14,466

(1) Represents pre-development loans which matured due to land acquisitions and commencement of development projects.

During 2016, we purchased a $12.5 million mezzanine loan on a portfolio of 64 skilled nursing centers located in eight states. The mezzanine loan has a five-year term and a face rate of LIBOR plus 11.75%. We have characterized this investment as a loan in accordance to the ADC arrangement.

Key Transactions During the Quarter

During the fourth quarter, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals $14.5 million, including the land purchase. Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1.2 million.

During the quarter we completed the development of a 108-unit independent living community in Kansas.

During the fourth quarter, we entered into a $3.4 million seven-year term mezzanine loan commitment for development of a 127-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. In accordance with the terms of the loan agreement, we are entitled to receive a 15% preferred return, a portion of which, subject to minimum payment requirements, is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. Additionally, we purchased a $12.5 million mezzanine loan on a portfolio of 64 skilled nursing centers located in eight states. The mezzanine loan has a five-year term and a face rate of LIBOR plus 11.75%.

Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million in net proceeds under our equity distribution agreement. Accordingly, we have approximately $185.2 million available under these agreements.

Key Performance Indicators, Trends and Uncertainties

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

Concentration Risk. We evaluate by gross investment our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property or mortgage loans. In order to qualify as an equity REIT, at least 50 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top five operators. Geographic mix measures the portion of our investment that relate to our top five states.

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

	12/31/16	9/30/16	6/30/16	3/31/16	12/31/15
Asset mix:					
Real property	$ 1,301,563	$ 1,292,459	$ 1,291,386	$ 1,229,756	$ 1,198,686
Loans receivable	232,116	236,707	235,243	225,299	219,719
Investment mix:					
Skilled nursing centers	$ 753,328	$ 757,490	$ 755,287	$ 750,663	$ 726,865
Assisted living communities (1)	711,645	706,279	702,386	636,059	623,449
Range of care communities	43,140	43,907	43,907	43,907	43,907
Under development(1)	14,142	10,065	4,354	3,731	3,489
Other(2)	11,424	11,425	20,695	20,695	20,695
Operator mix:					
Prestige Healthcare(2)	$ 227,274	$ 226,204	$ 224,220	$ 213,690	$ 207,092
Senior Lifestyle Corporation	201,862	201,227	200,515	200,357	199,349
Senior Care Centers	138,109	138,109	138,109	138,109	138,109
Brookdale Senior Living	126,991	126,991	126,991	126,991	126,991
Anthem Memory Care	111,620	106,637	102,714	71,655	62,821
Remaining operators	727,823	729,998	734,080	704,253	684,043
Geographic mix:					
Texas	$ 274,547	$ 280,486	$ 281,795	$ 287,187	$ 270,759
Michigan	215,085	214,014	212,029	201,501	194,902
Wisconsin	126,133	125,990	125,680	125,680	125,680
Colorado	114,923	114,924	114,924	114,924	114,924
Ohio	99,300	99,133	98,997	98,957	98,647
Remaining states	703,691	694,619	693,204	626,806	613,493

(1) During the three months ended December 31, 2016, we completed the construction of a 108-unit independent living community. Accordingly, this property was reclassified from "Under development" to "Assisted living communities" for all periods presented.

(2) We have four parcels of land as of December 31, 2016. Three parcels of land are located adjacent to properties securing the Prestige mortgage loan and are managed by Prestige.

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

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Balance Sheet Metrics

	Year Ended	Quarter Ended				
	12/31/16	12/31/16	9/30/16	6/30/16	3/31/16	12/31/15
Debt to gross asset value	36.4 %	36.4 % (1)	35.9 % (4)	36.8 % (6)	38.5 % (1)	37.4 %
Debt to market capitalization ratio	24.9 %	24.9 % (2)	22.4 % (5)	23.1 % (4)	26.2 % (7)	26.1 %
Interest coverage ratio(9)	5.2 x	5.3 x (3)	5.2 x (3)	5.1 x	5.1 x (8)	5.7 x
Fixed charge coverage ratio(9)	5.2 x	5.3 x (3)	5.2 x (3)	5.1 x	5.1 x (8)	5.7 x

(1) Increased primarily due to the increase in outstanding debt partially offset by the increase in gross asset value from acquisitions, additional development and capital improvement funding.

(2) Increased primarily due to increase in outstanding debt and decrease in market capitalization.

(3) Increased primarily due to revenue from new investments.

(4) Decreased primarily due to decrease in outstanding debt.

(5) Decreased primarily due to increase in market capitalization resulting from increase in stock price and the sale of common stock under our equity distribution agreement as well as decrease in outstanding debt.

(6) Decreased due to increase in gross asset value from acquisitions, additional developments, mortgage loan originations and capital improvements and decrease in outstanding debt.

(7) Increased primarily due to increase in outstanding debt partially offset by increase in market capitalization resulting from the sale of common stock under our equity distribution agreement as well as increase in stock price.

(8) Decreased primarily due to increase in interest expense resulting from increase in outstanding debt.

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

	Year Ended	Quarter Ended				
	12/31/16	12/31/16	9/30/16	6/30/16	3/31/16	12/31/15
Net income	$ 85,115	$ 20,666	$ 22,411	$ 22,180	$ 19,858	$ 17,954
Less: Gain on sale	(3,582)	—	(1,780)	(1,802)	—	(586)
Add: Impairment on real estate for sale	766	766	—	—	—	2,250
Add: Interest expense	26,442	6,856	6,836	6,750	6,000	5,581
Add: Depreciation and amortization	35,932	9,309	9,155	8,907	8,561	8,310
Total adjusted EBITDA	$ 144,673	$ 37,597	$ 36,622	$ 36,035	$ 34,419	$ 33,509
Interest expense	$ 26,442	$ 6,856	$ 6,836	$ 6,750	$ 6,000	$ 5,581
Add: Capitalized interest	1,408	215	251	256	686	346
Interest incurred	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Interest coverage ratio	5.2 x	5.3 x	5.2 x	5.1 x	5.1 x	5.7 x
Interest incurred	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Total fixed charges	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Fixed charge coverage ratio	5.2 x	5.3 x	5.2 x	5.1 x	5.1 x	5.7 x

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

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

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

Operating Results

Year ended December 31, 2016 compared to year ended December 31, 2015 (in thousands):

	Years ended December 31, 2016	2015	Difference
Revenues:			
Rental income	$ 133,527	$ 113,080	$ 20,447 (1)
Interest income from mortgage loans	27,321	22,119	5,202 (2)
Interest and other income	735	1,004	(269)(3)
Total revenues	161,583	136,203	25,380
Expenses:			
Interest expense	26,442	17,497	(8,945)(4)
Depreciation and amortization	35,932	29,431	(6,501)(1)
Impairment on real estate for sale	766	2,250	1,484 (5)
Provision for doubtful accounts	457	619	162
Transaction costs	179	744	565 (6)
General and administrative expenses	17,412	14,986	(2,426)(7)
Total expenses	81,188	65,527	(15,661)
Operating income	80,395	70,676	9,719
Income from unconsolidated joint ventures	1,138	1,819	(681)(8)
Gain on sale of real estate, net	3,582	586	2,996 (9)
Net income	85,115	73,081	12,034
Income allocated to participating securities	(385)	(484)	99
Income allocated to preferred stockholders	—	(2,454)	2,454 (10)
Net income available to common stockholders	$ 84,730	$ 70,143	$ 14,587

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

(2) Increased primarily due to mortgage loan originations and capital improvement funding under certain mortgage loans partially offset by payoffs and normal amortization of mortgage loans.

(3) Decreased due to non-accrual of interest under certain notes receivable partially offset by the interest income from mezzanine loans.

(4) Increased primarily due to the sale of senior unsecured notes, increased borrowing under our unsecured revolving line of credit and decrease in capitalized interest related to development projects.

(5) Subsequent to December 31, 2016 and 2015, we entered into contingent purchase and sale agreements to sell a range of care community and an assisted living community, respectively, and determined that a portion of the carrying value of these properties were not recoverable. Accordingly, we recorded an impairment charge of $766 and $2,250 to write the property down to its estimated sale price at December 31, 2016 and 2015, respectively.

(6) Transaction costs were higher in 2015 primarily due to costs associated with the acquisition of the 10-property senior housing portfolio in 2015.

(7) Increased primarily due to additional expenditures related to increased investment activity and restricted stock vesting.

(8) Income from unconsolidated joint ventures was higher in 2015 primarily due to the accrual of the deferred portion of our preferred return of up to the extent of the common member's capital account under the joint venture.

(9) Represents the net gain on sale of two skilled nursing centers, one assisted living community and one school in 2016 partially offset by the net gain on sale of one skilled nursing center in 2015.

(10) During the 2015 fourth quarter, the sole holder our Series C Convertible Preferred Stock elected to convert all of its shares into shares of common stock.

Year ended December 31, 2015 compared to year ended December 31, 2014 *(in thousands)*

	Years ended December 31, 2015	Years ended December 31, 2014	Difference
Revenues:			
Rental income	$ 113,080	$ 101,849	$ 11,231 (1)
Interest income from mortgage loans	22,119	16,553	5,566 (2)
Interest and other income	1,004	559	445 (3)
Total revenues	136,203	118,961	17,242
Expenses:			
Interest expense	17,497	13,128	(4,369) (4)
Depreciation and amortization	29,431	25,529	(3,902) (1)
Impairment on real estate for sale	2,250	—	(2,250) (5)
Provision for doubtful accounts	619	32	(587) (2)
Acquisition costs	744	195	(549) (6)
General and administrative expenses	14,986	11,637	(3,349) (7)
Total expenses	65,527	50,521	(15,006)
Operating income	70,676	68,440	2,236
Income from unconsolidated joint ventures	1,819	—	1,819 (8)
Gain on sale of real estate, net	586	4,959	(4,373)(9)
Income from continuing operations	73,081	73,399	(318)
Income allocated to participating securities	(484)	(481)	(3)
Income allocated to preferred stockholders	(2,454)	(3,273)	819 (10)
Net income available to common stockholders	$ 70,143	$ 69,645	$ 498

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

(2) Increased primarily due to mortgage loan originations and capital improvement funding under certain mortgage loans partially offset by payoffs and normal amortization of mortgage loans.

(3) Increased primarily due to additional funding under our notes receivable.

(4) Increased primarily due to the sale of senior unsecured notes, increased borrowing under our unsecured revolving line of credit and decrease in capitalized interest related to development projects.

(5) Subsequent to December 31, 2015, we entered into a contingent purchase and sale agreement to sell a 48-unit assisted living community in Florida for $1,750. Accordingly, we recorded an impairment charge of $2,250 to write the property down to its estimated sale price at December 31, 2015.

(6) Increased primarily due to costs associated with the acquisition of the 10-property senior housing portfolio in 2015.

(7) Increased primarily due to additional expenditures related to increased investment activity and restricted stock vesting.

(8) Represents our preferred return from our investment in an unconsolidated joint venture entered into during the first quarter of 2015.

(9) Represents the net gain on sale of two assisted living centers and one school in 2014 partially offset by the net gain on sale of one skilled nursing center in 2015.

(10) During the 2015 fourth quarter, the sole holder our Series C Convertible Preferred Stock elected to convert all of its shares into shares of common stock.

Funds From Operations

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

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

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

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

	For the year ended December 31,		
	2016	**2015**	**2014**
GAAP net income available to common stockholders	$ 84,730	$ 70,143	$ 69,645
Add: Depreciation and amortization	35,932	29,431	25,529
Add: Impairment on real estate for sale	766	2,250	—
Less: Gain on sale of real estate, net	(3,582)	(586)	(4,959)
NAREIT FFO attributable to common stockholders	$ 117,846	$ 101,238	$ 90,215
NAREIT FFO attributable to common stockholders per share:			
Basic	$ 3.07	$ 2.84	$ 2.61
Diluted	$ 3.06 (1)	$ 2.77 (2)	$ 2.55 (2)
Weighted average shares used to calculate NAREIT FFO per share:			
Basic	38,388	35,590	34,617
Diluted	38,597 (3)	37,563 (4)	36,866 (4)

(1) Includes the effect of participating securities.

(2) Includes the effect of participating securities and the convertible preferred securities.

(3) Diluted weighted average shares used to calculate FFO per share for the year ended December 31, 2016, includes the effect of stock option equivalents, participating securities and performance based stock units.

(4) Diluted weighted average shares used to calculate FFO per share for the years ended December 31, 2015 and 2014, includes the effect of stock option equivalents, participating securities and convertible preferred securities.

Critical Accounting Policies

See *Item 8. FINANCIAL STATEMENTS—Note 2. Summary of Significant Accounting Policies*.

Liquidity and Capital Resources

Sources and Uses of Cash

As of December 31, 2016, we had a total of $8.0 million of cash and cash equivalents, $492.9 million available under our unsecured revolving line of credit and $22.5 million available under our senior unsecured note shelf agreement. Subsequent to December 31, 2016, we amended our shelf agreement, issued senior unsecured notes and used the proceeds to repay our unsecured revolving line of credit. Accordingly, we have $600.0 million available under our unsecured revolving line of credit and $36.7 million available under our shelf agreement. See *Debt Obligations* below for further discussion.

Additionally, we have the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our equity distribution agreement and unlimited amount through the issuance of debt and/ or equity securities under our effective shelf registration. Subsequent to December 31, 2016, we sold shares of common stock under our equity distribution agreement. Accordingly, we have $185.2 million available under these agreements. See *Equity* below for further discussion.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets are sufficient to provide for payment of our current operating costs, meet debt obligations and pay common dividends at least sufficient to maintain our REIT status and repay borrowings at, or prior to, their maturity. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for additional capital investments in 2017.

We expect our future income and ability to make distributions from cash flows from operations to depend on the collectability of our rents and mortgage loans receivable. The collection of these loans and rents will be dependent, in large part, upon the successful operation by the operators of the seniors housing and health care properties we own or that are pledged to us. 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 seniors housing and health care facilities, ability to control rising operating costs, and the potential for significant reforms in the health 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 health care industry. We cannot presently predict what impact these proposals may have, if any. We believe that an adequate provision has been made for the possibility of loans proving uncollectible but we will continually evaluate the financial status of the operations of the seniors housing and health care properties. In addition, we will monitor our borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

Our investments, principally our investments in mortgage loans and owned properties, are subject to the possibility of loss of their carrying values as a result of changes in market prices, interest rates and inflationary expectations. The effects on interest rates may affect our costs of financing our operations and the fair market value of our financial assets. Generally our loans have predetermined increases in interest rates and our leases have agreed upon annual increases. Inasmuch as we may initially fund some of our investments with variable interest rate debt, we would be at risk of net interest margin deterioration if medium and long-term rates were to increase.

Our primary sources of cash include rent and interest receipts, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures and construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows as summarized below (*in thousands*):

	Year ended		Change	
Cash provided by (used in):	2016	2015	$	%
Operating activities	$ 105,708	$ 102,341	$ 3,367	3.3 %
Investing activities	(139,898)	(326,820)	186,922	(57.2)%
Financing activities	29,239	212,184	(182,945)	(86.2)%
(Decrease) increase in cash and cash equivalents	(4,951)	(12,295)	7,344	59.7 %
Cash and cash equivalents, beginning of period	12,942	25,237	(12,295)	(48.7)%
Cash and cash equivalents, end of period	$ 7,991	$ 12,942	$ (4,951)	(38.3)%

Operating Activities. Cash provided by operating activities for the year ended December 31, 2016, increased to $105.7 million compared to $102.3 million for the year ended December 31, 2015 due to increased operating cash flow from acquisitions, completed developments and capital improvement projects.

Investing Activities. Cash used in investing activities decreased from $326.8 million for the year ended December 31, 2015 compared to $139.9 million for the year ended December 31, 2016 primarily due to decreased acquisitions and loan originations partially offset by increased real estate development and capital improvement projects in 2016.

Financing Activities. Cash provided by financing activities decreased to $29.2 million for the year ended December 31, 2016, from $212.2 million for the comparable 2015 period. The decrease in cash provided by financing activities is primarily attributable to decreased bank borrowings partially offset by proceeds from common stock offerings during 2016, and an increase in distributions paid to stockholders.

Debt Obligations

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600.0 million. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at December 31, 2016, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. During 2016, we borrowed $123.6 million and repaid $137.0 million under our Unsecured Credit Agreement. At December 31, 2016, we were in compliance with all covenants. Subsequent to December 31, 2016, we repaid our outstanding balance of $107.1 million using proceeds from the sale of senior unsecured notes, as discussed below. Accordingly, we have $600.0 million available under our revolving line of credit.

Senior Unsecured Notes. During the twelve months ended December 31, 2016, we sold $37.5 million senior unsecured notes to affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) with an annual fixed rate of 4.15%. The notes have an average 10-year life, scheduled principal payments and mature in 2028. During the twelve months ended December 31, 2016, we paid $26.7 million in regular scheduled principal payments under our Prudential senior unsecured notes. Accordingly, at December 31, 2016, we had $22.5 million available under our shelf agreement with Prudential.

Subsequent to December 31, 2016, we paid $4.2 million in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337.5 million. Additionally, subsequent to December 31, 2016, we sold 15-year senior unsecured notes in the aggregate amount of $100.0 million to a group of institutional investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual fixed rate of 4.5%, have scheduled principal payments and mature on February 16, 2032. Accordingly, we have $36.7 million available under our amended shelf agreement with Prudential.

Additionally, during the twelve months ended December 31, 2016, we amended our agreement with AIG Asset Management (U.S.) LLC (or AIG) which provided for the possible issuance of up to an additional of $40.0 million of senior unsecured notes and sold $40.0 million senior unsecured term notes with a fixed rate of 3.99% to affiliated insurance company investment advisory clients of AIG. The notes have an average 10-year life, scheduled principal payments and will mature in 2031.

The following table summarizes information regarding debt obligations by component as of December 31, 2016 *(dollar amounts in thousands):*

Debt Obligations	Applicable Interest Rate(1)	Outstanding Balance	Available for Borrowing
Bank borrowings (2)	2.25%	$ 107,100	$ 492,900
Senior unsecured notes, net of debt issue costs (3)	4.50%	502,291	22,500
Total	4.11%	$ 609,391	$ 515,400

(1) Represents weighted average of interest rate as of December 31, 2016.

(2) Subsequent to December 31, 2016, we repaid $107,100, accordingly we have no outstanding balance and $600,000 available for borrowing.

(3) Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

Equity

At December 31, 2016, we had 39,221,370 shares of common stock outstanding, equity on our balance sheet totaled $740.0 million and our equity securities had a market value of $1.8 billion.

At-The-Market Program. During 2015, we entered into an equity distribution agreement (or Original Agreement) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions, which may include block trades, or transactions that are deemed to be "at the market" offerings. During the twelve months ended December 31, 2016, we sold 1,643,017 shares of common stock for $78.6 million in net proceeds under the Original Agreement.

During the twelve months ended December 31, 2016, we terminated the Original Agreement and entered into a new equity distribution agreement (or Equity Distribution Agreement) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our company common shares. As of December 31, 2016, no shares were issued under this agreement. Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million under our Equity Distribution Agreement. Accordingly, we have $185.2 million available under this agreement.

During 2016, we acquired 49,405 shares of common stock held by the employees who tendered shares to satisfy tax withholding obligations. Subsequent to December 31, 2016, we acquired 23,691 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Stock Based Compensation Plans. During 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaces the 2008 Equity Participation Plan (or the 2008 Plan*).* Under the 2015 Plan, 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion. During the twelve months ended December 31, 2016, no stock options were granted under this plan.

During 2016, we granted 127,087 shares of restricted common stock under the 2015 Plan as follows:

Year	No. of Shares/Units	Price per Share	Vesting Period
2016	65,300	$ 43.24	ratably over 3 years
	54,107	$ 46.87	TSR targets [1]
	7,680	$ 46.87	June 1, 2017
	127,087		

(1) Vesting is based on achieving certain total shareholder return (or TSR) targets in 3.7 years with acceleration opportunity in 2.7 years.

Subsequent to December 31, 2016, we granted 74,760 shares of restricted common stock at $45.76 per share. These shares vest ratably from the grant date over a three-year period.

At December 31, 2016, the total number of restricted common stock and performance-based stock units that are scheduled to vest and remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock and performance-based stock units are as follows:

Vesting Date	Number of Awards	Remaining Compensation Expense
2017	85,343	3,428,000
2018	49,352	2,071,000
2019	75,878 [1]	236,000
	210,573	$ 5,735,000

(1)Includes 54,107 performance-based stock units. The performance based stock units are valued utilizing a lattice-binomial option pricing model based on Monte Carlo simulations. The company recognizes the fair value of the awards over the applicable vesting period as compensation expense.

Stock Options. We did not issue any stock options during the year ended December 31, 2016. During 2016, a total of 6,667 stock options were exercised at a total option value of $159,000 and a total market value on the date of exercise of $311,000. At December 31, 2016, we have 33,334 stock options outstanding of which 28,334 of those stock options are exercisable.

Available Shelf Registrations. We had an automatic shelf registration statement which was filed in 2013 and provided us with the capacity to publicly offer up to $800.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. In advance of the three-year expiration of the 2013 automatic shelf registration statement, we filed a new automatic shelf registration statement with the SEC on January 29, 2016 to provide us with additional capacity to publicly offer an indeterminate amount of common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under the automatic registration statement we filed in 2016 (until its expiration on January 29, 2019) in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering.

Contractual Obligations

We monitor our contractual obligations and commitments detailed above to ensure funds are available to meet obligations when due. The following table represents our long term contractual obligations (scheduled principal payments and amounts due at maturity) as of December 31, 2016, excluding the effects of interest and debt issue costs (*in thousands*):

	Total	2017	2018	2019	2020	2021	Thereafter
Bank borrowings	$ 107,100 (1)	$ —	$ 107,100	$ —	$ —	$ —	$ —
Senior unsecured notes	503,300 (2)	31,167	38,167	33,666	40,160	40,160	319,980
	$ 610,400	$ 31,167	$ 145,267	$ 33,666	$ 40,160	$ 40,160	$ 319,980

(1)Subsequent to December 31, 2016, we repaid the $107,100 outstanding balance. Accordingly, we have $600,000 available under our unsecured revolving line of credit.

(2)Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

The following table represents our projected interest expense, excluding capitalized interest, amortization of debt issue costs, bank fees and earn-out accretion, as of December 31, 2016 and including the effects of the subsequent borrowing and repayment of our outstanding debt as discussed above (*in thousands*):

	Total	2017	2018	2019	2020	2021	Thereafter
Bank borrowings	$ 3,797	$ 2,129	$ 1,668	$ —	$ —	$ —	$ —
Senior unsecured notes	195,318	25,694	24,979	23,377	21,808	19,715	79,745
	$ 199,115	$ 27,823	$ 26,647	$ 23,377	$ 21,808	$ 19,715	$ 79,745

Off-Balance Sheet Arrangements:

We had no off-balance sheet arrangements as of December 31, 2016.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

You are cautioned that statements contained in this section are forward looking and should be read in conjunction with the disclosure under the heading "Cautionary Statements" and the "Risk Factors" set forth above.

We are exposed to market risks associated with changes in interest rates as they relate to our mortgage loans receivable 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 nor do we engage in "off-balance sheet" transactions. The purpose of the following disclosure is to provide a framework to understand our sensitivity to hypothetical changes in interest rates as of December 31, 2016.

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 and fixed rate debt. Our mortgage loans receivable and debt, such as our senior unsecured notes, are primarily fixed-rate instruments. For variable rate debt, such as our revolving line of credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows.

At December 31, 2016, the fair value of our mortgage loans receivable using an 8.2% discount rate was approximately $294.3 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately $26.7 million while a 1% decrease in such rates would increase their estimated fair value by approximately $31.6 million. At December 31, 2016, the fair value of our senior unsecured notes using a 4.47% discount rate for those maturing before year 2026 and 4.60% discount rate for those maturing at or beyond year 2026 was approximately $498.9 million. A 1% increase in such rates would decrease the estimated fair value of our senior unsecured notes by approximately $26.9 million while a 1% decrease in such rates would increase their estimated fair value by approximately $29.1 million. These discount rates were measured based upon management’s estimates of rates currently prevailing for comparable loans available to us and instruments of comparable maturities.

