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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the Transition period from ____ to ____

Commission file number 1-11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨☐

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

The number of shares of common stock outstanding on November 3, 2017 was 39,570,769.

LTC PROPERTIES, INC.

FORM 10-Q

September 30, 2017

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

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
Investments:		
Land	$ 121,897	$ 116,096
Buildings and improvements	1,227,044	1,185,467
Accumulated depreciation and amortization	(294,725)	(275,861)
Operating real estate property, net	1,054,216	1,025,702
Properties held-for-sale, net of accumulated depreciation: 2017—$4,264; 2016—$0	6,381	—
Real property investments, net	1,060,597	1,025,702
Mortgage loans receivable, net of loan loss reserve: 2017—$2,234; 2016—$2,315	221,861	229,801
Real estate investments, net	1,282,458	1,255,503
Notes receivable, net of loan loss reserve: 2017—$166; 2016—$166	16,402	16,427
Investments in unconsolidated joint ventures	29,862	25,221
Investments, net	1,328,722	1,297,151
Other assets:		
Cash and cash equivalents	3,842	7,991
Debt issue costs related to bank borrowings	1,080	1,847
Interest receivable	13,650	9,683
Straight-line rent receivable, net of allowance for doubtful accounts: 2017—$901; 2016—$960	61,070	55,276
Prepaid expenses and other assets	22,829	22,948
Total assets	$ 1,431,193	$ 1,394,896
LIABILITIES		
Bank borrowings	$ 55,000	$ 107,100
Senior unsecured notes, net of debt issue costs: 2017—$1,183; 2016—$1,009	582,950	502,291
Accrued interest	4,108	4,675
Accrued incentives and earn-outs	8,790	12,229
Accrued expenses and other liabilities	23,710	28,553
Total liabilities	674,558	654,848
EQUITY		
Stockholders' equity:		
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2017—39,571; 2016—39,221	396	392
Capital in excess of par value	855,746	839,005
Cumulative net income	1,080,949	1,013,443
Cumulative distributions	(1,180,456)	(1,112,792)
Total equity	756,635	740,048
Total liabilities and equity	$ 1,431,193	$ 1,394,896

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Rental income	$ 33,233	$ 33,753	$ 103,533	$ 98,705
Interest income from mortgage loans	6,677	6,958	20,050	20,347
Interest and other income	1,336	131	2,753	390
Total revenues	41,246	40,842	126,336	119,442
Expenses:				
Interest expense	7,644	6,836	22,266	19,586
Depreciation and amortization	9,519	9,155	28,186	26,623
Impairment on receivables	—	—	1,880	—
(Recovery) provision for doubtful accounts	(96)	43	(139)	245
Transaction costs	34	2	56	96
General and administrative expenses	4,144	4,464	13,270	12,864
Total expenses	21,245	20,500	65,519	59,414
Operating income	20,001	20,342	60,817	60,028
Income from unconsolidated joint ventures	615	289	1,635	839
Gain on sale of real estate, net	—	1,780	5,054	3,582
Net income	20,616	22,411	67,506	64,449
Income allocated to participating securities	(80)	(90)	(281)	(296)
Net income available to common stockholders	$ 20,536	$ 22,321	$ 67,225	$ 64,153
Earnings per common share:				
Basic	$ 0.52	$ 0.57	$ 1.71	$ 1.68
Diluted	$ 0.52	$ 0.57	$ 1.70	$ 1.68
Weighted average shares used to calculate earnings per common share:				
Basic	39,428	39,057	39,403	38,161
Diluted	39,748	39,335	39,738	38,455
Dividends declared and paid per common share	$ 0.57	$ 0.54	$ 1.71	$ 1.62

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 20,616	$ 22,411	$ 67,506	$ 64,449
Reclassification adjustment (Note 6)	—	(6)	—	(39)
Comprehensive income	$ 20,616	$ 22,405	$ 67,506	$ 64,410

See accompanying notes.