The estimated impact of changes in interest rates discussed above are determined by considering the impact of the hypothetical interest rates on our borrowing costs, lending rates and current U.S. Treasury rates from which our financial instruments may be priced. We 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 8. FINANCIAL STATEMENTS

LTC Properties, Inc.
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and Financial Statement Schedules

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of LTC Properties, Inc.

We have audited the accompanying consolidated balance sheets of LTC Properties, Inc. (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LTC Properties, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LTC Properties, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 22, 2017

LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	December 31, 2016	December 31, 2015
ASSETS		
Investments:		
Land	$ 116,096	$ 106,841
Buildings and improvements	1,185,467	1,091,845
Accumulated depreciation and amortization	(275,861)	(251,265)
Real property investments, net	1,025,702	947,421
Mortgage loans receivable, net of loan loss reserve: 2016—$2,315; 2015—$2,190	229,801	217,529
Real estate investments, net	1,255,503	1,164,950
Notes receivable, net of loan loss reserve: 2016—$166; 2015—$0	16,427	1,961
Investments in unconsolidated joint ventures	25,221	24,042
Investments, net	1,297,151	1,190,953
Other assets:		
Cash and cash equivalents	7,991	12,942
Debt issue costs related to bank borrowings	1,847	2,865
Interest receivable	9,683	4,536
Straight-line rent receivable, net of allowance for doubtful accounts: 2016—$960; 2015—$833	55,276	42,685
Prepaid expenses and other assets	22,948	21,443
Total assets	$ 1,394,896	$ 1,275,424
LIABILITIES		
Bank borrowings	$ 107,100	$ 120,500
Senior unsecured notes, net of debt issue costs: 2016—$1,009; 2015—$1,095	502,291	451,372
Accrued interest	4,675	3,974
Accrued incentives and earn-outs	12,229	12,722
Accrued expenses and other liabilities	28,553	27,654
Total liabilities	654,848	616,222
EQUITY		
Stockholders' equity:		
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2016—39,221; 2015—37,548	392	375
Capital in excess of par value	839,005	758,676
Cumulative net income	1,013,443	928,328
Accumulated other comprehensive income	—	47
Cumulative distributions	(1,112,792)	(1,028,224)
Total equity	740,048	659,202
Total liabilities and equity	$ 1,394,896	$ 1,275,424

See accompanying notes.

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31, 2016	2015	2014
Revenues:			
Rental income	$ 133,527	$ 113,080	$ 101,849
Interest income from mortgage loans	27,321	22,119	16,553
Interest and other income	735	1,004	559
Total revenues	161,583	136,203	118,961
Expenses:			
Interest expense	26,442	17,497	13,128
Depreciation and amortization	35,932	29,431	25,529
Impairment of real estate for sale	766	2,250	—
Provision for doubtful accounts	457	619	32
Transaction costs	179	744	195
General and administrative expenses	17,412	14,986	11,637
Total expenses	81,188	65,527	50,521
Operating income	80,395	70,676	68,440
Income from unconsolidated joint ventures	1,138	1,819	—
Gain on sale of real estate, net	3,582	586	4,959
Net income	85,115	73,081	73,399
Income allocated to participating securities	(385)	(484)	(481)
Income allocated to preferred stockholders	—	(2,454)	(3,273)
Net income available to common stockholders	$ 84,730	$ 70,143	$ 69,645
Earnings per common share:			
Basic	$ 2.21	$ 1.97	$ 2.01
Diluted	$ 2.21	$ 1.94	$ 1.99
Weighted average shares used to calculate earnings per common share:			
Basic	38,388	35,590	34,617
Diluted	38,597	37,329	36,640

See accompanying notes.

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$ 85,115	$ 73,081	$ 73,399
Reclassification adjustment (See Note 9)	(47)	(35)	(35)
Comprehensive income	$ 85,068	$ 73,046	$ 73,364

See accompanying notes.

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share amounts)

	Shares								
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Capital in Excess of Par Value	Cumulative Net Income	Accumulated OCI	Cumulative Distributions	Total Equity
Balance—December 31, 2013	2,000	34,746	$ 38,500	$ 347	$ 688,654	$ 781,848	$ 117	$ (877,028)	$ 632,438
Reclassification adjustment	—	—	—	—	—	—	(35)	—	(35)
Issuance of common stock	—	600	—	6	24,638	—	—	—	24,644
Issuance of restricted stock	—	95	—	1	(1)	—	—	—	—
Net income	—	—	—	—	—	73,399	—	—	73,399
Vesting of restricted stock	—	—	—	—	3,241	—	—	—	3,241
Stock option exercises	—	45	—	1	1,070	—	—	—	1,071
Vested stock options	—	—	—	—	12	—	—	—	12
Preferred stock dividends	—	—	—	—	—	—	—	(3,273)	(3,273)
Common stock cash distributions ($2.04 per share)	—	—	—	—	—	—	—	(71,158)	(71,158)
Other	—	(6)	—	—	(218)	—	—	—	(218)
Balance—December 31, 2014	2,000	35,480	38,500	355	717,396	855,247	82	(951,459)	660,121
Reclassification adjustment	—	—	—	—	—	—	(35)	—	(35)
Issuance of restricted stock	—	92	—	1	(1)	—	—	—	—
Net income	—	—	—	—	—	73,081	—	—	73,081
Vesting of restricted stock	—	—	—	—	3,992	—	—	—	3,992
Vesting of stock options	—	—	—	—	14	—	—	—	14
Stock option exercises	—	3	—	—	79	—	—	—	79
Conversion of Series C Preferred Stock	(2,000)	2,000	(38,500)	20	38,480	—	—	—	—
Preferred stock dividends	—	—	—	—	—	—	—	(2,454)	(2,454)
Common stock cash distributions ($2.07 per share)	—	—	—	—	—	—	—	(74,311)	(74,311)
Other	—	(27)	—	(1)	(1,284)	—	—	—	(1,285)
Balance—December 31, 2015	—	37,548	—	375	758,676	928,328	47	(1,028,224)	659,202
Reclassification adjustment	—	—	—	—	—	—	(47)	—	(47)
Issuance of common stock	—	1,643	—	16	78,120	—	—	—	78,136
Issuance of restricted stock	—	73	—	1	(42)	—	—	—	(41)
Net income	—	—	—	—	—	85,115	—	—	85,115
Vesting of restricted stock	—	—	—	—	4,265	—	—	—	4,265
Vesting of stock options	—	—	—	—	15	—	—	—	15
Stock option exercises	—	7	—	—	159	—	—	—	159
Common stock cash distributions ($2.19 per share)	—	—	—	—	—	—	—	(84,568)	(84,568)
Other	—	(50)	—	—	(2,188)	—	—	—	(2,188)
Balance—December 31, 2016	—	39,221	$ —	$ 392	$ 839,005	$ 1,013,443	$ —	$ (1,112,792)	$ 740,048

See accompanying notes.

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2016	2015	2014
OPERATING ACTIVITIES:			
Net income	$ 85,115	$ 73,081	$ 73,399
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,932	29,431	25,529
Stock-based compensation expense	4,280	4,006	3,253
Impairment on real estate	766	2,250	—
Gain on sale of assets, net	(3,582)	(586)	(4,959)
Income from unconsolidated joint ventures	(1,138)	(1,819)	—
Income distributions from unconsolidated joint ventures	1,695	552	—
Straight-line rental income	(13,477)	(10,136)	(3,002)
Amortization of lease incentive	1,945	1,680	841
Provision for doubtful accounts	457	619	32
Non-cash interest related to contingent liabilities	684	409	18
Other non-cash items, net	1,216	985	779
(Increase) decrease in interest receivable	(5,147)	(3,939)	105
Increase in accrued interest payable	701	418	132
Net change in other assets and liabilities	(3,739)	5,390	(365)
Net cash provided by operating activities	105,708	102,341	95,762
INVESTING ACTIVITIES:			
Investment in real estate properties	(74,923)	(206,340)	(11,650)
Investment in real estate developments	(42,342)	(25,929)	(34,135)
Investment in real estate capital improvements	(6,792)	(7,534)	(13,967)
Capitalized interest	(1,408)	(827)	(1,506)
Proceeds from sale of real estate, net	17,369	1,537	33,593
Investment in real estate mortgage loans receivable	(20,685)	(67,134)	(9,374)
Principal payments received on mortgage loans receivable	8,278	4,808	9,155
Investments in unconsolidated joint ventures	(1,770)	(23,042)	—
Payment of working capital reserve	(2,756)	(805)	—
Advances and originations under notes receivable	(14,969)	(1,554)	(1,263)
Principal payments received on notes receivable	100	—	113
Net cash used in investing activities	(139,898)	(326,820)	(29,034)
FINANCING ACTIVITIES:			
Bank borrowings	123,600	291,000	37,500
Repayment of bank borrowings	(137,000)	(170,500)	(58,500)
Proceeds from issuance of senior unsecured notes	77,500	200,000	30,000
Principal payments on senior unsecured notes	(26,667)	(29,167)	(4,167)
Principal payments on bonds payable	—	—	(2,035)
Proceeds from common stock issued	78,592	—	24,644
Stock option exercises	159	79	1,071
Distributions paid to stockholders	(84,568)	(76,765)	(74,431)
Financing costs paid	(147)	(1,178)	(2,132)
Other	(2,230)	(1,285)	(219)
Net cash provided by (used in) financing activities	29,239	212,184	(48,269)
(Decrease) increase in cash and cash equivalents	(4,951)	(12,295)	18,459
Cash and cash equivalents, beginning of period	12,942	25,237	6,778
Cash and cash equivalents, end of period	$ 7,991	$ 12,942	$ 25,237
Supplemental disclosure of cash flow information:			
Interest paid	$ 24,490	$ 16,078	$ 12,188
Non-cash investing and financing transactions:			
See *Note 4: Supplemental Cash Flow Information* for further discussion.			

See accompanying notes.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

LTC Properties, Inc. (or LTC), a Maryland corporation, commenced operations on August 25, 1992. LTC is a real estate investment trust (or REIT) that invests primarily in senior housing and health care properties through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending.

2. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of LTC and our wholly-owned subsidiaries. All intercompany investments, accounts and transactions have been eliminated.

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

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation, including changes in presentation of *Acquisition costs* to incorporate costs related to terminated transactions which was reclassified from *General and administrative expenses*. These adjustments are normal and recurring in nature.

Going Concern. In August 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update (or ASU) 2014-15, *Presentation of Financial Statements— Going Concern (Subtopic 205-40)*: *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* The amendments in this update define management's responsibility under U.S. generally accepted accounting principles (or GAAP) to evaluate when and how substantial doubt about the organization's ability to continue as a going concern should be disclosed in the financial statement footnotes. This ASU expands disclosure requirements about principal conditions or events that raise substantial doubt. It also requires disclosing management's evaluation of the significance of those conditions or events in relationship to the organization's ability to meet its obligations, and management's plans that are intended to either alleviate substantial doubt or to mitigate conditions or events that raise substantial doubt. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016. The adoption of this ASU did not have a material impact on the Company's financial statements or disclosures.

Use of Estimates. Preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents. Cash equivalents consist of highly liquid investments with a maturity of three months or less when purchased and are stated at cost which approximates market.

Owned Properties. We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the fair value of each component. In determining fair value, we use current appraisals or other third party opinions of value. The most significant components of our allocations are typically the allocation of fair value to land and buildings and, for certain of our acquisitions, in-place leases and other intangible assets. In the case of the fair value of buildings and the allocation of value to land and other intangibles, the estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in-place leases, we make best estimates based on the evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. These assumptions affect the amount of future revenue that we will recognize over the remaining lease term for the acquired in-place leases. We evaluate each purchase transaction to determine whether the acquired assets meet the definition of a business. Transaction costs related to acquisitions that are not deemed to be businesses are included in the cost basis of the acquired assets, while transaction costs related to acquisitions that are deemed to be businesses are expensed as incurred.

In January 2017, the FASB issued ASU No. 2017-01(or ASU 2017-01), Business Combinations (Topic 805): Clarifying Definition of a Business. ASU 2017-01 clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued (or available to be issued) financial statements. Historically, our acquisitions qualified as either a business combination or asset acquisition. Upon adoption of this ASU, we believe most our acquisitions of investment properties would continue to qualify as an asset acquisition; therefore, we do not believe this standard will have a material impact on our results of operations or financial condition.

We capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate asset. We capitalize construction and development costs while substantive activities are ongoing to prepare an asset for its intended use. We consider a construction project as substantially complete and held available for occupancy upon the issuance of the certificate of occupancy. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. For redevelopment, renovation and expansion of existing operating properties, we capitalize the cost for the construction and improvement incurred in connection with the redevelopment, renovation and expansion. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred.

Depreciation is computed principally by the straight-line method for financial reporting purposes over the estimated useful lives of the assets, which range from 3 to 5 years for computers, 3 to 15 years for furniture and equipment, 35 to 50 years for buildings, 10 to 20 years for building improvements and the respective lease term for acquired lease intangibles.

Mortgage Loans Receivable, Net of Loan Loss Reserve. Mortgage loans receivable we originate are recorded on an amortized cost basis. Mortgage loans we acquire are recorded at fair value at the time of purchase net of any related premium or discount which is amortized as a yield adjustment to interest income over the life of the loan. Additionally, we record an estimated allowance for doubtful accounts, as described below.

Mezzanine Loans. In 2015 the Company strategically decided to allocate a portion of its capital deployment toward mezzanine loans to grow relationships with operating companies that have not typically utilized sale leaseback financing as a component of their capital structure. Mezzanine financing sits between senior debt and common equity in the capital structure, and typically is used to finance development projects or value-add opportunities on existing operational properties. We seek market-based, risk-adjusted rates of return typically between 12-18% with the loan term typically between four to eight years. Security for mezzanine loans can include all or a portion of the following credit enhancements; secured second mortgage, pledge of equity interests and personal/corporate guarantees. Mezzanine loans can be recorded for GAAP purposes as either a loan or joint venture depending upon specifics of the loan terms and related credit enhancements.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the expected collectability of our receivables and is maintained at a level believed adequate to absorb potential losses in our receivables. In determining the allowance, we perform a quarterly evaluation of all receivables. If this evaluation indicates that there is a greater risk of receivable charge-offs, additional allowances are recorded in current period earnings.

Investment in unconsolidated joint ventures. From time to time, we provide funding to third party operators for the acquisition, development and construction (or ADC) of a property. Under an ADC arrangement, we may participate in the residual profits of the project through the sale or refinancing of the property. We evaluate the ADC arrangement to determine if it has characteristics similar to a loan or if the characteristics are more similar to a joint venture or partnership such as participating in the risks and rewards of the project as an owner or an investment partner. If we determine that the characteristics are more similar to a jointly-owned investment or partnership, we account for the ADC arrangement as an investment in an unconsolidated joint venture under the equity method of accounting or a direct investment (consolidated basis of accounting) instead of applying loan accounting. If we determine the ADC arrangement should be accounted for as an investment rather than a loan, we evaluate the investment pursuant to ASC 805, *Consolidation*, to determine whether the ADC arrangement meets the definition of a variable interest entity (or VIE) and whether we are the primary beneficiary. If the ADC arrangement is deemed to be a VIE but we are not the primary beneficiary, or if it is deemed to be a voting interest entity but we do not have a controlling financial interest, we account for our investment in the ADC arrangement using the equity method. Under the equity method, we initially record our investment at cost and subsequently recognize our share of net earnings or losses and other comprehensive income or loss, cash contributions made and distributions received, and other adjustments, as appropriate. Allocations of net income or loss may be subject to preferred returns or allocation formulas defined in operating agreements and may not be according to percentage ownership interests. In certain circumstances where we have a substantive profit-sharing arrangement which provides a priority return on our investment, a portion of our equity in earnings may consist of a change in our claim on the net assets of the underlying joint venture. Distributions of operating profit from the joint ventures are reported as part of operating cash flows, while distributions related to a capital transaction, such as a refinancing transaction or sale, are reported as investing activities.

Debt Issuance Cost. In April 2015, FASB issued ASU No. 2015-03 (or ASU 2015-03), *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting)* (or ASU 2015-15). ASU 2015-15 allows debt issuance costs related to line of credit agreements to be presented in the balance sheet as an asset. ASU 2015-03 and ASU 2015-15 are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. We early adopted ASU 2015-03 and ASU 2015-15 in 2015 using the full retrospective method as required by these ASUs and we elected to present debt issuance costs related to our unsecured revolving line of credit as an asset on our consolidated balance sheets.

Accrued incentives and earn-outs. As part of our acquisitions and/or amendments, we may commit to provide contingent payments to our sellers or lessees, upon the properties achieving certain rent coverage ratios. Typically, when the contingent payments are funded, cash rent will increase by the amount funded multiplied by a rate stipulated in the agreement. If it is deemed probable at acquisition, the contingent payment is recorded as a liability at the estimate fair value calculated using a discounted cash flow analysis and accreted to the settlement amount of the estimated payment date. If the contingent payment is an earn-out provided to the seller, the estimated fair value is capitalized to the property's basis. If the contingent payment is provided to the lessee, the estimated fair value is recorded as a lease incentive included in the prepaid and other assets line item in our consolidated balance sheet and is amortized as a yield adjustment over the life of the lease. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The fair value of these contingent liabilities are evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates.

Impairments. Assets that are classified as held-for-use are periodically evaluated for impairment when events or changes in circumstances indicate that the asset may be impaired or the carrying amount of the asset may not be recoverable through future undiscounted cash flows. Management assesses the impairment of properties individually and impairment losses are calculated as the excess of the carrying amount over the estimated fair value of assets as of the measurement date. In determining fair value, we use current appraisals or other third party opinions of value and other estimates of fair value such as estimated discounted future cash flows.

Also, we evaluate the carrying values of mortgage loans receivable on an individual basis. Management periodically evaluates the realizability of future cash flows from the mortgage loan receivable when events or circumstances, such as the non-receipt of principal and interest payments and/or significant deterioration of the financial condition of the borrower, indicate that the carrying amount of the mortgage loan receivable may not be recoverable. An impairment charge is recognized in current period earnings and is calculated as the difference between the carrying amount of the mortgage loan receivable and the discounted cash flows expected to be received, or if foreclosure is probable, the fair value of the collateral securing the mortgage.

Fair Value of Financial Instruments. The FASB requires the disclosure of fair value information about financial instruments for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the aggregate fair market value amounts presented in the notes to these consolidated financial statements do not represent our underlying carrying value in financial instruments.

The FASB provides guidance for using fair value to measure assets and liabilities, the information used to measure fair value, and the effect of fair value measurements on earnings. The FASB emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices).

The fair value guidance issued by the FASB excludes accounting pronouncements that address fair value measurements for purposes of lease classification or measurement. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value, regardless of whether those assets and liabilities are related to leases.

In accordance with the accounting guidance regarding the fair value option for financial assets and financial liabilities, entities are permitted to choose to measure certain financial assets and liabilities at fair value, with the change in unrealized gains and losses on items for which the fair value option has been elected reported in earnings. We have not elected the fair value option for any of our financial assets or liabilities.

The FASB requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. See *Note 14. Fair Value Measurements* for the disclosure about fair value of our financial instruments.

Consolidation. At inception, and on an ongoing basis, as circumstances indicate the need for reconsideration, we evaluate each legal entity that is not wholly-owned by us for consolidation, first under the variable interest model, then under the voting model. Our evaluation considers all of our variable interests, including common or preferred equity ownership, loans, and other participating instruments. The variable interest model applies to entities that meet both of the following criteria:

- A legal structure been established to conduct business activities and to hold assets.
- LTC has a variable interest in the entity - i.e. it has equity ownership or other financial interests that change with changes in the fair value of the entity's net assets.

If an entity does not meet these criteria, or qualifies for a scope exception from the variable interest model, then we evaluate such entity under the voting model or apply other GAAP, including the cost or equity method of accounting.

A legal entity is determined to be a VIE if it has any of the following three characteristics:

1. The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
2. The equity holders, as a group lack the characteristics of a controlling financial interest, as evidenced by all of the following characteristics:
   - The power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance;
   - The obligation to absorb the entity's expected losses;
   - The right to receive the entity's expected residual returns; or
3. The entity is established with non-substantive voting rights (i.e. the entity is structured such that majority economic interest holder(s) have disproportionately few voting rights).

If any of the three characteristics of a VIE are met, we conclude that the entity is a VIE and evaluate it for consolidation under the variable interest model.

If an entity is determined to be a variable interest entity VIE, we evaluate whether we are the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. We consolidate a VIE if we have both power and benefits - that is (i) we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance (power), and (ii) we have the obligation to absorb losses of the VIE that could potentially be significant to the VIE, or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). If we have a variable interest in a VIE but we are not the primary beneficiary, we account for our investment using the equity method of accounting.

If a legal entity fails to meet any of the three of the characteristics of a VIE, we evaluate such entity under the voting interest model. Under the voting interest model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares or if we are the general partner or managing member of the entity and the limited partners or non-managing members do not have substantive participating, liquidation, or kick-out rights that preclude our presumption of control.

In February 2015, FASB issued ASU No. 2015-02 (or ASU 2015-02), *Consolidation (Topic 810): Amendments* *to the Consolidation Analysis.* ASU 2015-02 amends the consolidation guidance for variable interest entities and voting interest entities, among other items, by eliminating the consolidation model previously applied to limited partnerships, emphasizing the risk of loss when determining a controlling financial interest and reducing the frequency of the application of related-party guidance when determining a controlling financial interest. ASU 2015-02 is effective for periods beginning after December 15, 2015, for public companies. The adoption of this ASU did not have a material impact on our consolidated financial statements.

We perform a quarterly evaluation of our investment in unconsolidated joint ventures to determine whether the fair value of each investment is less than the carrying value, and, if such decrease in value is deemed to be other-than-temporary, write the investment down to its estimated fair value as of the measurement date.

In March 2016, FASB issued ASU No. 2016-07 (or ASU 2016-07), *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* ASU 2016-07 eliminates retroactive adjustment of an investment upon an investment qualifying for the equity method of accounting and requires the equity method investor to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

Revenue Recognition. Rental income from operating leases is generally recognized on a straight-line basis over the terms of the leases. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of four methods depending on specific provisions of each lease as follows:

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

The FASB does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee and the general condition of the industry when evaluating whether all possible contingencies have been eliminated and have historically, and expect in the future, to not include contingent rents as income until received. We follow a policy related to rental income whereby we consider a lease to be non-performing after 60 days of non-payment of past due amounts and do not recognize unpaid rental income from that lease until the amounts have been received.

Rental revenues relating to non-contingent leases that contain specified rental increases over the life of the lease are recognized on the straight-line basis. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent containing specified rental increases over the life of the lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in our consolidated balance sheet. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectability of straight-line rent in accordance with the applicable accounting standards and our reserve policy. If the lessee becomes delinquent in rent owed under the terms of the lease, we may provide a reserve against the recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable.

Interest income on mortgage loans is recognized using the effective interest method. We follow a policy related to mortgage interest whereby we consider a loan to be non-performing after 60 days of non-payment of amounts due and do not recognize unpaid interest income from that loan until the past due amounts have been received.

Payments made to or on behalf of our lessees represent incentives that are deferred and amortized as a yield adjustment over the term of the lease on a straight-line basis. Net loan fee income and commitment fee income are amortized over the life of the related loan.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (or ASU 2014-09), *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 provides for a single comprehensive principles based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 requires expanded disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We expect to adopt this standard using the modified retrospective adoption method on January 1, 2018. We are currently evaluating the impact of this ASU but we do not believe this standard will have a material impact on our results of operations or financial condition, as a substantial portion of our revenues consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

Leases. In February 2016, the FASB issued ASU No. 2016-02 (or ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 modifies existing guidance for off-balance sheet treatment of a lessees' operating leases by requiring lessees to recognize lease assets and lease liabilities. Under ASU 2016-02, lessor accounting is largely unchanged. Consistent with present standards, we will continue to account for lease revenue on a straight-line basis for most leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We have begun our process for implementing this guidance, including identifying any non-lease components in our lease arrangements. We are continuing to evaluate this guidance and the impact to us, as both lessor and lessee, on our consolidated financial statements.

Federal Income Taxes. LTC qualifies as a REIT under the Internal Revenue Code of 1986, as amended, and as such, no provision for Federal income taxes has been made. A REIT is required to distribute at least 90% of its taxable income to its stockholders and a REIT may deduct dividends in computing taxable income. If a REIT distributes 100% of its taxable income and complies with other Internal Revenue Code requirements, it will generally not be subject to Federal income taxation.

For Federal tax purposes, depreciation is generally calculated using the straight-line method over a period of 27.5 years. Earnings and profits, which determine the taxability of distributions to stockholders, use the straight-line method over 40 years. Both Federal taxable income and earnings and profits differ from net income for financial statement purposes principally due to the treatment of certain interest income, rental income, other expense items, impairment charges and the depreciable lives and basis of assets. At December 31, 2016, the tax basis of our net depreciable assets exceeds our book basis by approximately $43,840,680 (*unaudited*), primarily due to an investment recorded as an acquisition for tax and a mortgage loan for GAAP.

The FASB clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when a company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more likely than not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit (determined on a cumulative probability basis) that is more likely than not to be realized upon ultimate settlement. We currently do not have any uncertain tax positions that would not be sustained on its technical merits on a more-likely than not basis.

We may from time to time be assessed interest or penalties by certain tax jurisdictions. In the event we have received an assessment for interest and/or penalties, it has been classified in our consolidated financial statements as general and administrative expenses.

Concentrations of Credit Risk. Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, mortgage loans receivable, marketable debt securities and operating leases on owned properties. Our financial instruments, mortgage loans receivable and operating leases, are subject to the possibility of loss of carrying value as a result of the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instrument less valuable. We obtain various collateral and other protective rights, and continually monitor these rights, in order to reduce such possibilities of loss. In addition, we provide reserves for potential losses based upon management's periodic review of our portfolio. See *Note 3. Major Operators* for further discussion of concentrations of credit risk from our tenants.

Properties held-for-sale. Properties classified as held-for-sale on the consolidated balance sheet include 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. Under ASU No. 2014-08 (or ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. We have not reclassified results of operations for properties disposed as discontinued operations as these disposals do not represent strategic shifts in our operations.

Extraordinary Items. In January 2015, FASB issued ASU No. 2015-01 (or ASU 2015-01), *Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. ASU 2015-01 eliminates the separate classification, presentation and disclosure of extraordinary events and transactions. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We elected early adoption of ASU 2015-01 as of January 1, 2015. The adoption did not have a material impact on our consolidated financial statements.

Net Income Per Share. Basic earnings per share is calculated using the weighted-average shares of common stock outstanding during the period excluding common stock equivalents. Diluted earnings per share includes the effect of all dilutive common stock equivalents.

In accordance with the accounting guidance regarding the determination of whether instruments granted in share-based payments transactions are participating securities, we have applied the two-class method of computing basic earnings per share. This guidance clarifies that outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common stockholders and are considered participating securities.

Stock-Based Compensation. The FASB requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. We use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees. Also, we use the Monte Carlo model to estimate the value of performance based stock units granted to employees. These models require management to make certain estimates including stock volatility, expected dividend yield and the expected term. If management incorrectly estimates these variables, the results of operations could be affected. The FASB also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow. Because we qualify as a REIT under the Internal Revenue Code of 1986, as amended, we are generally not subject to Federal income taxation. Therefore, this reporting requirement does not have an impact on our statements of cash flows.

In March 2016, FASB issued ASU No. 2016-09 (or ASU 2016-09), *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 addresses several aspects of the accounting for share-based payment award transactions, including: (*a*) income tax consequences; (*b*) classification of awards as either equity or liabilities; and (*c*) classification on the statement of cash flows. ASU 2016-09 is effective for public companies for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We early adopted ASU 2016-09. The adoption of this guidance did not have a material impact on the Company's financial statements or disclosures.

Cash Flow Presentation. In August 2016, FASB issued authoritative guidance that reduces the diversity in practice of the classification of certain cash receipts and cash payments within the statement of cash flows. This guidance is effective for fiscal periods beginning after December 15, 2017 and allows for early adoption. The anticipated impact of the adoption of this guidance on the Company's financial statements is still being evaluated.

Segment Disclosures. The FASB accounting guidance regarding disclosures about segments of an enterprise and related information establishes standards for the manner in which public business enterprises report information about operating segments. Our investment decisions in senior housing and health care properties, including mortgage loans, property lease transactions and other investments, are made and resulting investments are managed as a single operating segment for internal reporting and for internal decision-making purposes. Therefore, we have concluded that we operate as a single segment.

3. Major Operators

We have four operators from each of which we derive approximately 10% or more of our combined rental revenue and interest income from mortgage loans. The following table sets forth information regarding our major operators as of December 31, 2016

	Number of			Number of		Percentage of	
Operator	**SNF**	**ALF**	**ROC**	**SNF Beds**	**ALF Units**	**Total Revenue (1)**	**Total Assets**
Prestige Healthcare	20	—	2	2,866	93	16.3 %	15.9 %
Senior Lifestyle Corporation	—	27	—	—	1,632	12.2 %	12.7 %
Brookdale Senior Living	—	37	—	—	1,704	9.8 %	5.4 %
Senior Care Centers	11	—	—	1,444	—	9.8 %	8.4 %
Totals	31	64	2	4,310	3,429	48.1 %	42.4 %

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

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our financial position and ability to make distributions may be adversely affected if Prestige Healthcare, Senior Lifestyle Corporation, Brookdale Senior Living, Senior Care Centers or any of our lessees and borrowers face financial difficulties, including any bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

4. Supplemental Cash Flow Information

	For the year ended December 31,		
	2016	2015	2014
		(in thousands)	
Non-cash investing and financing transactions:			
Mortgage loan receivable applied against purchase price to acquire real estate (See Note 5)	$ —	$ 10,600	$ —
Land conveyance applied to a mortgage and construction loan receivable (See Note 5)	—	670	—
Contingent liabilities related to real estate investments (See Note 5)	1,847	1,847	—
Contingent liabilities related to lease incentives (See Note 10)	—	8,013	3,240
Reclassification of pre-development loans (See Note 7)	237	1,035	304
Restricted stock issued, net of cancellations (See Note 9)	1	1	1
Preferred stock conversion (See Note 9)	—	38,500	—

5. Real Estate Investments

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

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

As of December 31, 2016, we owned 181 health care real estate properties located in 28 states and consisting of 104 ALFs, 69 SNFs, 7 ROCs and 1 behavioral health care hospital. These properties are operated by 27 operators. Please see *Item 1. Business Portfolio* for a table that summarizes our owned properties as of December 31, 2016.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisitions and Developments. The following table summarizes our acquisitions for the twelve months ended December 31, 2016 *(dollar amounts in thousands):*

Type of Property	Purchase Price	Transaction Costs[1]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing[2]	$ 16,000	$ 45	$ 16,045	1	126
Assisted Living[3]	53,550	423	53,973	4	250
Land[4]	6,891	108	6,999	—	—
Totals	$ 76,441	$ 576	$ 77,017	5	376

(1) Represents cost associated with our acquisitions; however, depending on the accounting treatment of our acquisitions, transaction costs may be capitalized to the properties' basis and, for our land purchases with forward development commitments, transaction costs are capitalized as part of our construction in progress. Additionally, transaction costs may include costs related to the prior year due to timing and may include costs related to terminated transactions.

(2) We acquired a newly constructed 126-bed skilled nursing center in Texas.

(3) We acquired a newly constructed memory care community in Kentucky for $14,250 which includes a $2,000 holdback, a newly constructed assisted living and memory care community in Georgia for $14,300 and two memory care communities in Kansas for an aggregate purchase price of $25,000.

(4) We acquired a parcel of land and improvement and entered into a development commitment of up to $24,325, including the land and bed rights purchase, for the development of a 143-bed skilled nursing center in Kentucky. Also, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals approximately $14,500, including the land purchase.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes our acquisitions for the twelve months ended December 31, 2015 *(dollar amounts in thousands)*:

Type of Property	Purchase Price	Transaction Costs[1]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing[2]	$ 36,946	$ 87	$ 37,033	3	360
Assisted Living[3]	156,097	590	156,687	11	951
Other[4]	9,250	42	9,292	1	118
Land[5]	16,333	352	16,685	—	—
Totals	$ 218,626	$ 1,071	$ 219,697	15	1,429

(1)Represents cost associated with our acquisitions; however, depending on the accounting treatment of our acquisitions, transaction costs may be capitalized to the properties' basis and, for our land purchases with forward development commitments, transaction costs are capitalized as part of our construction in progress. Additionally, transaction costs may include costs related to the prior year due to timing and may include costs related to terminated transactions.

(2)We purchased a property in Wisconsin by exercising our purchase option under a $10,600 mortgage and construction loan and equipped the property for $3,346. Also, we acquired two skilled nursing centers in Texas totaling 254 beds for an aggregate purchase price of $23,000.

(3)Includes acquisition of a newly constructed 60-unit MC community for $14,250 including a $2,000 working capital reserve which was recorded similarly to an earn-out and valued at $1,847 using a discounted cash flow analysis. As a result, our basis in the property was recorded at $14,132 which includes capitalized transaction costs. Also includes acquisition of a portfolio comprised of 10 independent, assisted living and memory care communities for $142,000.

(4) We purchased a behavioral health care hospital in Nevada comprised of 116 medical hospital beds and 2 skilled nursing beds for $9,300.

(5)We acquired five parcels of land and entered into development commitments up to an aggregate total of $70,298, including the land purchases, for the development of three MC communities totaling 198 units, a 108-unit IL community and an 89-unit combination AL and MC community. We also purchased a parcel of land we previously leased pursuant to a ground lease. Additionally, we acquired land and existing improvements on a 56-unit MC community and entered a development commitment up to a total of $13,524, including the land purchase, to complete the development of the MC community.

The following table summarizes our investment in development and improvement projects for the years ended December 31, 2016 and 2015 *(in thousands)*:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Development	Improvements	Development	Improvements
ALF/ILF/MC	$ 41,859	$ 3,034	$ 24,099	$ 3,950
SNF	483	3,758	1,830	3,584
	$ 42,342	$ 6,792	$ 25,929	$ 7,534

During the twelve months ended December 31, 2016, we completed the following development and improvement projects *(dollar amounts in thousands):*

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	2016 Funding	Total Funding
Development	1	MC	66	Illinois	$ 2,980	$ 12,248
Development	1	MC	56	Texas	1,110	11,776
Development	1	MC	66	Illinois	7,331	11,962
Development	1	MC	66	California	7,716	12,400
Development	1	ALF/MC	89	South Carolina	9,170	15,080
Development	1	ILF	108	Kansas	11,235	13,423
Improvement	1	SNF	160	Arizona	3,432	4,672
	7		611		$ 42,974	$ 81,561

The following table summarizes our completed projects during the twelve months ended December 31, 2015 *(dollar amounts in thousands):*

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	2015 Funding	Total Funding
Development	1	MC	60	Colorado	$ 1,522	$ 10,703
Improvements	1	SNF	121	California	1,481	1,481
Improvements	1	SNF	196	Texas	522	522
Improvements	2	SNF	141	Tennessee	39	2,200
	5		518		$ 3,564	$ 14,906

During 2016, we sold a 48-unit assisted living community located in Florida for $1,750,000 which was previously written down to its estimated sale price in the fourth quarter of 2015. Additionally, we sold two skilled nursing centers in Texas and an assisted living community in Florida for an aggregate price of $11,850,000. As a result of these sales, we recognized a net gain on sale of $3,775,000. Also, we sold a school in New Jersey for $3,850,000 and recorded a net loss on sale in the amount of $193,000. During 2015, we sold a 112-bed skilled nursing center located in Texas for $1,600,000, resulting in net sales proceed of $1,537,000 and a net gain on sale of $586,000. No properties were sold during 2014.

Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1,200,000. We performed a recoverability analysis on the property as of December 31, 2016 and determined that a portion of the carrying value of the property was not recoverable. Accordingly, we recorded an impairment charge of $766,000, included in our consolidated statement of income, to write the property down to its estimated sale price at December 31, 2016.

Depreciation expense on buildings and improvements, including properties classified as held-for-sale, was $35,809,000, $29,329,000, and $25,424,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum base rents receivable under the remaining non-cancelable terms of operating leases excluding the effects of straight-line rent, amortization of lease inducement and renewal options are as follows (*in thousands*):

	Annual Cash Rent
2017	$ 133,296
2018	133,873
2019	129,482
2020	131,377
2021	117,298
Thereafter	797,716

Mortgage Loans. At December 31, 2016, the mortgage loans had interest rates ranging from 7.3% to 13.9% and maturities ranging from 2017 to 2045. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 30-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. Please see *Item 1. Business Portfolio* for a table that summarizes our loaned properties as of December 31, 2016.

The following table summarizes our mortgage loan activity for the twelve months ended December 31, 2016 and 2015 (in thousands):

	Year ended December 31,	
	2016	2015
Origination/Funding	$ 20,685	$ 67,134
Pay-offs	6,036	2,487
Scheduled principal payments received	2,242	2,321

At December 31, 2016 and 2015 the carrying values of the mortgage loans were $229,801,000 and $217,529,000, respectively. Scheduled principal payments on mortgage loan receivables are as follows *(in thousands)*:

	Scheduled Principal
2017	$ 7,674
2018	8,297
2019	5,092
2020	8,815
2021	1,065
Thereafter	201,173
Total	$ 232,116

During the twelve months ended December 31, 2016, 2015 and 2014, we received $2,242,000, $2,321,000, and $2,159,000, respectively in regularly scheduled principal payments. During 2016, we received $6,036,000 plus accrued interest related to the early payoff of nine mortgage loans secured by skilled nursing centers located in Missouri, Texas and Washington.

6. Investment in Unconsolidated Joint Ventures

We have made a preferred equity investment in an entity (or the JV) that owns four properties in Arizona that provide independent, assisted living and memory care services. At closing, we provided an initial preferred capital contribution of $20,143,000 and have committed to provide an additional preferred capital contribution of $5,507,000 for a total preferred capital contribution of $25,650,000. As the preferred member of the JV, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. The unpaid accrued preferred return is accrued up to the common member's capital account balance in the underlying JV (as determined in accordance with GAAP). We did not accrue the deferred portion of the preferred return during the twelve months ended December 31, 2016. We continue to evaluate our claim on the estimated net assets of the underlying joint venture quarterly. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be paid upon redemption.

The JV is intended to be self-financing and other than our preferred capital contributions, we are not required to provide any direct support and we are not entitled to share in the JV's earnings or losses. As a result, we believe our maximum exposure to loss due to our investment in the JV would be limited to our preferred capital contributions plus any unpaid accrued preferred return. We have concluded that the JV meets the accounting criteria to be considered a variable interest entity (or VIE). However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the JV. Therefore, we account for our JV investment using the equity method. During the twelve months ended December 31, 2016, we provided an additional preferred capital contribution of $1,770,000. Accordingly, we have a remaining preferred capital contribution commitment of $3,737,000. During the twelve months ended December 31, 2016, we recognized $1,139,000 in income from our preferred equity investment in the JV compared to $1,819,000 for the same period in 2015. Additionally, during the twelve months ended December 31, 2016, we received $1,695,000 from our preferred equity investment in the JV compared to $552,000 for the same period in 2015.

During 2016, we entered into a $3,400,000 seven-year term mezzanine loan commitment for the development of a 127-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. In accordance with the terms of the loan agreement, we are entitled to receive a 15% preferred return, a portion of which, subject to minimum payment requirements, is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. We evaluated this ADC arrangement and determined that the characteristics are similar to a jointly-owned investment or partnership, and accordingly, the investment is accounted for as an unconsolidated joint venture under the equity method of accounting instead of loan accounting.

During 2015, we originated a $2,900,000 mezzanine loan to develop a 99-unit combination ALF, MC and ILF community. The loan matures on November 1, 2020 and bears interest at 10% for the first two years escalating to 12% until November 1, 2018 and, 15% thereafter. Interest is deferred for a period ending on the earlier of February 1, 2017 or the effective date of the certificate of occupancy. During this period, the borrower is not required to pay any interest; however, the unpaid deferred interest accrues to the loan principal balance. In addition to the interest payments, the borrower is required to make cash flow participation payments. We have evaluated this ADC arrangement and determined that the characteristics are similar to a jointly-owned investment or partnership, and accordingly, the investment is accounted for as an unconsolidated joint venture under the equity method of accounting instead of loan accounting.

7. Notes Receivable

Notes receivable consist of various loans, and line of credit agreements with certain operators. During 2016, we committed to fund three new loans to existing operators as follows (*dollar amounts in thousands*):

Type of Property	Total Commitment	Interest Rate	Maturity Date
Skilled Nursing	$ 1,400	15.00 %	2021
Assisted Living	325	12.00 %	2018
Skilled Nursing	12,500	12.41 %	2021
Totals	$ 14,225		

During 2016, we originated a $1,400,000 mezzanine loan on two skilled nursing centers, funding $1,200,000 at closing with a commitment to fund an additional $200,000 upon achieving certain coverage ratios. The skilled nursing centers are located in Oregon and totaling 146 beds. The mezzanine loan has a five-year term and a rate of 15%. We have evaluated this ADC arrangement and determined that the characteristics are similar to a loan, and accordingly, the investment is recorded as a loan. Additionally, we purchased a $12,500,000 mezzanine loan on a portfolio of 64 skilled nursing centers located in eight states. The mezzanine loan has a five-year term and a rate of LIBOR plus 11.75%. We have evaluated this ADC arrangement and determined that the characteristics are similar to a loan, and accordingly, the investment is recorded as a loan.

The following table summarizes our notes receivable activities for the fiscal years 2016, 2015 and 2014 *(dollar amounts in thousands):*

	Year ended December 31,		
	2016	2015	2014
Advances and Originations under notes receivable	$ 14,969	$ 1,554	$ 1,263
Principal payments received under notes receivable	(100)	—	(113)
Reclassified to real estate under development [(1)]	(237)	(1,035)	(304)
Notes Receivable reserve	(166)	—	—
Net increase in notes receivable	$ 14,466	$ 519	$ 846

(1) Represents pre-development loans which matured due to land acquisitions and commencement of development projects.

8. Debt Obligations

The following table sets forth information regarding debt obligations by component as of December 31, 2016 and 2015 *(dollar amounts in thousands):*

Debt Obligations	Applicable Interest Rate[(1)]	At December 31, 2016 Outstanding Balance	At December 31, 2016 Available for Borrowing	At December 31, 2015 Outstanding Balance	At December 31, 2015 Available for Borrowing
Bank borrowings [(2)]	2.25%	$ 107,100	$ 492,900	$ 120,500	$ 479,500
Senior unsecured notes, net of debt issue costs [(3)]	4.50%	502,291	22,500	451,372	33,333
Total	4.11%	$ 609,391		$ 571,872	

(1) Represents weighted average of interest rate as of December 31, 2016.

(2) Subsequent to December 31, 2016, we repaid $107,100, accordingly we have no outstanding balance and $600,000 available for borrowing.

(3) Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600,000,000. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage ratios at December 31, 2016, the amended facility provides for interest annually at LIBOR plus 150 basis points and the unused commitment fee was 35 basis points.

Financial covenants contained in the Unsecured Credit Agreement, which are measured quarterly, require us to maintain, among other things:

(i) a ratio of total indebtedness to total asset value not greater than 0.5 to 1.0;
(ii) a ratio of secured debt to total asset value not greater than 0.35 to 1.0;
(iii) a ratio of unsecured debt to the value of the unencumbered asset value not greater than 0.6 to 1.0; and
(iv) a ratio of EBITDA, as calculated in the Unsecured Credit Agreement, to fixed charges not less than 1.50 to 1.0.

During the years ended December 31, 2016 and 2015, we borrowed $123,600,000 and $291,000,000, respectively, under our Unsecured Credit Agreement. Additionally, during the years ended December 31, 2016 and 2015, we repaid $137,000,000 and $170,500,000, respectively, under our unsecured revolving line of credits. At December 31, 2016 and 2015, we were in compliance with all covenants. Subsequent to December 31, 2016, we repaid our outstanding balance of $107,100,000 as discussed below. Accordingly, we have $600,000,000 available for borrowing.

Senior Unsecured Notes. During the twelve months ended December 31, 2016, we sold $37,500,000 senior unsecured notes to affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) with an annual fixed rate of 4.15%. The notes have an average 10-year life, scheduled principal payments and mature in 2028. During the twelve months ended December 31, 2016, we paid $26,667,000 in regular scheduled principal payments under our Prudential senior unsecured notes. Accordingly, at December 31, 2016, we had $22,500,000 available under our shelf agreement with Prudential.

Subsequent to December 31, 2016, we paid $4,167,000 in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337,500,000. Additionally, subsequent to December 31, 2016, we sold 15-year senior unsecured notes in the aggregate amount of $100,000,000 to a group of institutional investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual fixed rate of 4.5%, have scheduled principal payments and mature on February 16, 2032. Subsequent to this transaction, we have $36,667,000 available under our amended shelf agreement with Prudential.

During 2016, we amended our agreement with AIG Asset Management (U.S.) LLC (or AIG) which provides for the possible issuance of up to an additional $40,000,000 unsecured notes. During 2016, we sold $40,000,000 senior unsecured term notes under our amended agreement with AIG to affiliated insurance company investment advisory clients of AIG with a coupon of 3.99%. The notes have an average 10-year life, fixed interest rate and will mature in 2031.

During the year ended December 31, 2015, we repaid $29,167,000 in regularly scheduled principal payments. Additionally, we sold $100,000,000 senior unsecured term notes to Prudential with an annual fixed rate of 4.5% under this shelf agreement. Also, during 2015, we entered into a $100,000,000 note purchase and private shelf agreement with AIG for a three-year term and we sold $100,000,000 senior unsecured term notes to affiliates of AIG with an annual fixed rate of 4.26%. These notes have periodic scheduled principal payments and will mature on November 20, 2028.

Bonds Payable. During 2014, we paid off a $1,400,000 multifamily tax-exempt revenue bond that was secured by five assisted living communities in Washington. These bonds bore interest at a variable rate that reset weekly. During 2014, we paid $635,000 in regularly scheduled principal payments.

Scheduled Principal Payments. The following table represents our long term contractual obligations (scheduled principal payments and amounts due at maturity) as of December 31, 2016, and excludes the effects of interest and debt issue costs (*in thousands*):

	Total	2017	2018	2019	2020	2021	Thereafter
Bank borrowings	$ 107,100 (1)	$ —	$ 107,100	$ —	$ —	$ —	$ —
Senior unsecured notes	503,300 (2)	31,167	38,167	33,666	40,160	40,160	319,980
	$ 610,400	$ 31,167	$ 145,267	$ 33,666	$ 40,160	$ 40,160	$ 319,980

(1) Subsequent to December 31, 2016, we repaid the $107,100 outstanding balance. Accordingly, we have $600,000 available under our unsecured revolving line of credit.

(2) Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

9. Equity

Preferred Stock. Historically, we had 2,000,000 shares of our 8.5% Series C Cumulative Convertible Preferred Stock (or Series C preferred stock) outstanding. Our Series C preferred stock was convertible into 2,000,000 shares of our common stock at $19.25 per share and dividends were payable quarterly. During the year ended December 31, 2015, the sole holder of our Series C Preferred stock elected to convert all of its preferred shares into 2,000,000 shares of common stock. Accordingly, we had no preferred stock outstanding as of December 31, 2016.

Common Stock. During 2015, we entered into an equity distribution agreement (or Original Agreement) to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our common shares. Sales of common shares will be made by means of ordinary brokers' transactions, which may include block trades, or transactions that are deemed to be "at the market" offerings. During the twelve months ended December 31, 2016, we sold 1,643,017 shares of common stock for $78,600,000 in net proceeds under the Original Agreement. In conjunction with the sale of common stock, we reclassified $463,000 of accumulated costs associated with the Original Agreement to additional paid in capital. During 2015, we did not sell shares of common stock under the Original Agreement.