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

	Nine Months Ended September 30, 2017	2016
OPERATING ACTIVITIES:		
Net income	$ 67,506	$ 64,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,186	26,623
Stock-based compensation expense	3,967	3,149
Impairment on receivables	1,880	—
Gain on sale of real estate, net	(5,054)	(3,582)
Income from unconsolidated joint ventures	(1,635)	(839)
Income distributions from unconsolidated joint ventures	1,236	1,409
Straight-line rental income	(7,362)	(8,201)
Amortization of lease incentives	1,681	1,446
Provision for doubtful accounts	(139)	245
Non-cash interest related to contingent liabilities	476	538
Effect of earn-out and related lease inducement write-off	(842)	—
Other non-cash items, net	958	909
Increase in interest receivable	(3,967)	(3,898)
Decrease in accrued interest payable	(567)	(358)
Net change in other assets and liabilities	(10,190)	(2,245)
Net cash provided by operating activities	76,134	79,645
INVESTING ACTIVITIES:		
Investment in real estate properties	(54,804)	(73,449)
Investment in real estate developments	(13,939)	(35,623)
Investment in real estate capital improvements	(2,308)	(5,566)
Capitalized interest	(627)	(1,193)
Proceeds from sale of real estate, net	14,106	17,369
Investment in real estate mortgage loans receivable	(9,333)	(19,113)
Principal payments received on mortgage loans receivable	17,351	2,117
Investments in unconsolidated joint ventures	(3,847)	(481)
Payment of working capital reserve	(439)	(2,325)
Advances and originations under notes receivable	—	(2,328)
Principal payments received on notes receivable	25	90
Net cash used in investing activities	(53,815)	(120,502)
FINANCING ACTIVITIES:		
Bank borrowings	64,500	83,500
Repayment of bank borrowings	(116,600)	(127,000)
Proceeds from issuance of senior unsecured notes	100,000	77,500
Principal payments on senior unsecured notes	(19,167)	(16,667)
Proceeds from common stock issued	14,578	78,592
Stock option exercises	202	159
Distributions paid to stockholders	(67,664)	(62,211)
Financing costs paid	(363)	(130)
Other	(1,954)	(2,215)
Net cash (used in) provided by financing activities	(26,468)	31,528
Decrease in cash and cash equivalents	(4,149)	(9,329)
Cash and cash equivalents, beginning of period	7,991	12,942
Cash and cash equivalents, end of period	$ 3,842	$ 3,613
Supplemental disclosure of cash flow information:		
Interest paid	$ 21,877	$ 19,004
Contingent Liabilities related to real estate investments	$ —	$ 2,000

See accompanying notes.

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

1. General

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in 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. 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 classification and form of investment.

We have prepared consolidated financial statements included herein without audit and in the opinion of management have included all adjustments necessary for a fair presentation of the consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (or SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (or GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The accompanying consolidated financial statements include the accounts of our company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2017 and 2016 are not necessarily indicative of the results for a full year.

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

New Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update (or ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In doing so, companies may need to use more judgement and make more estimates than under today's guidance. While this ASU specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate. Additionally, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* ASU 2016-10, *Identifying Performance Obligations and Licensing,* and ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients.* The new standard and its amendments are effective on January 1, 2018, and permit reporting entities to apply the standard using either a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or full retrospective approach. We have assessed our revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. We are currently evaluating the provisions of ASU 2014-09 and its related updates and will be closely monitoring developments and additional guidance to determine the potential impact of the new standard. We expect to complete our evaluation of the impact during the fourth quarter of 2017 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 and interest income from loan arrangements, both of which are specifically excluded from ASU 2014-09. We expect to adopt this standard using the modified retrospective adoption method on January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02 (or ASU 2016-02), *Leases (Topic 842)*. The objective of this ASU is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 modifies existing guidance by requiring lessees to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance of operating leases. 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. Entities are required to use a modified retrospective approach for leases that exist or are entered into after beginning of the earliest comparative period in the financial statements. In conjunction with evaluating the impact of the new revenue recognition standard, we have begun our process for implementing this guidance, including identifying any non-lease components in our lease arrangements. We will continue to evaluate this guidance and the impact to us, as both lessor and lessee, on our consolidated financial statements.