During 2016, we terminated the Original Agreement and entered into a new equity distribution agreement (or Equity Distribution Agreement) to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our company common shares. As of December 31, 2016, no shares were issued under the Equity Distribution Agreement. Accordingly, we had $200,000,000 available under this agreement. Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14,578,000 in net proceeds under our Equity Distribution Agreement. Accordingly, we have approximately $185,162,000 available under this agreement.

During 2016 and 2015, we acquired 49,405 shares and 26,993 shares, respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. Subsequent to December 31, 2016, we acquired 23,691 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Available Shelf Registration. We had an automatic shelf registration statement which was filed in 2013 and provided us with the capacity to publicly offer up to $800,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. In advance of the three-year expiration of the automatic shelf registration statement we filed in 2013, we filed a new automatic shelf registration statement with the SEC on January 29, 2016 to provide us with additional capacity to publicly offer an indeterminate amount of common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under the automatic registration statement we filed in 2016 (until its expiration on January 29, 2019) in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering.

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

	Year Ended			
	December 31, 2016		December 31, 2015	
	Declared	Paid	Declared	Paid
Preferred Stock Series C	$ —	$ —	$ 2,454	$ 2,454
Common Stock	84,568 (1)	84,568 (1)	74,311 (2)	74,311 (2)
Total	$ 84,568	$ 84,568	$ 76,765	$ 76,765

(1) Represents $0.18 per share per month for January through September 2016 and $0.19 per share per month for October through December 2016.

(2) Represents $0.17 per share per month for January through September 2015 and $0.18 per share per month for October through December 2015.

In January 2017, we declared a monthly cash dividend of $0.19 per share on our common stock for the months of January, February and March 2017 payable on January 31, February 28 and March 31, 2017, respectively, to stockholders of record on January 23, February 17 and March 23, 2017, respectively.

Accumulated Other Comprehensive Income. During prior years, we had investments in Real Estate Mortgage Investment Conduit (or REMIC) Certificates, and retained the non-investment grade certificates issued in the securitizations. During 2005, a loan was paid off in the last remaining REMIC pool which caused the last third party

REMIC Certificate holders entitled to any principal payments to be paid off in full. After this transaction, we became the sole holder of the remaining REMIC Certificates and were therefore entitled to the entire principal outstanding of the loan pool underlying the remaining REMIC Certificates. Under the FASB accounting guidance relating to accounting for changes that result in a transferor regaining control of financial assets sold, a Special Purpose Entity (or SPE) may become non-qualified or tainted which generally results in the "repurchase" by the transferor of all the assets sold to and still held by the SPE. Since we were the sole REMIC Certificate holder entitled to principal from the underlying loan pool, we had all the risks and were entitled to all the rewards from the underlying loan pool. As required by the accounting guidance, the repurchase for the transferred assets was accounted for at fair value. The accumulated other comprehensive income balance represents the fair market value adjustment offset by any previously adjusted impairment charge which is amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC pool. At December 31, 2016 and 2015, accumulated other comprehensive income was $0 and $47,000, respectively.

Stock Based Compensation Plans. During 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaces the 2008 Equity Participation Plan (or the 2008 Plan*).* Under the 2015 Plan, 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion. During the twelve months ended December 31, 2016, no stock options were granted under this plan. During 2016, 127,087 shares of restricted stock were granted under the 2015 Plan. Subsequent to December 31, 2016, we granted 74,760 shares of restricted common stock at $45.76 per share. These shares vest ratably from the grant date over a three-year period.

Restricted Stock and performance-based stock units. Restricted stock and performance based stock units activity for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Outstanding, January 1	187,347	214,168
Granted	127,087	92,150
Vested	(103,861)	(118,331)
Canceled	—	(640)
Outstanding, December 31	210,573	187,347
Compensation expense related to restricted stock and performance based stock units for the year	$ 4,265,000	$ 3,992,000

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2016 and 2015, we granted 127,087 and 92,150 shares of restricted common stock, respectively, under the 2015 plan and 2008 Plan as follows:

Year	No. of Shares/Units	Price per Share	Vesting Period
2016	65,300	$ 43.24	ratably over 3 years
	54,107	$ 46.87	TSR targets [(1)]
	7,680	$ 46.87	June 1, 2017
	127,087		
2015	65,750	$ 44.45	ratably over 3 years
	18,000	$ 42.30	ratably over 3 years
	8,400	$ 42.30	June 2, 2016
	92,150		

(1) Vesting is based on achieving certain total shareholder return (or TSR) targets in 3.7 years with acceleration opportunity in 2.7 years.

At December 31, 2016, the total number of restricted common stock and performance-based stock units that are scheduled to vest and remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock and performance-based stock units are as follows:

Vesting Date	Number of Awards	Remaining Compensation Expense
2017	85,343	3,428,000
2018	49,352	2,071,000
2019	75,878 [(1)]	236,000
	210,573	$ 5,735,000

(1) Includes 54,107 performance-based stock units. The performance based stock units are valued utilizing a lattice-binomial option pricing model based on Monte Carlo simulations. The company recognizes the fair value of the awards over the applicable vesting period as compensation expense.

Stock Options. During 2016 and 2015, we did not issue any stock options. Nonqualified stock option activity for the years ended December 31, 2016 and 2015, was as follows:

	Shares		Weighted Average Price	
	2016	2015	2016	2015
Outstanding, January 1	40,001	43,334	$ 29.60	$ 29.16
Granted	—	—	$ —	$ —
Exercised	(6,667)	(3,333)	$ 23.79	$ 23.79
Canceled	—	—	$ —	$ —
Outstanding, December 31	33,334	40,001	$ 30.76	$ 29.60
Exercisable, December 31[(1)]	28,334	30,001	$ 45.45	$ 31.99

(1) The aggregate intrinsic value of exercisable options at December 31, 2016, based upon the closing price of our common shares at December 30, 2016, the last trading day of 2016, was approximately $498,000. Options exercisable at December 31, 2016 have a weighted average remaining contractual life of approximately 2.9 years.

The options exercised during 2016 and 2015 were as follows:

	Options Exercised	Weighted Average Exercise Price	Option Value	Market Value[(1)]
2016	6,667	$ 23.79	$ 159,000	$ 311,000
2015	3,333	$ 23.79	$ 79,000	$ 140,000

(1) As of the exercise dates.

We use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees. This model requires management to make certain estimates including stock volatility, expected dividend yield and the expected term. The weighted average exercise share price of the options was $30.76 and $29.60 and the weighted average remaining contractual life was 2.9 and 2.6 years as of December 31, 2016 and 2015, respectively. Compensation expense related to the vesting of stock options for the twelve months ended December 31, 2016, was $15,000 compared to $14,000 for the same period in 2015.

We have no stock options outstanding that are scheduled to vest beyond 2017. At December 31, 2016, the total number of stock options outstanding that are scheduled to vest through 2017 is 5,000. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2017 is $3,000.

10. Commitments and Contingencies

At December 31, 2016, we had commitments as follows *(in thousands):*

	Investment Commitment	2016 Funding	Total Commitment Funded	Remaining Commitment
Real estate properties (See Note 5)	$ 66,224 (1)	$ 13,614	$ 17,405	$ 48,819
Accrued incentives and earn-out liabilities (2)	16,600	1,560	1,560	15,040
Lease incentives	12,957	3,509	3,964	8,993
Mortgage loans (See Note 5)	51,490 (1)	4,405	5,698	45,792
Joint venture investments (See Note 6)	29,050	1,770	21,913	7,137
Notes receivable (See Note 7)	200	—	—	200
Totals	$ 176,521	$ 24,858	$ 50,540	$ 125,981

(1) Represents commitments to purchase land and improvements, if applicable, and to develop, re-develop, renovate or expand senior housing and health care properties.

(2) During the twelve months ended December 31, 2016, we recorded non-cash interest expense of $684 related to these contingent liabilities and the fair value of our outstanding payments was $12,229 at December 31, 2016.

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

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Distributions

We must distribute at least 90% of our taxable income in order to continue to qualify as a REIT. This distribution requirement can be satisfied by current year distributions or, to a certain extent, by distributions in the following year.

For federal tax purposes, distributions to stockholders are treated as ordinary income, capital gains, return of capital or a combination thereof. Distributions for 2016, 2015 and 2014 were cash distributions. The federal income tax classification of the per share common stock distributions are as follows (*unaudited*):

	Year Ended December 31,		
	2016	2015	2014
Ordinary taxable distribution	$ 1.485	$ 1.690	$ 1.474
Return of capital	0.556	0.357	0.196
Unrecaptured Section 1250 gain	0.149	0.023	0.370
Total	$ 2.190	$ 2.070	$ 2.040

12. Net Income Per Common Share

Basic and diluted net income per share was as follows *(in thousands except per share amounts)*:

	For the year ended December 31,		
	2016	2015	2014
Income from continuing operations	$ 85,115	$ 73,081	$ 73,399
Less net income allocated to participating securities:			
Non-forfeitable dividends on participating securities	(373)	(480)	(465)
Income allocated to participating securities	(12)	(4)	(16)
Total net income allocated to participating securities	(385)	(484)	(481)
Less net income allocated to preferred stockholders:			
Preferred stock dividends	—	(2,454)	(3,273)
Total net income allocated to preferred stockholders	—	(2,454)	(3,273)
Net income available to common stockholders	84,730	70,143	69,645
Effect of dilutive securities:			
Participating securities	385	—	—
Convertible preferred securities	—	2,454	3,273
Total effect of dilutive securities	385	2,454	3,273
Net income for diluted net income per share	$ 85,115	$ 72,597	$ 72,918
Shares for basic net income per share	38,388	35,590	34,617
Effect of dilutive securities:			
Stock options	13	13	23
Performance-based stock units	27	—	—
Participating securities	169	—	—
Convertible preferred securities	—	1,726	2,000
Total effect of dilutive securities	209	1,739	2,023
Shares for diluted net income per share	38,597	37,329	36,640
Basic net income per share	$ 2.21	$ 1.97	$ 2.01
Diluted net income per share	$ 2.21	$ 1.94	$ 1.99

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Quarterly Financial Information

	For the quarter ended			
	March 31,	June 30,	September 30,	December 31,
	(unaudited, in thousands except per share amounts)			
2016				
Revenues	$ 38,604	$ 39,996	$ 40,842	$ 42,141
Net income available to common stockholders	$ 19,757	$ 22,075	$ 22,321	$ 20,577
Net income per common share available to common stockholders:				
Basic	$ 0.53	$ 0.58	$ 0.57	$ 0.53
Diluted	$ 0.53	$ 0.58	$ 0.57	$ 0.53
Dividends per share declared	$ 0.54	$ 0.54	$ 0.54	$ 0.57
Dividend per share paid	$ 0.54	$ 0.54	$ 0.54	$ 0.57
2015				
Revenues	$ 31,480	$ 32,387	$ 34,943	$ 37,393
Net income available to common stockholders	$ 16,611	$ 16,984	$ 18,708	$ 17,840
Net income per common share available to common stockholders:				
Basic	$ 0.47	$ 0.48	$ 0.53	$ 0.49
Diluted	$ 0.47	$ 0.48	$ 0.52	$ 0.48
Dividends per share declared	$ 0.51	$ 0.51	$ 0.51	$ 0.54
Dividend per share paid	$ 0.51	$ 0.51	$ 0.51	$ 0.54

NOTE: Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with the per share amounts for the year.

14. Fair Value Measurements

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

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments. We do not invest our cash in auction rate securities. The carrying value and fair value of our financial instruments as of December 31, 2016 and 2015 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	At December 31, 2016		At December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	$ 229,801	$ 294,319 (1)	$ 217,529	$ 257,335 (1)
Bank borrowings	107,100	107,100 (2)	120,500	120,500 (2)
Senior unsecured notes, net of debt issue costs	502,291	498,915 (3)	451,372	451,420 (3)
Accrued incentives and earn-outs	12,229	12,229 (4)	12,722	12,722 (4)

(1)Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable at December 31, 2016 and 2015 was 8.2% and 8.9%, respectively.

(2)Our bank borrowings bear interest at a variable interest rate. The estimated fair value of our bank borrowings approximated their carrying values at December 31, 2016 and 2015 based upon prevailing market interest rates for similar debt arrangements.

(3)Our obligation under our senior unsecured notes is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At December 31, 2016, the discount rate used to value our future cash outflow of our senior unsecured notes was 4.47% for those maturing before year 2026 and 4.60% for those maturing at or beyond year 2026. At December 31, 2015, the discount rate used to value our future cash outflow of our senior unsecured notes was 4.35% for those maturing before year 2026 and 4.55% for those maturing beyond year 2026.

(4)Our contingent obligations under the accrued incentives and earn-out liabilities are classified as Level 3. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis. The discount rate that we use consists of a risk-free U.S. Treasury rate plus a company specific credit spread which we believe is acceptable by willing market participants. At December 31, 2016 and December 31, 2015, the discount rate used to value our future cash outflow of the earn-out liability was 5.9% and 6.1%, respectively.

15. Subsequent Events

The following events occurred subsequent to the balance sheet date.

Real Estate: We entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1,200,000.

Debt: We paid $4,167,000 in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337,500,000. Additionally, we sold 15-year senior unsecured notes in the aggregate amount of $100,000,000 to a group of institutional investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual fixed rate of 4.5%, have scheduled principal payments and mature on February 16, 2032. Subsequent to this transaction, we have $36,667,000 available under our amended shelf agreement with Prudential. We used the proceeds from our private placement to repay the outstanding balance of our unsecured line of credit. Accordingly, we have no outstanding balance and $600,000,000 available for borrowing under our unsecured revolving line of credit.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity: We declared a monthly cash dividend of $0.19 per share on our common stock for the months of January, February and March 2017, payable on January 31, February 28, and March 31, 2017, respectively, to stockholders of record on January 23, February 17, and March 23, 2017, respectively. Additionally, we sold 312,881 shares of common stock for $14,578,000. Accordingly, we have $185,162,000 available under our Equity Distribution Agreement. Also, we acquired 23,691 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations and we granted 74,760 shares of restricted common stock at $45.76 per share. These shares vest ratably from the grant date over a three-year period.

LTC PROPERTIES, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Account Description	Balance at beginning of period	Additions: (Recovered) charged to costs and expenses	Additions: Charged to other accounts	Deductions [1]	Balance at end of period
Year ended December 31, 2014					
Loan loss reserves	$ 1,671	$ 2	$ —	$ —	$ 1,673
Straight-line rent receivable allowance	1,541	30	—	(840)	731
	$ 3,212	$ 32	$ —	$ (840)	$ 2,404
Year ended December 31, 2015					
Loan loss reserves	$ 1,673	$ 517	$ —	$ —	$ 2,190
Straight-line rent receivable allowance	731	102	—	—	833
	$ 2,404	$ 619	$ —	$ —	$ 3,023
Year ended December 31, 2016					
Loan loss reserves	$ 2,190	$ 125	$ —	$ —	$ 2,315
Other notes receivable allowance	—	166	—	—	166
Straight-line rent receivable allowance	833	166	—	(39)	960
	$ 3,023	$ 457	$ —	$ (39)	$ 3,441

(1) Deductions represent uncollectible accounts written off.

LTC PROPERTIES, INC.

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION

(in thousands)

		Initial cost to company		Costs capitalized subsequent to acquisition	Gross amount at which carried at December 31, 2016					
	Encumbrances	Land	Building and improvements		Land	Building and improvements	Total[1]	Accum deprec.	Construction/ renovation date	Acquisition date
Skilled Nursing Properties:										
134 Alamogordo, NM	$ —	$ 210	$ 2,593	$ 641	$ 210	$ 3,234	$ 3,444	$ 1,158	1985	2001
218 Albuquerque, NM	—	1,696	3,891	530	1,696	4,421	6,117	1,616	2008	2005
219 Albuquerque, NM	—	1,950	8,910	207	1,950	9,117	11,067	3,249	1982	2005
220 Albuquerque, NM	—	2,463	7,647	9	2,463	7,656	10,119	2,717	1970	2005
042 Altoona, IA	—	105	2,309	444	105	2,753	2,858	1,787	1973	1996
252 Amarillo, TX	—	844	—	7,925	844	7,925	8,769	1,285	2013	2011
214 Aransas Pass, TX	—	154	1,276	589	154	1,865	2,019	783	2008	2004
247 Arlington, TX	—	1,016	13,649	—	1,016	13,649	14,665	2,959	2007	2011
171 Atlanta, GA	—	175	1,282	3	175	1,285	1,460	735	1968	1999
040 Atmore, AL	—	131	2,877	196	131	3,073	3,204	1,843	1974	1996
221 Beaumont, TX	—	370	1,141	106	370	1,247	1,617	488	1950	2005
213 Beeville, TX	—	186	1,197	70	186	1,267	1,453	433	1974	2004
007 Bradenton, FL	—	330	2,720	160	330	2,880	3,210	1,959	2012	1993
256 Brownwood, TX	—	164	6,336	—	164	6,336	6,500	937	2011	2012
043 Carroll, IA	—	47	1,033	213	47	1,246	1,293	807	1969	1996
177 Chesapeake, VA	—	388	3,469	1,423	388	4,892	5,280	3,050	2007	1995
257 Cincinnati, OH	—	1,890	25,110	—	1,890	25,110	27,000	2,543	2009	2012
125 Clovis, NM	—	561	5,539	307	561	5,846	6,407	2,305	2006	2001
129 Clovis, NM	—	598	5,902	59	598	5,961	6,559	2,375	1995	2001
268 Coldspring, KY	—	2,050	21,496	—	2,050	21,496	23,546	2,158	2014	2012
253 Colton, CA	—	2,342	15,158	—	2,342	15,158	17,500	2,222	1990	2011
211 Commerce City, CO	—	236	3,217	167	236	3,384	3,620	1,376	1964	2004
212 Commerce City, CO	—	161	2,160	95	161	2,255	2,416	895	1967	2004
246 Crowley, TX	—	2,247	14,276	—	2,247	14,276	16,523	2,939	2007	2011
235 Daleville, VA	—	279	8,382	—	279	8,382	8,661	1,994	2005	2010
258 Dayton, OH	—	373	26,627	—	373	26,627	27,000	2,716	2010	2012
196 Dresden, TN	—	31	1,529	1,073	31	2,602	2,633	896	2014	2000
298 Forth Worth, TX	—	2,785	7,546	—	2,785	7,546	10,331	471	1998	2015
185 Gardner, KS	—	896	4,478	4,150	896	8,628	9,524	3,346	2011	1999
248 Granbury, TX	—	836	6,693	—	836	6,693	7,529	1,967	2008	2011
044 Granger, IA	—	62	1,356	221	62	1,577	1,639	989	1979	1996
205 Grapevine, TX	—	431	1,449	188	431	1,637	2,068	848	1974	2002
172 Griffin, GA	—	500	2,900	—	500	2,900	3,400	1,560	1969	1999
250 Hewitt, TX	—	1,780	8,220	99	1,780	8,319	10,099	1,324	2008	2011
051 Houston, TX	—	365	3,769	1,598	365	5,367	5,732	3,258	1968	1996
054 Houston, TX	—	202	4,458	1,426	202	5,884	6,086	3,700	2007	1996
055 Houston, TX	—	202	4,458	1,359	202	5,817	6,019	3,581	2008	1996
208 Jacksonville, FL	—	486	1,981	30	486	2,011	2,497	897	1987	2002
045 Jefferson, IA	—	86	1,883	296	86	2,179	2,265	1,348	1972	1996
008 Lecanto, FL	—	351	2,665	2,737	351	5,402	5,753	3,459	2012	1993
300 Mansfield, TX	—	2,890	13,110	—	2,890	13,110	16,000	448	2015	2016
053 Mesa, AZ	—	305	6,909	1,876	305	8,785	9,090	5,142	1996	1996
226 Mesa, AZ	—	1,095	2,330	4,673	1,095	7,003	8,098	915	2016	2006
242 Mission, TX	—	1,111	16,602	—	1,111	16,602	17,713	3,071	2004	2010
041 Montgomery, AL	—	242	5,327	115	242	5,442	5,684	3,332	1974	1996
115 Nacogdoches, TX	—	100	1,738	168	100	1,906	2,006	1,084	1973	1997
233 Nacogdoches, TX	—	394	7,456	268	394	7,724	8,118	1,687	1991	2010
249 Nacogdoches, TX	—	1,015	11,109	—	1,015	11,109	12,124	2,684	2007	2011
046 Norwalk, IA	—	47	1,033	239	47	1,272	1,319	826	1975	1996
176 Olathe, KS	—	520	1,872	313	520	2,185	2,705	1,288	1968	1999
251 Pasadena, TX	—	1,155	14,345	522	1,155	14,867	16,022	2,115	2005	2011
210 Phoenix, AZ	—	334	3,383	456	334	3,839	4,173	1,686	1982	2004
193 Phoenix, AZ	—	300	9,703	92	300	9,795	10,095	5,098	1985	2000
047 Polk City, IA	—	63	1,376	153	63	1,529	1,592	967	1976	1996
094 Portland, OR	—	100	1,925	2,652	100	4,577	4,677	2,737	2007	1997
254 Red Oak, TX	—	1,427	17,173	—	1,427	17,173	18,600	2,448	2002	2012
124 Richland Hills, TX	—	144	1,656	427	144	2,083	2,227	1,072	1976	2001
197 Ripley, TN	—	20	985	1,638	20	2,623	2,643	850	2014	2000

LTC PROPERTIES, INC.