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. The adoption of this ASU did not have a material impact on our consolidated financial statements.

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. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In August 2016, FASB issued ASU No. 2016-15 (or ASU 2016-15), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the Emerging Issues Task Force)*. ASU 2016-15 provides 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.

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

The anticipated impact of the adoption of this guidance on the Company's financial statements is still being evaluated.

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. We adopted ASU 2017-01 during the 2017 second quarter. Historically, our acquisitions qualified as either a business combination or asset acquisition. The adoption of this ASU did not have a material impact on the company's results of operations or financial condition as most of our acquisitions of investment properties will continue to qualify as asset acquisitions.

In February 2017, the FASB issued ASU No. 2017-05 (or ASU 2017-05), *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 defines an in-substance nonfinancial asset and clarifies guidance related to partial sales of nonfinancial assets. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We don't expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

2. Real Estate Investments

Assisted living communities, independent living communities, memory care communities and combinations thereof are included in the assisted living property classification (or collectively ALF). Historically, we had a property classification identified as range of care communities (or ROC) which consisted of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. Since we only have seven ROC remaining and given that these properties derive materially all of their revenue from skilled nursing services, we elected to reclassify them into the SNF property classification.

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.

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

Owned Properties. The following table summarizes our investments in owned properties at September 30, 2017 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Properties[1]	Number of SNF Beds	Number of ALF Units	Average Investment per Bed/Unit
Assisted Living	$ 743,015	54.6 %	103	—	5,772	$ 128.73
Skilled Nursing[2]	579,758	42.6 %	76	9,276	274	$ 60.71
Under Development[3]	26,597	2.0 %	—	—	—	—
Other[4]	10,216	0.8 %	1	118	—	—
Totals	$ 1,359,586	100.0 %	180	9,394	6,046	

(1) We own properties in 27 states that are leased to 27 different operators.

(2) Includes seven communities previously classified as ROC with ALF units.

(3) Represents three development projects consisting of two MC with a total of 132 units and a 143-bed SNF.

(4) Includes three parcels of land held-for-use, and one behavioral health care hospital.

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

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

During the nine months ended September 30, 2017, we purchased a newly constructed 60-unit memory care community in Ohio for $15,650,000, as discussed below, and transitioned two memory care communities in our portfolio to a different operator. These three communities were added to a master lease with the same operator who took over the management of the two memory care communities previously mentioned. Annual rental income under the amended and restated master lease is approximately $6,400,000.

During the nine months ended September 30, 2017, we issued a notice of default on the master lease covering two properties under development and nine additional operational memory care communities resulting from lessee's partial payment of minimum rent. We are currently negotiating the transition of two of the operational properties to another operator in our portfolio. Additionally, we wrote off $1,880,000 of straight-line rent and other receivables related to these two properties. Subsequent to September 30, 2017, we entered into a forbearance agreement with our lessee whereby we have agreed not to pursue enforcement of our rights and remedies pertaining to known events of default under the master lease and our guarantees through December 31, 2017, with the stipulation that the lessee pay $400,000 per month toward their obligations of the master lease through December 31, 2017.

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

Acquisitions and Developments: The following table summarizes our acquisitions for the nine months ended September 30, 2017 *(dollar amounts in thousands):*

Type of Property	Purchase Price	Transaction Costs[1]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Assisted Living[2]	$ 54,463	$ 341	$ 54,804	3	240

(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 construction in progress. Additionally, we expense transaction costs related to the prior year due to timing and terminated transactions.

(2) We acquired a 107-unit assisted living community and a 73-unit memory care community for an aggregate purchase price of $38,813. Additionally, we acquired a 60-unit memory care community for $15,650.