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

		Initial cost to company		Costs capitalized subsequent to acquisition	Gross amount at which carried at December 31, 2016					
	Encumbrances	Land	Building and improvements		Land	Building and improvements	Total[1]	Accum deprec.	Construction/ renovation date	Acquisition date
133 Roswell, NM	$ —	$ 568	$ 5,235	$ 1,396	$ 568	$ 6,631	$ 7,199	$ 2,310	1975	2001
081 Sacramento, CA	—	220	2,929	1,481	220	4,410	4,630	1,960	2015	1997
085 Salina, KS	—	100	1,153	628	100	1,781	1,881	1,114	1985	1997
281 Slinger, WI	—	464	13,482	—	464	13,482	13,946	976	2014	2015
234 St. Petersburg, FL	—	1,070	7,930	500	1,070	8,430	9,500	1,671	1988	2010
243 Stephenville, TX	—	670	10,117	500	670	10,617	11,287	2,032	2009	2010
225 Tacoma, WA	—	723	6,401	901	723	7,302	8,025	2,717	2009	2006
178 Tappahannock, VA	—	375	1,327	397	375	1,724	2,099	1,438	1978	1995
270 Trinity, FL	—	1,653	12,748	—	1,653	12,748	14,401	1,306	2008	2013
192 Tucson, AZ	—	276	8,924	112	276	9,036	9,312	4,697	1992	2000
299 Weatherford, TX	—	836	11,902	—	836	11,902	12,738	606	1996	2015
Skilled Nursing Properties	—	48,196	441,762	45,828	48,196	487,590	535,786	133,250		
Assisted Living Properties:										
077 Ada, OK	—	100	1,650	—	100	1,650	1,750	845	1996	1996
136 Arlington, OH	—	629	6,973	—	629	6,973	7,602	2,695	1993	2001
105 Arvada, CO	—	100	2,810	6,960	100	9,770	9,870	2,226	2014	1997
304 Athens, GA	—	1,056	13,326	—	1,056	13,326	14,382	214	2016	2016
063 Athens, TX	—	96	1,510	66	96	1,576	1,672	824	1995	1996
269 Aurora, CO	—	850	8,583	—	850	8,583	9,433	783	2014	2013
260 Aurora, CO	—	831	10,071	—	831	10,071	10,902	1,213	1999	2012
203 Bakersfield, CA	—	834	11,986	812	834	12,798	13,632	5,497	2002	2001
117 Beatrice, NE	—	100	2,173	140	100	2,313	2,413	1,075	1997	1997
137 Bexley, OH	—	306	4,196	—	306	4,196	4,502	1,623	1992	2001
277 Burr Ridge, IL	—	1,400	11,102	—	1,400	11,102	12,502	353	2016	2014
278 Castle Rock, CO	—	759	9,041	—	759	9,041	9,800	420	2012	2014
160 Central, SC	—	100	2,321	—	100	2,321	2,421	949	1998	1999
263 Chatham, NJ	—	5,365	36,399	—	5,365	36,399	41,764	4,198	2002	2012
279 Corpus Christi, TX	—	880	11,369	—	880	11,369	12,249	267	2016	2015
292 De Forest, WI	—	485	5,568	4	485	5,572	6,057	241	2006	2015
156 Denison, IA	—	100	2,713	207	100	2,920	3,020	1,285	1998	1998
057 Dodge City, KS	—	84	1,666	4	84	1,670	1,754	914	1995	1995
083 Durant, OK	—	100	1,769	—	100	1,769	1,869	890	1997	1997
107 Edmond, OK	—	100	1,365	526	100	1,891	1,991	931	1996	1997
122 Elkhart, IN	—	100	2,435	41	100	2,476	2,576	1,183	1997	1997
155 Erie, PA	—	850	7,477	—	850	7,477	8,327	3,530	1998	1999
163 Ft. Collins, CO	—	100	2,961	3,405	100	6,366	6,466	1,734	2014	1999
170 Ft. Collins, CO	—	100	3,400	4,622	100	8,022	8,122	1,931	2014	1999
132 Ft. Meyers, FL	—	100	2,728	9	100	2,737	2,837	1,305	1998	1998
230 Ft. Wayne, IN	—	594	3,461	731	594	4,192	4,786	1,110	1996	2009
229 Ft. Worth, TX	—	333	4,385	1,028	333	5,413	5,746	1,797	2009	2008
100 Fremont ,OH	—	100	2,435	69	100	2,504	2,604	1,213	1997	1997
267 Frisco, TX	—	1,000	5,154	—	1,000	5,154	6,154	516	2014	2012
167 Goldsboro, NC	—	100	2,385	1	100	2,386	2,486	908	1998	1999
056 Great Bend, KS	—	80	1,570	21	80	1,591	1,671	962	1995	1995
102 Greeley, CO	—	100	2,310	270	100	2,580	2,680	1,268	1997	1997
284 Green Bay, WI	—	1,660	19,079	56	1,660	19,135	20,795	878	2004	2015
164 Greenville, NC	—	100	2,478	2	100	2,480	2,580	1,061	1998	1999
062 Greenville, TX	—	42	1,565	47	42	1,612	1,654	849	1995	1996
161 Greenwood, SC	—	100	2,638	—	100	2,638	2,738	1,154	1998	1999
241 Gulf Breeze, FL	—	720	3,780	261	720	4,041	4,761	815	2000	2010
295 Jacksonville, FL	—	1,389	12,756	—	1,389	12,756	14,145	422	2015	2015
066 Jacksonville, TX	—	100	1,900	31	100	1,931	2,031	1,020	1996	1996
285 Kenosha, WI	—	936	12,361	70	936	12,431	13,367	456	2008	2015
255 Littleton, CO	—	1,882	8,248	—	1,882	8,248	10,130	1,024	2013	2012
268 Littleton, CO	—	1,200	8,688	—	1,200	8,688	9,888	921	2014	2013
148 Longmont, CO	—	100	2,640	—	100	2,640	2,740	1,248	1998	1998
060 Longview, TX	—	38	1,568	93	38	1,661	1,699	866	1995	1995
261 Louisville, CO	—	911	11,703	—	911	11,703	12,614	1,379	2000	2012
301 Louisville, KY	—	1,021	13,157	—	1,021	13,157	14,178	235	2016	2016
114 Loveland, CO	—	100	2,865	270	100	3,135	3,235	1,526	1997	1997
068 Lufkin, TX	—	100	1,950	58	100	2,008	2,108	1,043	1996	1996

LTC PROPERTIES, INC.

SCHEDULE III

		Initial cost to company		Costs capitalized subsequent to acquisition	Gross amount at which carried at December 31, 2016					
	Encumbrances	Land	Building and improvements		Land	Building and improvements	Total[1]	Accum deprec.	Construction/ renovation date	Acquisition date
119 Madison, IN	—	100	2,435	207	100	2,642	2,742	1,204	1997	1997
061 Marshall, TX	—	38	1,568	503	38	2,071	2,109	1,108	1995	1995
293 McHenry, IL	—	1,289	28,976	45	1,289	29,021	30,310	1,200	2005	2015
058 McPherson, KS	—	79	1,571	4	79	1,575	1,654	952	1994	1995
239 Merritt Island, FL	—	550	8,150	100	550	8,250	8,800	1,604	2004	2010
104 Millville, NJ	—	100	2,825	645	100	3,470	3,570	1,407	1997	1997
286 Milwaukee, WI	—	818	8,014	25	818	8,039	8,857	346	2007	2015
231 Monroeville, PA	—	526	5,334	435	526	5,769	6,295	1,352	1997	2009
280 Murrells Inlet, SC	—	2,490	13,000	—	2,490	13,000	15,490	122	2016	2015
294 Murrieta, CA	—	2,022	10,666	—	2,022	10,666	12,688	124	2016	2015
289 Neenah, WI	—	694	20,839	115	694	20,954	21,648	840	1991	2015
166 New Bern, NC	—	100	2,427	1	100	2,428	2,528	943	1998	1999
118 Newark, OH	—	100	2,435	182	100	2,617	2,717	1,197	1997	1997
074 Newport, OR	—	621	2,050	—	621	2,050	2,671	1,290	1996	1996
143 Niceville, FL	—	100	2,680	—	100	2,680	2,780	1,267	1998	1998
095 Norfolk, NE	—	100	2,123	33	100	2,156	2,256	1,061	1997	1997
290 Oshkosh, WI	—	1,525	9,192	34	1,525	9,226	10,751	768	2009	2015
291 Oshkosh, WI	—	475	7,364	39	475	7,403	7,878	310	2005	2015
302 Overland Park, KS	—	2,297	11,882	—	2,297	11,882	14,179	220	2013	2016
232 Pittsburgh, PA	—	470	2,615	333	470	2,948	3,418	763	1994	2009
165 Rocky Mount, NC	—	100	2,494	1	100	2,495	2,595	997	1998	1999
141 Rocky River, OH	—	760	6,963	—	760	6,963	7,723	3,242	1998	1999
059 Salina, KS	—	79	1,571	4	79	1,575	1,654	952	1994	1995
084 San Antonio, TX	—	100	1,900	—	100	1,900	2,000	955	1997	1997
092 San Antonio, TX	—	100	2,055	—	100	2,055	2,155	1,027	1997	1997
288 Sheboygan, WI	—	1,168	5,382	—	1,168	5,382	6,550	258	2006	2015
149 Shelby, NC	—	100	2,805	2	100	2,807	2,907	1,326	1998	1998
150 Spring Hill, FL	—	100	2,650	—	100	2,650	2,750	1,253	1998	1998
103 Springfield, OH	—	100	2,035	270	100	2,305	2,405	1,131	1997	1997
162 Sumter, SC	—	100	2,351	—	100	2,351	2,451	986	1998	1999
140 Tallahassee, FL	—	100	3,075	—	100	3,075	3,175	1,457	1998	1998
098 Tiffin, OH	—	100	2,435	43	100	2,478	2,578	1,207	1997	1997
282 Tinley Park, IL	—	702	11,481	—	702	11,481	12,183	210	2016	2015
088 Troy, OH	—	100	2,435	541	100	2,976	3,076	1,371	1997	1997
080 Tulsa, OK	—	200	1,650	—	200	1,650	1,850	839	1997	1997
093 Tulsa, OK	—	100	2,395	—	100	2,395	2,495	1,193	1997	1997
238 Tupelo, MS	—	1,170	8,230	30	1,170	8,260	9,430	1,699	2000	2010
075 Tyler, TX	—	100	1,800	—	100	1,800	1,900	920	1996	1996
202 Vacaville, CA	—	1,662	11,634	1,141	1,662	12,775	14,437	5,441	2002	2001
091 Waco, TX	—	100	2,235	—	100	2,235	2,335	1,115	1997	1997
096 Wahoo, NE	—	100	2,318	50	100	2,368	2,468	1,153	1997	1997
108 Watauga, TX	—	100	1,668	—	100	1,668	1,768	827	1996	1997
287 Waukesha, WI	—	992	15,183	111	992	15,294	16,286	561	2009	2015
109 Weatherford, OK	—	100	1,669	592	100	2,261	2,361	1,110	1996	1997
276 Westminster, CO	—	1,425	9,575	—	1,425	9,575	11,000	707	2015	2013
110 Wheelersburg, OH	—	29	2,435	123	29	2,558	2,587	1,197	1997	1997
303 Wichita, KS	—	1,422	9,957	—	1,422	9,957	11,379	188	2011	2016
259 Wichita, KS	—	730	—	9,682	730	9,682	10,412	1,278	2013	2012
283 Wichita, KS	—	624	13,131	—	624	13,131	13,755	29	2016	2015
076 Wichita Falls, TX	—	100	1,850	—	100	1,850	1,950	945	1996	1996
120 Wichita Falls, TX	—	100	2,750	100	100	2,850	2,950	1,364	1997	1997
265 Williamstown, NJ	—	711	6,637	—	711	6,637	7,348	858	2000	2012
264 Williamstown, NJ	—	711	8,649	—	711	8,649	9,360	1,011	2000	2012
138 Worthington, OH	—	—	6,102	—	—	6,102	6,102	5,732	1993	2001
139 Worthington, OH	—	—	3,402	—	—	3,402	3,402	3,201	1995	2001
099 York, NE	—	100	2,318	40	100	2,358	2,458	1,153	1997	1997
Assisted Living Properties	—	57,010	606,034	35,235	57,010	641,269	698,279	126,768		
Range of Care Properties:										
199 Brownsville, TX [2]	—	302	1,089	835	302	1,924	2,226	1,058	2010	2004
168 Des Moines, IA	—	115	2,096	1,433	115	3,529	3,644	1,955	1972	1999
26A Gardendale, AL	—	100	7,550	2,084	100	9,634	9,734	5,209	2011	1996
194 Holyoke, CO	—	211	1,513	283	211	1,796	2,007	1,020	1963	2000
245 Newberry, SC	—	439	4,639	608	439	5,247	5,686	1,358	1995	2011
244 Newberry, SC	—	919	5,454	131	919	5,585	6,504	1,251	2001	2011
236 Wytheville, VA	—	647	12,692	—	647	12,692	13,339	3,743	1996	2010
Range of Care Properties	—	2,733	35,033	5,374	2,733	40,407	43,140	15,594		

LTC PROPERTIES, INC.

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

	Encumbrances	Initial cost to company: Land	Initial cost to company: Building and improvements	Costs capitalized subsequent to acquisition	Gross amount at which carried at December 31, 2016: Land	Gross amount at which carried at December 31, 2016: Building and improvements	Total[1]	Accum deprec.	Construction/ renovation date	Acquisition date
Other:										
Properties:										
297 Las Vegas, NV	—	1,965	7,308	—	1,965	7,308	9,273	249	1990/1994	2015
Properties	—	1,965	7,308	—	1,965	7,308	9,273	249		
Land:										
271 Howell, MI	—	420	—	—	420	—	420	—	N/A	2013
275 Yale, MI	—	73	—	—	73	—	73	—	N/A	2013
999 Milford, MI	—	450	—	—	450	—	450	—	N/A	2014
Land	—	943	—	—	943	—	943	—		
Other Properties	—	2,908	7,308	—	2,908	7,308	10,216	249		
Properties Under Development:										
305 Union, KY	—	858	5,046	—	858	5,046	5,904	—	N/A	2016
296 Glenview, IL	—	2,800	3,186	—	2,800	3,186	5,986	—	N/A	2015
306 Oaklawn, IL	—	1,591	661	—	1,591	661	2,252	—	N/A	2016
Properties Under Development	—	5,249	8,893	—	5,249	8,893	14,142	—		
	$ —	$ 116,096	$ 1,099,030	$ 86,437	$ 116,096	$ 1,185,467	$ 1,301,563 (3)	$ 275,861		

(1)Depreciation is computed principally by the straight-line method for financial reporting purposes which generally range of a life from 3 to 15 years for furniture and equipment, 35 to 50 years for buildings, 10 to 20 years for building improvements and the respective lease term for acquired lease intangibles.

(2)Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC in Texas for $1,200. Accordingly, we recorded an impairment charge of $766 to write the property down to its estimated sale price at December 31, 2016.

(3) As of December 31, 2016, our aggregate cost for Federal income tax purposes was $1,318,462.

LTC PROPERTIES, INC.

SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Activity for the years ended December 31, 2016, 2015 and 2014 is as follows:

	For the Year Ended December 31,		
	2016	**2015**	**2014**
Reconciliation of real estate:			
Carrying cost:			
Balance at beginning of period	$ 1,198,686	$ 949,838	$ 937,617
Acquisitions	74,923	206,340	11,650
Improvements	49,134	33,463	48,102
Conversion of mortgage loans into owned properties	—	10,600	—
Capitalized interest	1,408	827	1,506
Other non-cash items (See Note 4)	2,460	2,882	304
Conveyed land (See Note 4)	—	(670)	—
Cost of real estate sold	(24,282)	(2,344)	(49,341)
Impairment on real estate for sale	(766)	(2,250)	—
Ending balance	$ 1,301,563	$ 1,198,686	$ 949,838
Accumulated depreciation:			
Balance at beginning of period	$ 251,265	$ 223,315	$ 218,700
Depreciation expense	35,809	29,329	25,424
Cost of real estate sold	(11,213)	(1,379)	(20,809)
Ending balance	$ 275,861	$ 251,265	$ 223,315

LTC PROPERTIES, INC.

SCHEDULE IV

MORTGAGE LOANS RECEIVABLE ON REAL ESTATE

(in thousands)

State	(Unaudited) Number of Properties	Units/Beds (3)	Interest Rate (1)	Final Maturity Date	Balloon Amount (2)	Current Monthly Debt Service	Face Amount of Mortgages	Carrying Amount of Mortgages December 31, 2016	Principal Amount of Loans Subject to Delinquent Principal or Interest
MI	15	2,102	9.53%	2043	$ 153,770	$ 1,427	$ 175,083	$ 180,940	$ —
MI	1	157	9.41%	2045	8,825	77	9,806	9,872	—
MI	2	273	9.41%	2045	13,920	120	15,000	15,565	—
MI	2	216	9.41%	2020	7,750	62	7,750	7,765	
Various	11	555	7.32%-13.95%	2017-2019	16,746	216	20,781	15,659	—
	31 (4)	3,303			$ 201,011	$ 1,902	$ 228,420	$ 229,801	$ —

(1) Represents current stated interest rate. Generally, the loans have 20 year to 30-year amortization with principal and interest payable at varying amounts over the life to maturity with annual interest adjustments through specified fixed rate increases effective either on the first anniversary or calendar year of the loan.

(2) Balloon payment is due upon maturity.

(3) This number is based upon unit/bed counts shown on operating licenses provided to us by borrowers or units/beds as stipulated by mortgage documents. We have found during the years that these numbers often differ, usually not materially, from units/beds in operation at any point in time. The differences are caused by such things as operators converting a patient/resident room for alternative uses, such as offices or storage, or converting a multi-patient room/unit into a single patient room/unit. We monitor our properties on a routine basis through site visits and reviews of current licenses. In an instance where such change would cause a de-licensing of beds or in our opinion impact the value of the property, we would take action against the borrower to preserve the value of the property/collateral.

(4) Includes 11 first-lien mortgage loans as follows:

Number of Loans	Original loan amounts
4	$ 500 - $2,000
0	$2,001 - $3,000
1	$3,001 - $4,000
0	$4,001 - $5,000
1	$5,001 - $6,000
1	$6,001 - $7,000
4	$7,001 +

Mortgage loans receivable activity for the years ended December 31, 2016, 2015 and 2014 is as follows:

Balance— December 31, 2013	$ 165,444
New mortgage loans	3,027
Other additions	6,347
Amortization of mortgage premium	(5)
Collections of principal	(9,155)
Foreclosures	—
Loan loss reserve	(2)
Other deductions	—
Balance— December 31, 2014	165,656
New mortgage loans	60,209
Other additions	6,925
Land conveyance	670
Amortization of mortgage premium	(6)
Collections of principal	(15,408)
Foreclosures	—
Loan loss reserve	(517)
Other deductions	—
Balance— December 31, 2015	217,529
New mortgage loans	13,250
Other additions	7,435
Amortization of mortgage premium	(10)
Collections of principal	(8,278)
Foreclosures	—
Loan loss reserve	(125)
Other deductions	—
Balance— December 31, 2016	$ 229,801

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

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

Internal Control Over Financial Reporting.

The Management Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth on the following pages.

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

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

· Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

· Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

· Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (or COSO) in Internal Control— Integrated Framework (2013 Framework). Based on this assessment, our management concluded that, as of the end of the fiscal year ended December 31, 2016, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by Ernst &Young LLP, independent registered public accounting firm. Ernst & Young LLP's report on our internal control over financial reporting appears on the following page

.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of LTC Properties, Inc.

We have audited LTC Properties, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). LTC Properties, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, LTC Properties, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LTC Properties, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016, and our report dated February 22, 2017 expressed an unqualified opinion thereon**.**

/s/ Ernst & Young LLP
Los Angeles, California
February 22, 2017

Item 9B. OTHER INFORMATION

On February 16, 2017, we entered into a second amendment to the third amended and restated note purchase and private shelf agreement with Prudential Investment Management, Inc. (or Prudential) to (a) increase the aggregate commitment to $337.5 million, compared to $200.0 million previously, (b) increase the aggregate principal amount of notes that can be outstanding under the shelf agreement to $350 million, compared to $300 million previously, (c) increase the maximum principal amount of notes that can be outstanding and held by Prudential to $275 million, compared to $250 million previously, and (d) extend the issuance period until February 16, 2020.

On February 16, 2017, we also sold $100.0 million aggregate principal amount senior unsecured notes to a group of institutional investors, which included Prudential, pursuant to a note purchase agreement. The notes bear interest at an annual fixed rate of 4.5%, have scheduled principal payments, and mature on February 16, 2032. The notes are subject to financial covenants that are substantially similar to the covenants in the shelf agreement with Prudential and our existing credit facility. These financial covenants include provisions that (i) maximum total indebtedness shall not exceed 50% of total asset value, (ii) maximum secured debt shall not exceed 35% of total asset value, (iii) maximum unsecured debt shall not exceed 60% of the unencumbered asset value, (iv) EBITDA shall not be below 150% of fixed charges, and (v) eligible property NOI shall not be below 200% of interest expense on unsecured debt. Other covenants in the note purchase agreement include limitations on our and our subsidiaries' abilities to (i) incur liens, (ii) make investments, (iii) engage in mergers or consolidations or sell properties, and (iv) enter agreements that restrict our subsidiaries' ability to make dividend payments or loans to us.

The second amendment to the amended and restated note purchase and private shelf agreement with Prudential is attached as an exhibit to this Annual Report on Form 10-K. The note purchase agreement also is attached as an exhibit to this Annual Report on Form 10-K. The descriptions herein related to the shelf agreement as amended with Prudential and the note purchase agreement are qualified in their entirety by reference to the corresponding exhibits filed hereto.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our definitive proxy statement for the 2017 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days of our December 31, 2016 fiscal year end) under the headings "*Proposal 1 Election of Directors,*" "*Corporate Governance Principles and Board Matters*," and "*Executive Officers*."

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our definitive proxy statement for the 2017 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days of our December 31, 2016 fiscal year end) under the headings "*Executive Compensation Discussion and Analysis*," "*Executive Compensation Tables*," "*Director Compensation*," and "*Compensation Committee Report*."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our definitive proxy statement for the 2017 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days of our December 31, 2016 fiscal year end) under the heading "*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*."

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our definitive proxy statement for the 2017 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days of our December 31, 2016 fiscal year end) under the heading "*Certain Relationships and Related Transactions, and Director Independence*."

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our definitive proxy statement for the 2017 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days of our December 31, 2016 fiscal year end) under the heading "*Independent Registered Public Accounting Firm Fees and Services*."

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this report:

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All other schedules are omitted because they are not applicable or not present in amounts sufficient to require submission of the schedule or the required information is shown in the Consolidated Financial Statements and the Notes thereto.

Exhibits

The exhibits required by Item 601 of Regulation S-K are set forth in the index to exhibits of this annual report.

LTC PROPERTIES, INC.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.1 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated June 1, 2016)
3.2	Bylaws of LTC Properties, Inc., as restated June 2, 2015 (incorporated by reference to Exhibit 3.2 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated June 2, 2015)
10.1	Amended and Restated Credit Agreement dated as of October 14, 2014 (incorporated by reference to Exhibit 10.1 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated October 14, 2014)
10.2	First Amendment to Amended and Restated Credit Agreement dated as of August 4, 2015 (incorporated by reference to Exhibit 10.3 to LTC Properties Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended June 30, 2015)
10.3	Second Amended and Restated Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and Prudential Investment Management, Inc. dated October 30, 2013 (incorporated by reference to Exhibit 10.1 to LTC Properties Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended September 30, 2013)
10.4	Third Amended and Restated Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and Prudential Investment Management, Inc. dated April 28, 2015 (incorporated by reference to Exhibit 10.1 to LTC Properties Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended March 31, 2015)
10.5	First Amendment to the Third Amended and Restated Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and Prudential Investment Management, Inc. dated August 4, 2015 (incorporated by reference to Exhibit 10.2 to LTC Properties Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended June 30, 2015)
10.6	Second Amendment to Third Amended and Restated Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and Prudential Investment Management, Inc. dated February 16, 2017
10.7	Note Purchase Agreement dated February 16, 2017
10.8	Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and AIG Asset Management (U.S.) LLC dated August 4, 2015 (incorporated by reference to Exhibit 10.4 to LTC Properties Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended June 30, 2015)
10.9	Amended and Restated Note Purchase and Private Shelf Agreement between LTC Properties, Inc. and AIG Asset Management (U.S.) LLC dated June 2, 2016 (incorporated by reference to Exhibit 10.1 to LTC Properties Inc.'s Current Report on Form 8-K dated June 1, 2016)
10.10	Equity Distribution Agreement, dated August 5, 2015, by and between LTC Properties, Inc. and JMP Securities LLC (incorporated by reference to Exhibit 1.1 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 5, 2015)
10.11	Equity Distribution Agreement, dated August 5, 2015, by and between LTC Properties, Inc. and Canaccord Genuity Inc. (incorporated by reference to Exhibit 1.2 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 5, 2015)
10.12	Equity Distribution Agreement, dated August 5, 2015, by and between LTC Properties, Inc. and Mizuho Securities USA Inc. (incorporated by reference to Exhibit 1.3 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 5, 2015)
10.13	Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and JMP Securities LLC (incorporated by reference to Exhibit 1.1 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 1, 2016)
10.14	Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Canaccord Genuity Inc. (incorporated by reference to Exhibit 1.2 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 1, 2016)
10.15	Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Mizuho Securities USA Inc. (incorporated by reference to Exhibit 1.3 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 1, 2016)
10.16	Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Credit Agricole Securities (USA) Inc. (incorporated by reference to Exhibit 1.4 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 1, 2016)
10.17	Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Cantor Fitzgerald & Co (incorporated by reference to Exhibit 1.5 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) dated August 1, 2016)
10.18	Employment Agreement of Wendy Simpson dated November 12, 2014 (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Current Report on Form 8-K (File No. 1-11314) dated November 12, 2014)
10.19	Employment Agreement of Pamela Kessler, effective as of November 12, 2014 (incorporated by reference to Exhibit 10.2 to LTC Properties, Inc.'s Current Report on Form 8-K (File No. 1-11314) dated November 12, 2014)
10.20	Employment Agreement of Clint Malin, effective as of November 12, 2014 (incorporated by reference to Exhibit 10.3 to LTC Properties, Inc.'s Current Report on Form 8-K (File No. 1-11314) dated November 12, 2014)

10.21	Annual Cash Bonus Incentive Plan, effective as of October 27, 2014 (incorporated by reference to Exhibit 10.9 to LTC Properties, Inc.'s Annual Report on Form 10-K (File No. 1-11314) for the year ended December 31, 2014)
10.22	The 2015 Equity Participation Plan of LTC Properties, Inc. (incorporated by reference to Exhibit 4.3 to LTC Properties, Inc.'s Registration Statement on Form S-8 (File No. 333-205115)
10.23	Form of Stock Option Agreement under the 2015 Equity Participation Plan (incorporated by reference to Exhibit 10.20 to LTC Properties, Inc.'s Annual Report on Form 10-K (File No. 1-11314) for the year ended December 31, 2015)
10.24	Form of Restricted Stock Agreement under the 2015 Equity Participation Plan (incorporated by reference to Exhibit 10.21 to LTC Properties, Inc.'s Annual Report on Form 10-K (File No. 1-11314) for the year ended December 31, 2015)
10.25	Form of Performance Based Market Stock Unit Agreement under the 2015 Equity Participation Plan (incorporated by reference to Exhibit 10.2 to LTC Properties Inc.'s Current Report on Form 8-K dated June 1, 2016)
10.26	Form of Indemnity Agreement dated as of July 30, 2009 between LTC Properties, Inc. and its Directors and Officers (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q (File No. 1-11314) for the quarter ended June 30, 2009)
12	Ratio of Earnings to Fixed Charges
21	List of Subsidiaries
23.1	Consent of Independent Registered Accounting Firm
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from LTC Properties, Inc.'s Form Annual Report on 10-K for the fiscal year ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income and Comprehensive Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements

\+ *Management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates*

LTC PROPERTIES, INC.