Subsequent to September 30, 2017, we acquired a newly constructed 73-unit assisted living and memory care community in Missouri for $16,555,000. The property was added to an existing master lease agreement at an initial cash yield of 7%.

The following table summarizes our acquisitions for the nine months ended September 30, 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	411	53,961	4	250
Land[4]	5,425	63	5,488	—	—
Totals	$ 74,975	$ 519	$ 75,494	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 construction in progress. Additionally, we expense transaction costs related to the prior year due to timing and 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 including 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.

During the nine months ended September 30, 2017 and 2016, we invested the following in development and improvement projects *(in thousands)*:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Development	Improvements	Development	Improvements
Assisted Living Communities	$ 10,366	$ 951	$ 35,623	$ 2,134
Skilled Nursing Centers	3,573	1,357	-	3,432
	$ 13,939	$ 2,308	$ 35,623	$ 5,566

During the nine months ended September 30, 2017, we sold four assisted living communities with a carrying value of $8,726,000 for an aggregate price of $14,250,000. These properties are located in

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

Indiana and Iowa with a total of 175 units. As a result of this sale, we recognized a net gain on sale of $5,054,000.

During the nine months ended September 30, 2016, we sold two assisted living communities located in Florida and two skilled nursing centers in Texas with an aggregate carrying value of $9,791,000 for an aggregate price of $13,600,000. 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 with a carrying value of $3,997,000 and recorded a loss on sale of $193,000.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2017 *(dollar amounts in thousands)*:

		Number of			
Type of Property	**Gross Investments**	**Loans**	**Properties[(1)]**	**SNF Beds**	**Investment per Bed/Unit**
Skilled Nursing	$ 224,095	5	21	2,764	$ 81.08

(1) We have investments in properties located in two states that include mortgages to two operators.

At September 30, 2017, the mortgage loans had interest rates ranging from 9.4% to 11.2% and maturities ranging from 2019 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.

The following table summarizes our mortgage loan activity for the nine months ended September 30, 2017 and 2016 *(in thousands):*

	Nine months ended September 30,	
	2017	**2016**
	Origination/Funding	**Origination/Funding**
Originations and fundings under mortgage loans receivable	$ 9,333	$ 19,113
Pay-offs received	(16,665)	(746)
Scheduled principal payments received	(686)	(1,371)
Net (decrease) increase in mortgage loans receivable	$ (8,018)	$ 16,996

3. Investment in Unconsolidated Joint Ventures

Our investment in unconsolidated joint ventures consists of a preferred equity investment and two mezzanine loans which are accounted for as an unconsolidated joint venture in accordance with GAAP.

Preferred Equity Investment: We provided a total preferred capital contribution commitment of $25,650,000 to an entity (or the JV) that owns four properties in Arizona that provides independent, assisted living and memory care services. 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 related 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.

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. The unpaid preferred return will be accrued to the extent of the common member's capital account balance in the underlying JV. Since the common member's capital account balance is currently $0, we did not record the deferred portion of the preferred return during the nine months ended September 30, 2017. During the nine months ended September 30, 2017 and 2016, we funded $1,100,000 and $481,000, respectively, of the preferred capital contribution. Accordingly, we have a remaining preferred capital contribution commitment of $2,636,000. At September 30, 2017 and December 31, 2016, our preferred equity investment was $23,421,000 and $22,321,000, respectively. During the nine months ended September 30, 2017 and 2016, we recognized $1,134,000 and $839,000, respectively, in income and received $1,020,000 and $1,409,000, respectively, of cash interest from our preferred equity investment in the JV.

Mezzanine Loans: 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. The loan agreement provides us a 15% preferred return, a portion of which is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. During 2017, we funded $2,747,000 under this mezzanine loan and withheld $653,000 which will be applied to interest. During the nine months ended September 30, 2017, we recognized $118,000 in income from unconsolidated joint ventures related to this loan.