SIGNATURES

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

LTC PROPERTIES, INC.
Registrant

Dated: February 22, 2017

By: /s/ Pamela J. Kessler
PAMELA J. KESSLER
Executive Vice President, Chief Financial Officer and Corporate Secretary
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Wendy L. Simpson WENDY L. SIMPSON	Chairman, Chief Executive Officer, President and Director *(Principal Executive Officer)*	February 22, 2017
/s/ Pamela J. Kessler PAMELA J. KESSLER	Executive Vice President, Chief Financial Officer and Corporate Secretary *(Principal Financial Officer and Principal Accounting Officer)*	February 22, 2017
/s/ Boyd Hendrickson BOYD HENDRICKSON	Director	February 22, 2017
/s/ Devra G. Shapiro DEVRA G. SHAPIRO	Director	February 22, 2017
/s/ JAMES J. PIECZYNSKI JAMES J. PIECZYNSKI	Director	February 22, 2017
/s/ Timothy J. Triche TIMOTHY J. TRICHE	Director	February 22, 2017

EXHIBIT 10.6

PGIM, Inc. and
the holders of Notes signatory hereto
c/o Prudential Capital Group
2029 Century Park East, Suite 715
Los Angeles, CA 90067

February 16, 2017

LTC Properties, Inc.
2829 Townsgate Road, Suite 350
Westlake Village, California 91361

Re: Second Amendment to Third Amended and Restated Note Purchase and Private Shelf Agreement

Ladies and Gentlemen:

Reference is made to the Third Amended and Restated Note Purchase and Private Shelf Agreement, dated as of April 28, 2015 (as amended, amended and restated, supplemented or otherwise modified to the date hereof, the "**Agreement**"), by and between LTC Properties, Inc., a Maryland corporation (the "**Company**"), on the one hand, and the Purchasers named therein, on the other hand. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement.

1. Amendments. Pursuant to the provisions of Section 17 of the Agreement, and subject to the terms and conditions of this letter agreement, the Purchasers hereby agree with the Company that the Agreement is modified, as follows:

1.1 The reference to "$200,000,000" set forth in Section 1G is deleted and replaced with "$337,500,000."

1.2 The reference to "$300,000,000" set forth in the second sentence of Section 2B(1) is deleted and replaced with "$350,000,000."

1.3 The reference to "$250,000,000" set forth in the second sentence of Section 2B(1) is deleted and replaced with "$275,000,000."

1.4 Section 2B(2) is amended and restated, as follows:

"**2B(2) Issuance Period.** Shelf Notes may be issued and sold pursuant to this Agreement until the earlier of (i) February 16, 2020 (or if such date is not a New York Business Day, the New York Business Day next preceding such date), and (ii) the thirtieth day after PIM shall have given to the Company, or the Company shall have given to PIM, written notice stating that it elects to terminate the issuance and sale of Shelf Notes pursuant to this Agreement (or if such thirtieth day is not a New York Business Day, the New York Business Day next preceding such thirtieth day). The period during which Shelf Notes may be issued and sold pursuant to this Agreement is herein called the "**Issuance Period**.""

1.5 Each of Sections 2B(8)(i) and 2B(8)(ii) is deleted and replaced with "[Intentionally Omitted]."

1.6 The definitions of "PIM" and "Principal Credit Facility" in Schedule B are amended and restated, as follows:

""**PIM**" means PGIM, Inc., formerly known as Prudential Investment Management, Inc.

"**Principal Credit Facility**" means any loan agreement, credit agreement, note purchase agreement or similar agreement under which credit facilities in the aggregate original principal or commitment amount of at least $75,000,000 (or credit facilities in the aggregate original principal or commitment amount of less than $75,000,000, but which have subsequently become at least $75,000,000) are provided to the Company and/or any Subsidiary."

2. Limitation of Modifications. The amendments effected in this letter agreement shall be limited precisely as written and shall not be deemed to be (a) an amendment, consent, waiver or other modification of any other terms or conditions of the Agreement or any other document related to the Agreement, or (b) a consent to any future amendment, consent, waiver or other modification. Except as expressly set forth in this letter, the Agreement and the documents related to the Agreement shall continue in full force and effect.

3. Representations and Warranties. The Company hereby represents and warrants as follows: (i) No Default or Event of Default has occurred and is continuing; (ii) the Company's execution, delivery and performance of the Agreement, as modified by this letter agreement, have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable; (iii) the Agreement, as modified by this letter agreement, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and (iv) each of the representations and warranties set forth in Section 5 of the Agreement is true, correct and complete as of the date hereof (except to the extent such representations and warranties expressly relate to another date, in which case such representations and warranties are true, correct and complete as of such other date).

4. Effectiveness. This letter agreement shall become effective on the date when (i) the Purchasers shall have received a fully executed counterpart of this letter from the Company, (ii) the Company shall have paid to or as directed by PIM a fully earned and non-refundable structuring fee in the aggregate amount of $50,000 in consideration for the time, effort and expense involved in the preparation and negotiation of the modification and extension of the Facility effected by this letter agreement, and (iii) the Company shall have paid Vedder Price P.C. its accrued and unpaid legal fees and expenses, to the extent such fees and expenses have been invoiced.

5. Miscellaneous.

(a) This document may be executed in multiple counterparts, which together shall constitute a single document.

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

[Remainder of the page intentionally left blank]

If you are in agreement with the foregoing, please sign a counterpart of this letter in the space indicated below and deliver it to the Purchasers whereupon, subject to the conditions expressed herein, it shall become a binding agreement between the Company, on the one hand, and the Purchasers, on the other hand.

Sincerely,

PGIM, INC.

By: /s/ Mitchell Reed
Name: Mitchell Reed
Title: Vice President

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA, as a holder of Series A-1 Notes, Series B Notes, Series C Notes, Series D Notes, Series E Notes and Series F Notes

By: /s/ Mitchell Reed
Title: Vice President

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

By: /s/ Mitchell Reed
Title: Assistant Vice President

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

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

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

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

By: /s/ Mitchell Reed
Title: Vice President

FARMERS NEW WORLD LIFE INSURANCE COMPANY, as a holder of Series C Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

AMERICAN INCOME LIFE INSURANCE COMPANY, as a holder of Series D Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By /s/ Mitchell Reed
Title: Vice President

LIBERTY NATIONAL LIFE INSURANCE COMPANY, as a holder of Series D Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

FAMILY HERITAGE LIFE INSURANCE COMPANY OF AMERICA, as a holder of Series D Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

PRUDENTIAL LEGACY INSURANCE COMPANY OF NEW JERSEY, as a holder of Series E Notes and Series F Notes

By: PGIM, Inc., as investment manager

By: /s/ Mitchell Reed
Title: Vice President

ZURICH AMERICAN INSURANCE COMPANY, as a holder of Series E Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

PICA HARTFORD LIFE & ANNUITY COMFORT TRUST, as a holder of Series E Notes

By: The Prudential Insurance Company of America, as Grantor

By: /s/ Mitchell Reed
Title: Vice President

INDEPENDENT ORDER OF FORESTERS, as a holder of Series E Notes

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc., (as its General Partner)

By: /s/ Mitchell Reed
Title: Vice President

PRUDENTIAL ARIZONA REINSURANCE TERM COMPANY, as a holder of Series F Notes

By: PGIM, Inc., as investment manager

By: /s/ Mitchell Reed
Title: Vice President

Accepted and agreed to
as of the date first
appearing above:

THE COMPANY:

LTC PROPERTIES, INC.

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

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

EXHIBIT 10.7

EXECUTION VERSION

LTC PROPERTIES, INC.

NOTE PURCHASE AGREEMENT

4.50% Series G Senior Notes Due February 16, 2032
($100,000,000 Aggregate Original Principal Amount)

As of February 16, 2017

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

As of February 16, 2017

TO EACH OF THE PURCHASERS LISTED IN
THE PURCHASER SCHEDULE ATTACHED
HERETO AS SCHEDULE A

Ladies and Gentlemen:

The undersigned, LTC Properties, Inc., a Maryland corporation (the "**Company**"), agrees with each of the purchasers whose names appear on the Purchaser Schedule (each, a "**Purchaser**" and, collectively, the "**Purchasers**") as follows:

1 AUTHORIZATION OF NOTES

The Company will authorize the issue and sale of $100,000,000 aggregate principal amount of its 4.50% Series G Senior Notes due February 16, 2032 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "**Notes**", such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement). The Notes shall be substantially in the form set out in Exhibit A. Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

2 SALE AND PURCHASE OF NOTES

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in the Purchaser Schedule at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

3 CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Vedder Price P.C., 275 Battery Street, Suite 2464, San Francisco, California 94111, at 10:00 a.m., Pacific time, at a closing on February 16, 2017 (the "**Closing**"). At the Closing the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least $1,000,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to the account number and at the bank specified in the funding instructions provided to such Purchaser in accordance with the requirements of Section 4I. If at the Closing the Company shall fail to tender such Notes to any Purchaser against payment by such Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's reasonable satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure by the Company to tender such Notes or any of the conditions specified in Section 4 not having been fulfilled to such Purchaser's reasonable satisfaction.

4 CONDITIONS.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

4A Certain Documents. Such Purchaser shall have received the following, each dated the date of the Closing (except as provided in clause (h)):

(a) an Officer's Certificate from the Company, certifying that the conditions specified in Sections 4B, 4C and 4D have been fulfilled;

(b) an Officer's Certificate from the Company, setting forth a listing of the Unencumbered Assets and Qualified Mortgage Loans as of the date of the Closing;

(c) certified copies of the resolutions of the Company authorizing the execution and delivery of the Transaction Documents (and authorizing the issuance of the Notes) and of all documents evidencing other necessary corporate or similar action and governmental approvals, if any, with respect to the Transaction Documents and the Notes;

(d) a certificate of the Secretary or an Assistant Secretary and one other officer of the Company, certifying the names and true signatures of the officers of the Company authorized to sign the Transaction Documents;

(e) certified copies of the articles of incorporation and by-laws of the Company;

(f) favorable opinions of: (i) Reed Smith LLP, special counsel for the Company, satisfactory to such Purchaser and substantially in the form of Exhibit B-1 attached hereto, and as to such other matters as such Purchaser may reasonably request, and (ii) Ballard Spahr LLP, special Maryland counsel for the Company, satisfactory to such Purchaser and substantially in the form of Exhibit B-2 attached hereto, and as to such other matters as such Purchaser may reasonably request. The Company hereby directs each such counsel to deliver such opinion, agrees that the issuance and sale of the Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser receiving such an opinion will and is hereby authorized to rely on such opinion;

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

(h) a good standing or similar certificate for the Company from the appropriate Governmental Authority of its jurisdiction of organization, dated as of a recent date, and such other evidence of the status of the Company as such Purchaser may reasonably request; and

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

4B Representations and Warranties. The representations and warranties of the Company in Section 5 hereof shall, in each case, be correct when made and at the Closing.

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

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

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

4F Sale of Other Notes. Contemporaneously with the Closing the Company shall sell to each other Purchaser and each other Purchaser shall purchase the Notes to be purchased by it at the Closing as specified in the Purchaser Schedule.

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

4H Private Placement Number. A Private Placement number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

4I Funding Instructions. At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company specifying (i) the name and address of the transferee bank, (ii) such transferee bank's ABA number and (iii) the account name and number into which the purchase price for the Notes is to be deposited.

4J Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such counsel may reasonably request.

5 REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

5.1 Organization; Power and Authority.

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

5.2 Authorization, Etc.

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

5.3 Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to such Purchaser by or on behalf of the Company in connection herewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading in light of the circumstances under which they were made, such Purchaser acknowledging that as to any projections furnished to such Purchaser, the Company only represents that the same were prepared in good faith on the basis of information and estimates the Company believed to be reasonable at the time of the preparation and delivery thereof. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings (including the Company's most recent reports on Form 10-Q and Form 10-K and the Company's reports on Form 8-K filed during the period from January 1, 2014 through the date hereof) delivered to such Purchaser by or on behalf of the Company. Since December 31, 2015, there has been no change in the financial condition, operations, business, Properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to such Purchaser by or on behalf of the Company.

5.4 Organization and Ownership of Equity in Subsidiaries; Affiliates.

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

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

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

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

5.5 Financial Statements; Material Liabilities.

The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of such financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial condition of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated financial results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company and its Subsidiaries do not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in writing to the Purchasers.

5.6 Compliance with Laws; Other Instruments, Etc.

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

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

5.7 Governmental Authorizations, Etc.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Notes or the other Transaction Documents.

5.8 Litigation; Observance of Agreements, Statutes and Orders.

(a) There are no actions, suits, investigations or proceedings pending or, to the actual knowledge of the Company, threatened against or affecting the Company or any of its

Subsidiaries or any Property of the Company or any of its Subsidiaries in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws, the USA PATRIOT Act or any of the other laws and regulations that are referred to in Section 5.16) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.9 Taxes.

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

5.10 Title to Property; Leases.

The Company and its Subsidiaries have good and sufficient title to their respective Properties (other than Properties which are leased) that individually or in the aggregate are Material, including all such Properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement.

5.11 Licenses, Permits, Etc.

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

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

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

5.12 Compliance with ERISA.

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

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

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

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

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section

4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

5.13 Private Offering by the Company.

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

5.14 Use of Proceeds; Margin Regulations.

The Company will apply the proceeds of the sale of the Notes for general corporate purposes. None of the proceeds of the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 25% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 25% of the value of such assets. As used in this Section, the terms **"margin stock"** and **"purpose of buying or carrying"** shall have the meanings assigned to them in said Regulation U.

5.15 Existing Indebtedness for Borrowed Money; Future Liens.

(a) Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness for Borrowed Money of the Company and its Subsidiaries as of December 31, 2016 (including a description of the obligors and obligees, principal amount outstanding and collateral therefor, if any, and Guaranties thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness for Borrowed Money of the Company or any of its Subsidiaries.

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

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

5.16 Foreign Assets Control Regulations, Etc.

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

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

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

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

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

(iii) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would cause any holder of a Note to be in violation of applicable Anti-Corruption Laws. The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable Anti-Corruption Laws.

5.17 Status under Certain Statutes.

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

5.18 Environmental Matters.

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

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

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

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

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

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

5.19 Stock of the Company.

As of the date hereof, the entire outstanding capital stock of the Company consists of Common Stock, 39,585,320 shares outstanding.

5.20 Condition of Property; Casualties; Condemnation.

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

5.21 Legal Requirements and Zoning.

To the actual knowledge of the Company and its Subsidiaries, the use and operation of each Property owned by the Company or its Subsidiaries constitutes a legal use under applicable zoning regulations (as the same may be modified by special use permits or the granting of variances) and complies in all material respects with all Legal Requirements, and does not violate in any material respect any material approvals, material restrictions of record or any material agreement affecting any such Property (or any portion thereof).

5.22 [Intentionally Omitted].

5.23 Solvency.

The Company and each of its Subsidiaries are solvent, able to pay their debts as they become due, and have sufficient capital to carry on their business as currently conducted.

5.24 Hostile Tender Offers.

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

6 REPRESENTATIONS OF THE PURCHASERS.

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

6.2 Source of Funds.

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

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

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

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

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the "**QPAM Exemption**")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "related" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM, and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

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

(f) the Source is a governmental plan; or

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

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

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

7 INFORMATION AS TO THE COMPANY.

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

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

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

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

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

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

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

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

(c) [Intentionally Omitted];

(d) Annual List of Subsidiaries. As soon as available, and in any event within 90 days after the close of each Fiscal Year of the Company, a complete and correct list that identifies as of the close of such Fiscal Year each of the Subsidiaries of the Company, showing, as to each such Subsidiary, whether such Subsidiary is an Unencumbered Asset Subsidiary, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares or units of each class issued and outstanding;

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

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

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

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

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

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

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

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

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

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

7.2 Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer, substantially in the form of Exhibit E attached hereto, setting forth:

(a) Covenant Compliance — (x) the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.2, Section 10.3, Section 10.9 and the requirements of any additional Financial Covenants incorporated herein pursuant to Section 10.10 during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, (i) the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence, and (ii) a reconciliation from GAAP, as reflected in the statements then being furnished, to the calculation of the financial covenants in Section 10.2, Section 10.3, Section 10.9 and any additional Financial Covenants incorporated herein pursuant to Section 10.10, after giving effect to the exclusion from GAAP of the effects of Accounting Standards Codification 825-10-25 (previously referred to as SFAS 159) or any successor or similar provision to the extent it relates to "fair value" accounting for liabilities), and (y) a listing of the Unencumbered Assets and Qualified Mortgage Loans as of the end of the quarterly or annual period covered by the statements then being furnished; and

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

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

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

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

8 PREPAYMENT OF THE NOTES.

8.1 Required Prepayments.

On each of the dates specified on Schedule 8.1 the Company will prepay the principal amount specified to be paid on such date (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of any Make-Whole Amount or other premium; provided that upon any partial prepayment of the Notes pursuant to Section 8.2 or any partial purchase of Notes pursuant to Section 8.5, the principal amount of each required prepayment of the Notes becoming due under this Section 8.1 on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

As provided therein, the entire unpaid principal balance of each Note shall be due and payable on February 16, 2032.

8.2 Optional Prepayments with Make-Whole Amount.

The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than $1,000,000 (and increments of $100,000 in excess thereof) of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, or such lesser principal amount of the Notes as shall then be outstanding, at 100% of the principal amount so prepaid, plus interest thereon to the prepayment date and the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 5 Business Days and not more than 60 days prior to the date (which shall be a Business Day) fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by the registered holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid.

8.3 Allocation of Partial Prepayments.

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

8.4 Maturity; Surrender, Etc.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the

Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

8.5 Purchase of Notes.

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

8.6 Make-Whole Amount.

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

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

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

"**Reinvestment Yield**" means, with respect to the Called Principal of any Note, the sum of (a) 0.50% plus (b) the yield to maturity implied by the "Ask Yield(s)" reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities ("**Reported**") having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (i) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (ii) interpolating linearly between the "Ask Yields" Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining

Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then "Reinvestment Yield" means, with respect to the Called Principal of any Note, the sum of (x) 0.50% plus (y) the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"**Remaining Average Life**" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

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

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

9 AFFIRMATIVE COVENANTS

The Company covenants that so long as any of the Notes are outstanding or any amounts owing under the Transaction Documents remain unpaid:

9.1 Compliance with Laws and Contractual Obligations. (a) Without limiting Section 10.12, the Company will, and will cause each of its Subsidiaries to, comply with (i) all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA PATRIOT Act, Environmental Laws, and the other laws and regulations that are referenced in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective Properties or to the conduct of their respective businesses and (ii) all contractual obligations, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations or non-compliance with such contractual obligations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

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

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

9.3 Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept (including, without limitation, by their respective tenants), their respective Properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its Properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

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

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

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

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

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

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

9.9 Limitations on Guaranties of Indebtedness. Concurrent with (i) any Subsidiary issuing Unsecured Debt or becoming a guarantor or other obligor with respect to Unsecured Debt, or (ii) any Secured Debt becoming Unsecured Debt, the Company shall cause each Subsidiary described in clause (i) and each Subsidiary which is the issuer or a guarantor or other obligor with respect to Unsecured Debt described in clause (ii) (if the applicable Subsidiary is not then a guarantor or other obligor of the Notes) to execute and deliver to the holders of the Notes a guaranty of the obligations evidenced by the Notes, together with such other instruments, documents, certificates and opinions reasonably required by the Required Holders in connection therewith, each of the foregoing being in form and substance customary and appropriate for financings of this type.

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

10 NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding or any amounts owing under the Transaction Documents remain unpaid:

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

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

(a) investments in direct obligations of the United States of America or any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America, provided that any such obligations shall mature within one year of the date of issuance thereof;

(b) investments in commercial paper rated at least P-1 by Moody's and at least A-1 by S&P maturing within one year of the date of issuance thereof;

(c) investments in certificates of deposit issued by any Lender (as defined in the Credit Agreement) or by any United States commercial bank having capital and surplus of not less than $100,000,000 which have a maturity of one year or less;

(d) investments in repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in subsection (a) above entered into with any bank meeting the qualifications specified in subsection (c) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System;

(e) investments in money market funds that invest solely, and which are restricted by their respective charters to invest solely, in investments of the type described in the immediately preceding subsections (a), (b), (c), and (d) above;

(f) the Company's investments from time to time in its Subsidiaries, and investments made from time to time by a Subsidiary in one or more of its Subsidiaries;

(g) intercompany loans or advances made from time to time among the Company and its Subsidiaries for general company purposes;

(h) investments in Permitted Acquisitions, other than those described in clauses (j), (k) or (l) below;

(i) investments held by the Company and its Subsidiaries as of the date hereof and disclosed in Schedule 10.2;

(j) investments in joint ventures which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 15% of the Total Asset Value of the Company and its Subsidiaries at such time;

(k) investments in Assets Under Development which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 20% of the Total Asset Value of the Company and its Subsidiaries at such time;

(l) investments in Redevelopment Assets which are Permitted Acquisitions and are in an amount not to exceed in the aggregate at any one time outstanding 20% of the Total Asset Value of the Company and its Subsidiaries at such time;

(m) investments received in connection with a workout of any obligation owed to the Company or its Subsidiaries; and

(n) investments other than those otherwise permitted under this Section in an amount not to exceed in the aggregate at any one time outstanding 15% of the Total Asset Value of the Company and its Subsidiaries at such time.

Investments made after the date hereof of the type described in Sections (j), (k), (l) and (n) immediately preceding shall at no time exceed in the aggregate at any one time outstanding 30% of the Total Asset Value of the Company and its Subsidiaries at such time. In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

10.3 Mergers, Consolidations and Sales. The Company will not merge or consolidate with or into, or convey, transfer or otherwise dispose of (whether in one transaction or a series of transactions) any of its Property (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, any Person, or permit any Subsidiary to do so; provided, however, that the Company may merge or consolidate with another Person, including a Subsidiary, if (A) the Company is the surviving corporation, (B) the Company will be in pro forma compliance with all provisions of this Agreement upon and after such merger or consolidation, and (C) the Company will not engage in any material line of business substantially different from that engaged in on the date hereof and; provided further, that so long as no Default or Event of Default exists this Section shall not apply to nor operate to prevent:

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

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

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

(d) the sale, transfer or other disposition of Property of the Company or any Subsidiary (including any disposition of Property as part of a sale and leaseback transaction);

provided, that if the Gross Book Value of such sale, transfer or disposition during any Fiscal Quarter exceeds $10,000,000 and together with any other sales, transfers or dispositions made during such Fiscal Quarter in the aggregate exceed an amount equal to $100,000,000, then for such sales, transfers or dispositions, the Company shall provide to the holders of Notes covenant calculations for the covenants contained in Section 10.9, showing that, after giving effect to such sales, transfers or dispositions, the Company shall be in pro forma compliance with such covenants for the Fiscal Quarter then most recently ended for which financial statements have been provided hereunder.

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

10.5 No Changes in Fiscal Year. The Fiscal Year of the Company ends on December 31st of each year; and the Company shall not change its Fiscal Year from its present basis.

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

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

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

10.9 Financial Covenants.

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

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

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

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

(e) **Maintenance of Tangible Net Worth.** The Company shall not permit at any time Tangible Net Worth to be less than the sum of (a) $472,485,456 plus (b) 75% of the aggregate net proceeds received by the Company or any of its Subsidiaries after October 14, 2014 in connection with any offering of capital stock or other equity interests of the Company or the Subsidiaries, but only to the extent that such net proceeds are not used to redeem existing capital stock or other equity interests of the Company or the Subsidiaries.

(f) **Minimum Eligible Property NOI to Interest Expense on Unsecured Debt Ratio.** As of the last day of each Rolling Period of the Company, the Company shall not permit the ratio of Eligible Property NOI for such Rolling Period to Interest Expense on Unsecured Debt for such Rolling Period to be less than 2.00 to 1.00.

10.10 Two-Way Most Favored Lender. If at any time after October 14, 2014 the Credit Agreement is amended or otherwise modified, or any agreement related to the Credit Agreement is entered into or is amended or otherwise modified, and as a result of any of the foregoing any Financial Covenant for the Bank Facility is modified (whether in a manner to be more beneficial or less beneficial to the lenders under the Credit Agreement) or eliminated, or any Financial Covenant is added for the Bank Facility (in each such case, a "**Modified Bank Financial Covenant**"), then (i) the corresponding Financial Covenant in this Agreement shall be deemed automatically modified in such manner or eliminated, as the case may be, or such additional Financial Covenant for the Bank Facility shall be deemed automatically incorporated by reference, in each case mutatis mutandis, as if such modified or additional Financial Covenant were set forth fully herein or such eliminated Financial Covenant were deleted herefrom, as applicable, and (ii) the Company shall promptly, and in any event within five (5) Business Days after entering into any such Modified Bank Financial Covenant, advise the holders of Notes in writing of such Modified Bank Financial Covenant. Thereafter, upon the request of the Required Holders, the Company shall enter into an amendment to this Agreement with the Required Holders evidencing the incorporation of such Modified Bank Financial Covenant, it being agreed that any failure to make such request or to enter into any such amendment shall in no way qualify or limit the effectiveness of the deemed modification or elimination, as the case may be, of the applicable Financial Covenant in this Agreement, or the incorporation by reference into this Agreement of the applicable additional Financial Covenant, in each case as described in clause (i) of the immediately preceding sentence.

Notwithstanding anything to the contrary in the immediately preceding paragraph of this Section 10.10: (a) no such modification of a Financial Covenant hereunder that would be less beneficial to the holders of the Notes, and no such elimination hereunder of a Financial Covenant, shall be effective if a Default or Event of Default has occurred and is continuing immediately prior to the time such Modified Bank Financial Covenant becomes effective; (b) no modification or series of modifications effected pursuant to the provisions of this Section 10.10 shall be effective to (w) increase the maximum permitted ratio of Total Indebtedness to Total Asset Value as set forth in Section 10.9(a) of this Agreement to a level greater than 0.60 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.9(a) from this Agreement, (x) increase the maximum permitted ratio of Secured Debt to Total Asset Value as set forth in Section 10.9(b) of this Agreement to a level greater than 0.40 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.9(b) from this Agreement, (y) (i) increase the maximum permitted ratio of Unsecured Debt of the Company and its Subsidiaries to Unencumbered Asset Value as set forth in Section 10.9(c) of this Agreement to a level greater than 0.6667 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement), or (ii) modify the definition of "Capitalization Rate" such that the capitalization rate for ALFs would be lower than 7.00%, the capitalization rate for continuum of care facilities would be lower than 7.50%, any capitalization rate set forth in such definition on the date hereof as 10% would be lower than 8.50%, or any capitalization rate set forth in such definition on the date hereof as 11.5% would be lower than 11.5%, or (iii) eliminate such Financial Covenant set forth in Section 10.9(c) from this Agreement unless (1) such Financial Covenant is replaced with a Financial Covenant prohibiting the ratio of Total Asset Value (but computed solely for unencumbered assets of the Company and its Subsidiaries) to Unsecured Debt, or a formulation for such replacement Financial Covenant which is substantially similar thereto, from being less than 1.50 to 1.00 as of the last day of each Fiscal Quarter of the Company, (2) a customary priority debt covenant satisfactory to the Required Holders is added to Section 10.9 and (3) Section 10.1 is modified in a manner consistent with such newly added priority debt covenant and reasonably satisfactory to the Required Holders, provided that if such Financial Covenant set forth in Section 10.9(c) is eliminated as provided in this clause (y)(iii), then the immediately preceding clauses (y)(i) and (y)(ii) will not be applicable or (z) decrease the minimum required ratio of EBITDA for any Rolling Period to Fixed Charges for such Rolling Period as set forth in Section 10.9(d) of this Agreement to a level less than 1.50 to 1.00 (assuming such Financial Covenant were calculated on a basis consistent with the manner in which it is calculated on the date hereof pursuant to this Agreement) or eliminate such Financial Covenant set forth in Section 10.9(d) from this Agreement; and (c) in the event the Bank Facility is terminated, all Financial Covenants hereunder shall be unaffected and shall remain in effect in the same manner as they existed immediately prior to such termination.

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

10.12 Terrorism Sanctions Regulations. The Company will not and will not permit any Controlled Entity (a) to become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or any Person that is the target of sanctions imposed by the United Nations or by the European Union, or (b) directly or indirectly to have any investment in or engage in any dealing or transaction (including, without limitation, any investment, dealing or transaction involving the proceeds of the Notes) with any Person if such investment, dealing or transaction (i) would cause any holder to be in violation of any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions, or (c) to engage, nor shall any Affiliate of either engage, in any activity that could subject such Person or any holder to sanctions under CISADA or any similar law or regulation with respect to Iran or any other country that is subject to U.S. Economic Sanctions.

11 EVENTS OF DEFAULT.

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

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than three Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Sections 9.5 (to the extent that Section 9.5 pertains to the maintenance and keeping in full force and effect of the Company's existence), 9.9 or 10; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) or in any other Transaction Document and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default, and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any other Transaction Document or in any writing furnished in connection with the transactions contemplated hereby or thereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness for Borrowed Money that is outstanding beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness for Borrowed Money or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness for Borrowed Money has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness for Borrowed Money to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness for Borrowed Money to convert such Indebtedness for Borrowed Money into equity interests), (x) the Company or any Subsidiary has become obligated to purchase or repay Indebtedness for Borrowed Money before its regular maturity or before its regularly scheduled dates of payment, or (y) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Indebtedness for Borrowed Money; provided that (i) the aggregate amount of all Indebtedness for Borrowed Money to which such a payment default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or resale to the Company or any Subsidiary) shall occur and be continuing exceeds 3% of the Applicable Total Asset Value or (ii) if such default results solely from a payment not paid when due, there shall be a five (5) day cure period so long as the maturity date with respect to the subject Indebtedness for Borrowed Money has not been accelerated; or

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

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

(i) one or more final judgments or orders (including any such final order enforcing a binding arbitration decision) for the payment of money in an aggregate amount in excess of $25,000,000 (except to the extent fully covered by insurance pursuant to which the insurer has accepted liability therefor in writing) are rendered against one or more of the Company and its Subsidiaries and which judgments or orders are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 30 days after the expiration of such stay;

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of the Pension Funding Rules for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under the Pension Funding Rules, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed $25,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or

(k) a Change of Control shall occur; or

(l) [Intentionally Omitted]; or

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

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

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

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

12 REMEDIES ON DEFAULT, ETC.

12.1 Acceleration.

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

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

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

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

12.2 Other Remedies.

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

12.3 Rescission.

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

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

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement, any Note or any other Transaction Document upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

13 REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

13.1 Registration of Notes.

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

13.2 Transfer and Exchange of Notes.

Upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)), for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more replacement Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such replacement Note shall be payable to such Person as such holder may request and shall be substantially in the form of the Note so surrendered. Each such replacement Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $1,000,000; provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $1,000,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

13.3 Replacement of Notes.

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

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

(b) in the case of mutilation, upon surrender and cancellation thereof,

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

14 PAYMENTS ON NOTES.

14.1 Place of Payment.

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

14.2 Home Office Payment.

So long as any Purchaser or its nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name on the Purchaser Schedule, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by any Purchaser or its nominee such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a replacement Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Purchaser under this Agreement and that has made the same agreement relating to such Note as each Purchaser has made in this Section 14.2.

15 EXPENSES, ETC.

15.1 Transaction Expenses.

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

15.2 **Survival**.

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

16 SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

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

17 AMENDMENT AND WAIVER.

17.1 **Requirements**.

This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), only with the written consent of the Company and the Required Holders, except that:

(a) no amendment or waiver of any of Sections 1, 2, 3, 4, 5 or 6 hereof, or any defined term (as it is used therein), will be effective as to any Purchaser unless consented to by such Purchaser in writing; and

(b) no amendment or waiver may, without the written consent of each Purchaser and the holder of each Note at the time outstanding, (i) subject to Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of (x) interest on the Notes or (y) the Make-Whole Amount, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any amendment or waiver, or (iii) amend any of Sections 8 (except as set forth in the second sentence of Section 8.2), 11(a), 11(b), 12, 17 or 20.

17.2 **Solicitation of Holders of Notes**.

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

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

(c) Consent in Contemplation of Transfer. Any consent given pursuant to this Section 17 by a holder of a Note that has transferred or has agreed to transfer its Note to (i) the Company, (ii) any Subsidiary or any other Affiliate or (iii) any other Person in connection with, or in anticipation of, such other Person acquiring, making a tender offer for or merging with the Company and/or any of its Affiliates), in each case in connection with such consent, shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

17.3 Binding Effect, Etc.

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

17.4 Notes Held by Company, Etc.

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

18 NOTICES.

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

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing;

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

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

Notices under this Section 18 will be deemed to have been given only when actually received at the address so specified.

19 REPRODUCTION OF DOCUMENTS.

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

20 CONFIDENTIALITY.

For the purposes of this Section 20, "**Confidential Information**" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any Person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary, or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party, or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

21 MISCELLANEOUS.

21.1 Successors and Assigns.

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

21.2 Payments Due on Non-Business Days.

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

21.3 Accounting Terms.

All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (i) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (ii) all financial statements shall be prepared in accordance with GAAP. If, after the date of this Agreement, there shall occur any change in GAAP from that used in the preparation of the financial statements referred to in Section 7.1(b) hereof for the Fiscal Year ended December 31, 2015 and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Company or the Required Holders may by notice to the holders of the Notes and the Company, respectively, require that the holders of the Notes and the Company negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Company and its Subsidiaries shall be the same as if such change had not been made. No delay by the Company or the Required Holders in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 21.3, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles.

21.4 Severability.

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

21.5 Construction.

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

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

21.6 Counterparts.

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

21.7 Governing Law.

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

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

(b) The Company consents to process being served by or on behalf of any holder of Notes in any suit, action or proceeding of the nature referred to in Section 21.8(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 18 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding, and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 21.8 shall affect the right of any holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

21.9 Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER TRANSACTION DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THEREWITH.

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

* * * * *

Very truly yours,

THE COMPANY:

LTC PROPERTIES, INC.

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

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

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

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Mitchell Reed
Vice President

THRIVENT FINANCIAL FOR LUTHERANS

By: /s/ Martin Rosacker
Name: Martin Rosacker
Title: Managing Director

HARTFORD CASUALTY INSURANCE COMPANY
HARTFORD LIFE AND ACCIDENT INSURANCE COMPANY
HARTFORD LIFE AND ANNUITY INSURANCE COMPANY
HARTFORD INSURANCE COMPANY OF ILLINOIS
HARTFORD LIFE INSURANCE COMPANY
SEPARATE ACCOUNT B, a separate account of Hartford Life Insurance Company

By: Hartford Investment Management Company
Their Agent and Attorney-in-Fact

By: /s/ Dawn Bruneau
Name: Dawn Bruneau
Title: Vice President

SCHEDULE A
PURCHASER SCHEDULE

[INTENTIONALLY OMITTED]

SCHEDULE B
DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"**2012 Note Agreement**" means that certain Note Purchase Agreement, dated as of July 19, 2012, by and among the Company and the Purchasers (as defined therein), as amended, amended and restated, supplemented, replaced or otherwise modified from time to time.

"**Affiliate**" means any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person for the purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; provided that, in any event for purposes of this definition, any Person that owns, directly or indirectly, 20% or more of the securities having the ordinary voting power for the election of directors or other governing body of a corporation or 20% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"**Agreement**" means this Note Purchase Agreement, dated as of February 16, 2017, between the Company, on the one hand, and the Purchasers, on the other hand, as it may from time to time be amended, supplemented or otherwise modified from time to time.

"**ALFs**" means assisted living facilities.

"**Applicable Total Asset Value**" means, at any time of determination thereof, the Total Asset Value at such time as determined based on the most recent financial statements delivered pursuant to Section 7.1(b) (or, if no financial statements have yet been delivered pursuant to Section 7.1(b) at such time, the most recent audited financial statements of the Company and its Subsidiaries referenced in Schedule 5.5).

"**Anti-Corruption Laws**" is defined in Section 5.16.

"**Anti-Money Laundering Laws**" is defined in Section 5.16.

"**Assets Under Development**" means any real property under construction other than Redevelopment Assets.

"**Bank Facility**" means the credit facility or facilities from time to time provided in connection with the Credit Agreement.

"**Blocked Person**" is defined in Section 5.16.

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

“**Capital Lease**” means any Lease of Property which in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

“**Capitalization Rate**” means (a) 8% for ALFs, (b) 10% for SNFs, and (c) 11.5% for schools owned by the Company or a Subsidiary on October 14, 2014. The Capitalization Rates for continuum of care facilities will be 9% for facilities where <50% of beds are classified as SNF beds, and shall otherwise be 10%.

“**Capitalized Lease Obligation**” means, for any Person, the amount of the liability shown on the balance sheet of such Person in respect of a Capital Lease determined in accordance with GAAP.

“**CERCLA**” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 et seq., and any future amendments.

“**Change of Control**” means any of (a) the acquisition by any “person” or “group” (as such terms are used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) at any time of beneficial ownership of 50% or more of the outstanding capital stock or other equity interests of the Company on a fully-diluted basis, (b) any “Change of Control” (or words of like import), as defined in any agreement or indenture relating to any issue of Indebtedness for Borrowed Money in excess of 5% of the Applicable Total Asset Value shall occur, or (c) during any twelve (12) month period on or after the date hereof, individuals who at the beginning of such period constituted the board of directors of the Company (together with any new directors whose election by the board of directors or whose nomination for election by the shareholders of the Company was approved by a vote of at least a majority of the members of the board of directors then in office who either were members of the board of directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the members of the board of directors then in office.

“**CISADA**” is defined in Section 5.16.

“**Closing**” is defined in Section 3.

“**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“**Company**” is defined in the introductory paragraph of this Agreement.

“**Controlled Entity**” means (i) any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates and (ii) if the Company has a parent company, such parent company and its Controlled Affiliates. As used in this definition, “**Controlled**” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“**Credit Agreement**” means that certain Amended and Restated Credit Agreement, dated as of October 14, 2014, by and among the Company, the Lenders (as defined therein) and from time to time party thereto and the other parties from time to time party thereto, as amended, amended and restated, supplemented, replaced or otherwise modified from time to time.

"**Debt Service**" means, for any Fiscal Quarter, the sum of (a) Interest Expense and (b) the greater of (i) zero or (ii) scheduled principal amortization paid on Secured Debt (exclusive of any balloon payments or prepayments of principal on Secured Debt) less amortized principal payments received on the Company's and its Subsidiaries' mortgage loans receivable (exclusive of any balloon payments or prepayments of principal received on the Company's and its Subsidiaries' mortgage loans receivable).

"**Default**" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"**Default Rate**" means that rate of interest per annum that is the greater of (a) 2% above the rate of interest stated in clause (a) of the first paragraph of the Notes or (b) 2% over the rate of interest publicly announced by JPMorgan Chase Bank as its "base" or "prime" rate.

"**Dollars**" and "**$**" means lawful currency of the United States of America.

"**EBITDA**" means, for any period, determined on a consolidated basis for the Company and its Subsidiaries in accordance with GAAP, the sum of net income (or loss) plus, to the extent deducted in the calculation thereof: (i) depreciation and amortization expense; (ii) interest expense; (iii) income tax expense; (iv) extraordinary, unrealized or nonrecurring losses, including impairment charges and reserves, minus, to the extent included in the calculation thereof: (v) funds received by the Company or a Subsidiary as rent but which are reserved for capital expenses; (vi) unrealized gains on the sale of assets; and, (vii) income tax benefits.

"**Eligible Line of Business**" means any business engaged in as of the date of this Agreement by the Company or any of its Subsidiaries or any business reasonably related thereto.

"**Eligible Property NOI**" means, for any given period, the aggregate Property NOI attributable to Unencumbered Assets and Qualified Mortgage Loans.

"**Environmental Claim**" means any investigation, notice, violation, demand, allegation, action, suit, injunction, judgment, order, consent decree, penalty, fine, lien, proceeding or claim (whether administrative, judicial or private in nature) arising (a) pursuant to, or in connection with an actual or alleged violation of, any Environmental Law, (b) in connection with any Hazardous Material, (c) from any abatement, removal, remedial, corrective or response action in connection with a Hazardous Material, Environmental Law or order of a Governmental Authority or (d) from any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

"**Environmental Law**" means any current or future Legal Requirement pertaining to (a) the protection of health, safety and the indoor or outdoor environment, (b) the conservation, management or use of natural resources and wildlife, (c) the protection or use of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**ERISA Affiliate**" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company or a Subsidiary under section 414 of the Code.

"**Equity Interests**" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person.

"**Event of Default**" is defined in Section 11.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Financial Covenant**" means any covenant (whether set forth as a covenant, undertaking, event of default, restriction or other such provision, and including all defined terms used with respect thereto) similar in nature to the covenants set out in Section 10.9 of this Agreement or that otherwise provides for limitations on indebtedness or interest expense, or a minimum level of interest coverage, net worth or any other minimum or maximum metric of financial performance or financial position (however expressed and whether stated as a ratio or as a fixed threshold or otherwise).

"**Fiscal Quarter**" means each of the three-month periods ending on March 31, June 30, September 30 and December 31.

"**Fiscal Year**" means the twelve-month period ending on December 31.

"**Fixed Charges**" means, for any Fiscal Quarter, Debt Service for such quarter, plus Preferred Dividends for such quarter, plus $400 per bed per annum for any Property on which the Lease of such Property does not require the tenant to pay for all capital expenditures.

"**GAAP**" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the United States of America accounting profession), which are applicable to the circumstances as of the date of determination; provided, that (except with respect to SEC filings referenced in Section 7.1(a) and (b)) "GAAP" shall exclude the effects of Accounting Standards Codification 825-10-25 (previously referred to as SFAS 159) or any successor or similar provision to the extent it relates to "fair value" accounting for liabilities.

"**Governmental Authority**" means

(a) the government of the United States of America or any state or other political subdivision thereof, or

(b) the government of any other jurisdiction in which any of the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(c) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"**Governmental Official**" means any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

"**Gross Book Value**" means book value without giving effect to depreciation.

"**Guaranty**" shall mean, with respect to any Person, any direct or indirect obligation or liability, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness for Borrowed Money, lease, dividend or other obligation payable or performable by another Person in any manner, including, without limitation, any obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable or obligated, and including, without limitation, any obligation of such Person (contingent or otherwise, direct or indirect) to: (i) maintain working capital, equity capital, the solvency or any balance sheet condition or other financial condition or liquidity or level of income or cash flow of another Person in any manner; (ii) to purchase the obligations of or equity interests in another Person from the holders of such obligations or interests; (iii) to purchase or lease property, securities or services or supply or advance any funds, goods or services to or on behalf of another Person in any manner; (iv) to guarantee (a) the completion of any work or any other schedule or deliverable obligations or requirements of another Person in any manner, (b) the quality of any construction work, means or methods of another Person in any manner, (c) any warranty or indemnity obligations of another Person in any manner, or (d) any other payment, performance or contractual obligations of another Person in any manner; or (v) purchase or otherwise pay (or advance or supply funds for the purchase or payment of) any Indebtedness for Borrowed Money or other obligation of another Person or to purchase or otherwise make payment for (or advance or supply funds for the purchase or payment for) any products, materials, supplies or other property, or for any transportation or services, regardless of the non-delivery or non-furnishing thereof, in any such case if the purpose or effect of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected against loss in respect thereof. Guaranties shall include (x) obligations of partnerships and joint ventures of which such Person is a general partner that are not expressly non-recourse to such Person, and (y) obligations of joint ventures of which such Person is a joint venturer (but not a general partner) to the extent such Person is obligated for the obligations of such joint ventures under their respective limited liability company agreements, limited partnership agreements or other similar constituent documents. In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"**Hazardous Material**" means any substance, chemical, compound, product, solid, gas, liquid, waste, byproduct, pollutant, contaminant or material which is hazardous or toxic, and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof), and (b) any material classified or regulated as "hazardous" or "toxic" or words of like import pursuant to an Environmental Law.

"**holder**" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"**Hostile Acquisition**" means the acquisition of the capital stock or other equity interests of a Person through a tender offer or similar solicitation of the owners of such capital stock or other equity interests which has not been approved (prior to such acquisition) by resolutions of the board of directors of such Person or by similar action if such Person is not a corporation, and as to which such approval has not been withdrawn.

"**include**" or "**including**" means, unless the context clearly requires otherwise, "including without limitation."

"**Indebtedness for Borrowed Money**" means for any Person (without duplication) (a) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (b) all indebtedness for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business and contingent liabilities related to potential earn-out payments which do not meet the balance sheet recognition requirements of Accounting Standards Codification No. 450 – Contingencies), (c) all indebtedness secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (d) all Capitalized Lease Obligations of such Person, (e) all obligations of such Person on or with respect to letters of credit, bankers' acceptances and other extensions of credit whether or not representing obligations for borrowed money, and (f) all obligations of the sort described in the foregoing clauses with respect to which such Person has become liable by way of a Guaranty.

"**Institutional Investor**" means (a) any Purchaser of a Note, (b) any holder of a Note holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Notes then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Note.

"**Interest Expense**" means, for any period of determination, the interest expense, whether paid, accrued or capitalized (without deduction of consolidated interest income) of the Company and its Subsidiaries on a consolidated basis for such period. Interest Expense shall exclude any amortization of (i) deferred financing fees, including the write-off such fees relating to the early retirement of such related Indebtedness for Borrowed Money, and (ii) debt discounts (but only to the extent such discounts do not exceed 3.0% of the initial face principal amount of such debt).

"**Lease**" means any lease, tenancy agreement, contract or other agreement for the use or occupancy of a Property or any portion thereof.

"**Legal Requirement**" means any treaty, convention, statute, law, regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any Governmental Authority, whether federal, state, or local.

"**Lien**" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"**Make-Whole Amount**" is defined in Section 8.6.

"**Material**" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"**Material Adverse Effect**" means a material and adverse effect on (a) the business, condition (financial or otherwise), operations, performance or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under the Transaction Documents to which it is a party, or (c) the validity or enforceability of any of the Transaction Documents or the rights or remedies of the holders of Notes thereunder; provided, however, that the sale of assets of one or more Subsidiaries in accordance with the terms of this Agreement shall not be deemed in and of itself to cause a Material Adverse Effect absent the presence of the factors set forth above.

"**Moody's**" means Moody's Investors Service, Inc. and any successor thereto.

"**Multiemployer Plan**" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"**NAIC**" means the National Association of Insurance Commissioners or any successor thereto.

"**Notes**" is defined in Section 1.

"**OFAC**" is defined in Section 5.16.

"**OFAC Listed Person**" is defined in Section 5.16.

"OFAC Sanctions Program" means any economic or trade sanction that OFAC is responsible for administering and enforcing. A list of OFAC Sanctions Programs may be found at http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

"**Officer's Certificate**" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"**Other Note Agreement**" means any of (i) the 2012 Note Agreement, (ii) the Prudential Note Agreement, and (iii) any one or more other agreements or instruments executed and delivered by the Company in connection with a financing (including, without limitation, private placement financings and credit facility financings), which constitutes unsecured Indebtedness for Borrowed Money of the Company and ranks pari passu with the obligations evidenced by the Notes, as such agreement or instrument may be amended, restated, supplemented, replaced or otherwise modified from time to time.

"**Other Noteholders**" means the holders from time to time of the notes issued under any Other Note Agreement.

"**PBGC**" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"**Pension Act**" means the Pension Protection Act of 2006, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Pension Funding Rules**" means the rules of the Code and ERISA regarding minimum required contributions (including any installment payment thereof) to certain Plans and set forth in, with respect to plan years ending prior to the effective date as to such Plan of the Pension Act, Section 412 of the Code and Section 302 of ERISA, each as in effect prior to the Pension Act and, thereafter, Sections 412 and 430 of the Code and Sections 302 and 303 of ERISA.

"**Permitted Acquisition**" means any investment or acquisition with respect to which all of the following conditions shall have been satisfied:

(a) the investment or acquisition is with respect to real property or improvements on real property located in, or of a business with its primary operations in, the United States of America; and

(b) the acquisition shall not be a Hostile Acquisition; and

(c) the investment or acquisition is with respect to an asset or business associated with an Eligible Line of Business, which may include, but is not limited to, sale/leaseback transactions, mortgage loans, lines of credit or other financings, etc.; and

(d) after giving effect to the investment or acquisition, no Event of Default shall exist, including with respect to the financial covenants contained in Section 10.9 hereof, provided, that if such investment or acquisition, together with any other investments or acquisitions made during such Fiscal Quarter have an aggregate cost exceeding 20% of the Total Asset Value of the Company and its Subsidiaries as of the last day of the most recently ended Fiscal Quarter for which financial statements have been delivered pursuant to Section 7.1 hereof (or, if no financial statements have yet been delivered pursuant to Section 7.1 at such time, the most recent financial statements of the Company and its Subsidiaries referenced in Section 5.5), then for such investment or acquisition, the Company shall provide to the holders of Notes which are Institutional Investors an executed certificate of a Senior Financial Officer showing the

Company's pro forma compliance with the covenants contained in Section 10.9 after giving effect to the proposed investment or acquisition, including giving effect in terms of additional asset value, liabilities incurred, if any, and additional revenues and expenses associated therewith which have been contemplated and have been projected into the expected operating results and financial position of the Company for the Fiscal Quarter in which the investment or acquisition occurs.

"**Permitted Lien**" means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding has been commenced: (a) Liens for taxes, assessments and governmental charges or levies to the extent not required to be paid under Section 9.4; (b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations that are not overdue or that are being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (d) easements, rights of way and other encumbrances on title to real property that do not materially and adversely affect the value of such property or the use of such property for its present purposes; (e) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of like nature incurred in the ordinary course of business; (f) Liens in favor of the United States of America for amounts paid to the Company or any Subsidiary as progress payments under government contracts entered into by it; (g) attachment, judgment and other similar Liens arising in connection with court, reference or arbitration proceedings, provided that the same have been in existence less than 20 days, that the same have been discharged or that execution or enforcement thereof has been stayed pending appeal; (h) Liens on Properties not constituting Unencumbered Assets; and (i) cash collateral in an aggregate amount not to exceed $25,000,000 at any time for letter of credit obligations under the Credit Agreement.

"**Person**" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a Governmental Authority.

"**Plan**" means an "employee benefit plan" (as defined in section 3(3) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company, any Subsidiary or any ERISA Affiliate or with respect to which the Company, any Subsidiary or any ERISA Affiliate may have any liability.

"**Preferred Dividends**" means any dividend paid (or payable), as the case may be, in cash on any preferred equity security issued by the Company.

"**Principal Credit Facility**" means any loan agreement, credit agreement, note purchase agreement or similar agreement under which credit facilities in the aggregate original principal or commitment amount of at least $75,000,000 (or credit facilities in the aggregate original principal or commitment amount of less than $75,000,000, but which have subsequently been increased to an amount of at least $75,000,000) are provided to the Company and/or any Subsidiary.

“**Property**” or “**Properties**” means, as to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent balance sheet of such Person and its subsidiaries under GAAP.

“**Property Expenses**” means, with respect to any Unencumbered Asset, the costs (including, but not limited to, payroll, taxes, assessments, insurance, utilities, landscaping and other similar charges) of operating and maintaining any Unencumbered Asset which are the responsibility of the Company or the applicable Subsidiary that are not paid directly by the tenant, but excluding depreciation, amortization, interest costs and maintenance capital expenditures to the extent such Unencumbered Asset is under a triple-net lease.

“**Property Income**” means (i) for Unencumbered Assets, cash rents (excluding, as an abundance of caution, non-cash straight-line rent) and other cash revenues received by the Company or a Subsidiary in the ordinary course of business for any Unencumbered Asset, but excluding security deposits and prepaid rent except to the extent applied in satisfaction of tenants’ obligations for rent, plus (ii) for Qualified Mortgage Loans, interest and fee payments received by the Company or a Subsidiary with respect to a Qualified Mortgage Loan (exclusive of any balloon payments or prepayments of principal paid on such Qualified Mortgage Loan).

“**Property Net Operating Income**” or “**Property NOI**” means, with respect to any Property and for the four most recently ended Fiscal Quarters the aggregate amount of (i) Property Income for such period minus (ii) Property Expenses for such period.

“**Prudential Note Agreement**” means that certain Third Amended and Restated Note Purchase and Private Shelf Agreement, dated as of April 28, 2015, by and among the Company and the Purchasers (as defined therein), as amended, restated, supplemented, replaced or otherwise modified from time to time.

“**Purchaser Schedule**” means the Purchaser Schedule attached to this Agreement as Schedule A.

“**Purchasers**” is defined in the introductory paragraph of this Agreement.

“**Qualified Institutional Buyer**” means any Person who is a “qualified institutional buyer” within the meaning of such term as set forth in Rule 144A(a)(1) under the Securities Act.

“**Qualified Mortgage Loan**” means, as of any date of determination, any mortgage loan that is held or owned by the Company or any Subsidiary (i) listed on the Officer’s Certificate delivered to the holders of the Notes on the date of this Agreement pursuant to the requirements of Section 4A(1), and (ii) thereafter, listed on Exhibit A to Schedule I of the certificate of a Senior Financial Officer after such mortgage loan’s designation by the Company as a Qualified Mortgage Loan, so long as the Company shall fully comply with the requirements of Section 7.2(a) with regard to the reporting of such Qualified Mortgage Loan, which mortgage loan (in the case of either the immediately preceding clause (i) or clause (ii)) meets the following criteria:

(a) secured by a first mortgage or a first deed of trust on Senior Housing Assets in favor of the Company or such Subsidiary and such Senior Housing Asset is not subject to any other Lien or negative pledge (other than Permitted Liens);

(b) the underlying Senior Housing Asset is currently in service (not under development);

(c) the underlying Senior Housing Asset is located in the United States and the loan documents pertaining to the mortgage or deed of trust are governed by the law of a state of the United States;

(d) neither the mortgage loan, nor the right to receive payments thereunder, is subject to any Lien (other than Permitted Liens) or to any negative pledge;

(e) if such mortgage loan is owned by a Subsidiary, none of the Company's beneficial ownership interest in such Subsidiary is subject to any Lien (other than Permitted Liens or Liens in favor of the Company) or to any negative pledge;

(f) the underlying Property, based on the Company's or its Subsidiary's actual knowledge, is free of all material structural defects or major architectural deficiencies, material title defects, material environmental conditions or other adverse matters which, individually or collectively, materially impair the value of such Property; and

(g) the mortgagor or grantor with respect to such mortgage loan is not delinquent sixty (60) days or more in interest or principal payments due thereunder.

"**RCRA**" means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 et seq., and any future amendments.

"**Redevelopment Assets**" means any real estate under major redevelopment.

"**REIT**" means a Person that is qualified to be treated for tax purposes as a real estate investment trust under Sections 856-860 of the Code.

"**Related Fund**" means, with respect to any holder of any Note, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

"**Release**" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding of barrels, drums, containers, tanks or other receptacles containing or previously containing any Hazardous Material.

"**Required Holders**" means, at any time, the holder or holders of a majority of the aggregate principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company, any Subsidiary or any of their respective Affiliates).

"**Responsible Officer**" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement or any other Transaction Document.

"**Rolling Period**" means, as of any date, the four consecutive Fiscal Quarters ending on or immediately preceding such date.

"**Securities**" or "**Security**" shall have the meaning specified in Section 2(1) of the Securities Act.

"**Secured Debt**" means, as of any given date, the aggregate principal amount of all Total Indebtedness outstanding at such date that is secured by a Lien.

"**Securities Act**" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Senior Financial Officer**" means the chief executive officer, chief financial officer, principal accounting officer, treasurer or controller of the Company.

"**Senior Housing Assets**" means any Properties on which the improvements consist only of one or more of the following: (a) senior apartments; (b) independent living facilities; (c) congregate communities; (d) assisted living facilities; (e) nursing homes; (f) hospitals; (g) memory care communities, (h) medical office buildings and (i) other Properties primarily used for senior citizen residences or health care services, together with other improvements incidental thereto.

"**SNFs**" means skilled nursing facilities.

"**S&P**" means Standard & Poor's Ratings Group, a Standard & Poor's Financial Services LLC business and any successor thereto.

"**Subsidiary**" of any Person means any corporation, partnership, joint venture, limited liability company, trust, estate or other entity (i) of which (or in which), in the case of a corporation, more than 50% of the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (ii) the Controlling interest in the capital or profits of such partnership, joint venture or limited liability company, or (iii) the Controlling beneficial interest in such trust or estate, in each case, is at the time directly or indirectly owned by such Person, or (iv) the accounts of which would appear on the consolidated financial statements of such Person in accordance with GAAP. As used in this definition, "**Controlling**" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any entity referred to in this definition, whether through the ownership of the interest in the capital or profits of such entity, through the ownership of the beneficial interest therein or through the ownership of any other Voting Interests, by contract or otherwise. Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"**SVO**" means the Securities Valuation Office of the National Association of Insurance Commissioners (or any successor organization acceding to the authority thereof).

"**Tangible Net Worth**" means, as of any time of determination, total stockholders' equity on the Company's consolidated balance sheet as reported in its Form 10-K or 10-Q less all amounts appearing on the assets side of its consolidated balance sheet representing an intangible asset under GAAP.

"**Total Asset Value**" means, as of any time of determination, the book value, without giving effect to depreciation, of all assets of the Company and its Subsidiaries, less (a) the amount, if any, of any investments in any unconsolidated subsidiaries, joint ventures or other similar entities, and (b) all amounts appearing on the assets side of its consolidated balance sheet separately identifiable as intangible assets under GAAP.

"**Total Indebtedness**" means, as of any date of determination and without duplication, all Indebtedness for Borrowed Money of the Company and its Subsidiaries on a consolidated basis.

"**Transaction Documents**" means this Agreement, the Notes, and any and all other agreements, documents, certificates and instruments from time to time executed and delivered by or on behalf of the Company related thereto.

"**Unencumbered Asset Subsidiary**" means any Subsidiary that owns an asset that is included in the calculation of the financial covenants contained in Sections 10.9(c) and (f) hereof.

"**Unencumbered Asset Value**" means an amount equal to the sum of:

(a) for all Unencumbered Assets of the types for which an applicable capitalization rate is provided in the definition of the term "Capitalization Rate" which are owned by the Company or a Wholly-owned Subsidiary for more than twenty-four months prior to the date of determination, the quotient of (i) the Property NOI from such Unencumbered Assets divided by (ii) the Capitalization Rate, plus

(b) for all Unencumbered Assets of the types for which no capitalization rate is provided in the definition of the term "Capitalization Rate" which are owned by the Company or a Wholly-owned Subsidiary for more than twenty-four months prior to the date of determination, the Gross Book Value of any such Unencumbered Asset; plus

(c) for all Unencumbered Assets owned for twenty-four months or less prior to the date of determination by the Company or a Wholly-owned Subsidiary, the Gross Book Value of any such Unencumbered Asset; plus

(d) for all Unencumbered Assets of the types for which an applicable capitalization rate is provided in the definition of the term "Capitalization Rate" which are owned for more than twenty-four months prior to the date of determination by any Subsidiary that is not a Wholly-owned Subsidiary, the result of (A) the quotient of (i) the Property NOI from such Unencumbered Asset divided by (ii) the Capitalization Rate, multiplied by (B) the percentage of Equity Interests in such non-Wholly-owned Subsidiary owned by the Company as of such date of determination; plus

(e) for all Unencumbered Assets of the types for which no capitalization rate is provided in the definition of the term "Capitalization Rate" which are owned for more than twenty-four months prior to the date of determination by any Subsidiary that is not a Wholly-owned Subsidiary, the result of (i) the Gross Book Value of such Unencumbered Asset, multiplied by (ii) the percentage of Equity Interests in such non-Wholly-owned Subsidiary owned by the Company as of such date of determination; plus

(f) for all Unencumbered Assets owned for twenty-four months or less prior to the date of determination by any Subsidiary that is not a Wholly-owned Subsidiary, the result of (i) the Gross Book Value of such Unencumbered Asset, multiplied by (ii) the percentage of Equity Interests in such non-Wholly-owned Subsidiary owned by the Company as of such date of determination; plus

(g) for all Qualified Mortgage Loans owned by the Company or a Wholly-owned Subsidiary, the book value of such Qualified Mortgage Loans as of the date of such determination; plus

(h) for all Qualified Mortgage Loans owned by any Subsidiary that is not a Wholly-owned Subsidiary, the result of (i) the book value of such Qualified Mortgage Loans as of the date of such determination, multiplied by (ii) the percentage of Equity Interests in such non-Wholly-owned Subsidiary owned by the Company as of such date of determination; provided that the Unencumbered Asset Value of all Qualified Mortgage Loans under clause (e) and clause (f) of this definition shall at no time exceed, in the aggregate at any one time outstanding, 30% of the Unencumbered Asset Value of the Company and its Subsidiaries at such time.

"**Unencumbered Assets**" means those unencumbered Properties (each an "**Unencumbered Asset**") owned by the Company or a Subsidiary, and (i) listed on the Officer's Certificate delivered to the holders of the Notes on the date of this Agreement pursuant to the requirements of Section 4A(1), and (ii) thereafter, listed on Exhibit A to Schedule I of the certificate of a Senior Financial Officer after such properties' designation by the Company as an Unencumbered Asset, so long as the Company shall fully comply with the requirements of Section 7.2(a) with regard to the reporting of such Unencumbered Asset, which unencumbered Properties (in the case of either the immediately preceding clause (i) or clause (ii)) meets the following criteria:

(a) is real property 100% owned in fee simple by the Company or a Subsidiary;

(b) is currently in service (not under development) and generates cash rental income to the Company or such Subsidiary;

(c) is a Senior Housing Asset or school located in the United States of America;

(d) if such Property is owned by the Company, (i) neither the Company's beneficial ownership interest in such Property nor the Property is subject to any Lien (other than Permitted Liens and Liens in favor of a collateral agent for the ratable benefit of the holders from time to time of the Notes, the Other Noteholders and the Lenders under (and as defined in) the Credit Agreement) or to any negative pledge other than the negative pledge set forth herein, in any Other Note Agreement or in the Credit Agreement and (ii) the Company has the unilateral right to (x) sell, transfer or otherwise dispose of such Property and (y) to create a Lien on such Property as security for indebtedness of the Company (other than restrictions imposed by the negative pledge set forth herein, in any Other Note Agreement or in the Credit Agreement);

(e) if such Property is owned by a Subsidiary, (i) none of the Company's beneficial ownership interest in such Subsidiary or the Property is subject to any Lien (other than Permitted Liens and Liens in favor of the Company) or to any negative pledge other than the negative pledge set forth herein, in any Other Note Agreement or in the Credit Agreement and (ii) the Subsidiary has the unilateral right to (x) sell, transfer or otherwise dispose of such Property and (y) to create a Lien on such Property as security for indebtedness of the Company or such Subsidiary (other than restrictions imposed by the negative pledge set forth herein, in any Other Note Agreement or in the Credit Agreement);

(f) such Property, based on the Company's or the Subsidiary's actual knowledge, is free of all material structural defects or major architectural deficiencies, material title defects, material environmental conditions or other adverse matters which, individually or collectively, materially impair the value of such Property; and

(g) the lessee of such Property under its lease is not more than 60 days past due with respect to any monthly minimum rent payment obligations under such Lease.

"**Unsecured Debt**" means, as of any date of determination, the aggregate principal amount of all Total Indebtedness outstanding at such date that is not Secured Debt.

"**USA PATRIOT Act**" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA) PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**U.S. Economic Sanctions**" is defined in Section 5.16.

"**Voting Interests**" means shares of capital stock issued by a corporation, or equivalent equity interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"**Wholly-owned Subsidiary**" means, at any time, any Subsidiary one hundred percent of all of the equity interests (except directors' qualifying shares) and Voting Interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

Exhibit 12

RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Year Ended 2016	2015	2014	2013	2012
Income from continuing operations	$ 85,115	$ 73,081	$ 73,399	$ 55,405	$ 50,306
Fixed charges	27,850	18,324	14,634	12,296	10,098
Capitalized interest	(1,408)	(827)	(1,506)	(932)	(130)
Income allocated to non-controlling interests	-	-	-	-	(37)
Earnings	$ 111,557	$ 90,578	$ 86,527	$ 66,769	$ 60,237
Fixed Charges					
Interest expense (includes amortization of debt issue costs and capitalized interest)	26,442	17,497	13,128	11,364	9,931
Capitalized Interest	1,408	827	1,506	932	130
Income allocated to non-controlling interests	-	-	-	-	37
Total fixed charges	27,850	18,324	14,634	12,296	10,098
Preferred stock dividend (excludes preferred stock redemption charge)	-	2,454	3,273	3,273	3,273
Total fixed charges and preferred dividends	$ 27,850	$ 20,778	$ 17,907	$ 15,569	$ 13,371
Ratio of earnings to fixed charges	4.01	4.94	5.91	5.43	5.97
Ratio of earnings to fixed charges and preferred dividends	4.01	4.36	4.83	4.29	4.51

EXHIBIT 21

LTC PROPERTIES, INC.

LIST OF SUBSIDIARIES

As of December 31, 2016

Company	State of Organization	Company	State of Organization
Albuquerque Real Estate Investments, Inc.	Delaware	LTC-Richmond, Inc.	Nevada
Bakersfield-LTC, Inc.	Delaware	L-Tex GP, Inc.	Delaware
Beaumont Real Estate Investments, LP	Texas	L-Tex LP Corporation	Delaware
Broadway Real Estate Investments, Inc.	Delaware	Memorial Park Real Estate Investments, Inc.	Delaware
BV Holding-LTC, Inc.	Delaware	Merritt Island Real Estate Investments, Inc.	Delaware
Chatham Real Estate Investments, LLC	Delaware	Mission Real Estate Investments, Inc.	Delaware
Coronado Corporation	Delaware	Missouri River Corporation	Delaware
CPP Investments, Inc.	Delaware	MLREI Holdings, Inc.	Delaware
Education Property Investors, Inc.	Nevada	Monroeville Real Estate Investments, Inc.	Delaware
Florida-LTC, Inc.	Nevada	Mountain States Real Estate Investments, Inc.	Delaware
Fort Wayne Real Estate Investments, Inc.	Delaware	MS-FL Real Estate Investments, Inc.	Delaware
Gulf Breeze Real Estate Investments, Inc.	Delaware	MW Real Estate Investments, LLC	Illinois
Hewitt Real Estate Investments, Inc.	Delaware	New Mexico Real Estate Investments, Inc.	Delaware
JVC Holdings, Inc.	Delaware	Newberry Real Estate Investments, Inc.	Delaware
JVCH Real Estate Investments, Inc.	Delaware	NMKS Holdings, Inc.	Delaware
JVCO Real Estate Investments, Inc.	Delaware	NMKS Real Estate Investments, Inc.	Delaware
JVWL Real Estate Investments, Inc.	Delaware	North Carolina Real Estate Investments, LLC	North Carolina
Kansas-LTC Corporation	Delaware	Ohio Springs Real Estate Investments, Inc.	Delaware
Lakes Real Estate Investments, Inc.	Delaware	Park Villa Corporation	Delaware
LTC GP I, Inc.	Delaware	PENN-IND Real Estate Investments, Inc.	Delaware
LTC West, Inc.	Nevada	RC Real Estate Investments, Inc.	Delaware
LTC-Dearfield, Inc.	Nevada	Red Oak Real Estate Investments, Inc.	Delaware
LTC-DS, Inc.	Delaware	Skilled Healthcare Holdings, Inc.	Delaware
LTC-Finance, Inc.	Delaware	South Hills Real Estate Investments, Inc.	Delaware
LTC-Gardner, Inc.	Delaware	Stephenville Real Estate Investments, Inc.	Delaware
LTC-Griffin, Inc.	Nevada	SWTX Real Estate Investments, Inc.	Delaware
LTC-Jonesboro, Inc.	Nevada	Texas-LTC Limited Partnership	Texas
LTC-K1 Inc.	Delaware	Texas-LTC Woodridge Limited Partnership	Delaware
LTC-K2 Limited Partnership	Delaware	Tupelo Real Estate Investments, Inc.	Delaware
LTC-K2 LP, Inc.	Delaware	TXMS Real Estate Investments, Inc.	Delaware
LTC-K2, Inc.	Delaware	Vacaville-LTC, Inc.	Delaware
LTC-Lake Forest, Inc.	Delaware	Virginia-LTC, Inc.	Nevada
LTC-New Mexico, Inc.	Nevada	WISL Investments, Inc.	Wisconsin
LTC-Ohio, Inc.	Delaware		

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-209161) and in the related prospectus of LTC Properties, Inc.,

(2) Registration Statement (Form S-8 No. 333-115856) pertaining to the 2004 Stock Option Plan of LTC Properties, Inc.,

(3) Registration Statement (Form S-8 No. 333-152295) pertaining to the 2008 Equity Participation Plan of LTC Properties, Inc.,

(4) Registration Statement (Form S-8 No. 333-205115) pertaining to the 2015 Equity Participation Plan of LTC Properties, Inc.;

of our reports dated February 22, 2017, with respect to the consolidated financial statements and schedules of LTC Properties, Inc. and the effectiveness of internal control over financial reporting of LTC Properties, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP
Los Angeles, California
February 22, 2017

Exhibit 31.1

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

I, Wendy L. Simpson, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ Wendy L. Simpson
Wendy L. Simpson
Chairman, Chief Executive Officer and President
(Principal Executive Officer)
February 22, 2017

Exhibit 31.2

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

I, Pamela J. Kessler, certify that:

1. I have reviewed this annual report on Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ Pamela J. Kessler

Pamela J. Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
(Principal Financial and Accounting Officer)
February 22, 2017

Exhibit 32

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

In connection with the Annual Report of LTC Properties, Inc. (or the Company) on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (or the Report), I, Wendy L. Simpson, Chairman, Chief Executive Officer and President of the Company, and I, Pamela J. Kessler, Executive Vice President, Chief Financial Officer and Corporate Secretary of the Company, certify solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: February 22, 2017	/s/ Wendy L. Simpson Wendy L. Simpson Chairman, Chief Executive Officer and President
Date: February 22, 2017	/s/ Pamela J. Kessler Pamela J. Kessler Executive Vice President, Chief Financial Officer and Corporate Secretary

This certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.