We also have a $2,900,000 mezzanine loan to develop a 99-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. The loan bears interest at 10% and will escalate to 15%. Interest payments were deferred and no interest was recorded between the time of the commencement of the loan and February 1, 2017, the first payment date per the terms of the loan agreement. We used the effective interest method to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance. During the nine months ended September 30, 2017, we recognized $383,000 in income from unconsolidated joint ventures and received $216,000 of cash interest related to this loan. At September 30, 2017 and December 31, 2016, the outstanding balance under this loan was $3,041,000 and $2,900,000, respectively.

4. Notes Receivable

Notes receivable consists of mezzanine loans and other loan arrangements. The following table summarizes our notes receivable activities for the nine months ended September 30, 2017 and 2016 *(dollar amounts in thousands):*

	Nine months ended September 30,	
	2017	2016
Advances and originations under notes receivable	$ -	$ 2,328
Principal payments received under notes receivable	(25)	(90)
Net (decrease) increase in notes receivable	$ (25)	$ 2,238

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

5. Debt Obligations

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 at September 30, 2017, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. At September 30, 2017, we were in compliance with all covenants.

Senior Unsecured Notes. During the nine months ended September 30, 2017, we amended our shelf agreement with affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) to increase our shelf commitment to $337,500,000.

The debt obligations by component as of September 30, 2017 and December 31, 2016 are as follows (*dollar amounts in thousands):*

Debt Obligations	Applicable Interest Rate[1]	At September 30, 2017 Outstanding Balance	At September 30, 2017 Available for Borrowing	At December 31, 2016 Outstanding Balance	At December 31, 2016 Available for Borrowing
Bank borrowings [2]	2.98%	$ 55,000	$ 545,000	$ 107,100	$ 492,900
Senior unsecured notes, net of debt issue costs	4.49%	582,950	51,667	502,291	22,500
Total	4.36%	$ 637,950	$ 596,667	$ 609,391	$ 515,400

(1) Represents weighted average of interest rate as of September 30, 2017.

(2) Subsequent to September 30, 2017, we had an additional net borrowing of $15,000 under our unsecured revolving line of credit. Accordingly, we have $70,000 outstanding under our unsecured revolving line of credit with $530,000 available for borrowing.

Our borrowings and repayments are as follows *(in thousands):*

	Nine months ended September 30, 2017 Borrowings	2017 Repayments	2016 Borrowings	2016 Repayments
Bank borrowings	$ 64,500	$ (116,600)	$ 83,500	$ (127,000)
Senior unsecured notes	100,000 [1]	(19,167)	77,500 [2]	(16,667)
Total	$ 164,500	$ (135,767)	$ 161,000	$ (143,667)

(1) During the nine months ended September 30, 2017, we sold 15-year senior unsecured notes in the aggregate amount of $100,000 to a group of investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual rate of 4.5%, have scheduled principal payments and mature on February 16, 2032.

(2) During the nine months ended September 30, 2016, we sold 10-year senior unsecured term notes in the amount of $37,500 to Prudential. The notes bear interest at an annual fixed rate of 4.15%, have scheduled principal payments and will mature in 2028. Additionally, we sold 10-year senior unsecured notes in the amount of $40,000 to affiliated insurance company investment advisory clients of AIG Asset Management (U.S.) LLC. The notes bear interest at a coupon of 3.99%, have scheduled principal payments and will mature in 2031.

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

6. Equity

Equity activity was as follows (in thousands):

	Total Equity
Balance at December 31, 2016	$ 740,048
Net income	67,506
Proceeds from common stock issued, net of issuance costs	14,529
Stock-based compensation expense	3,967
Performance based stock units	(6)
Stock option exercise	202
Common stock dividends	(67,664)
Other	(1,947)
Balance at September 30, 2017	$ 756,635

Common Stock. We have an equity distribution agreement to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our company common share. During the nine months ended September 30, 2017, we sold 312,881 shares of common stock for $14,578,000 in net proceeds under our equity distribution agreement. The proceeds were used to pay down our unsecured revolving line of credit. In conjunction with the sale of common stock, we paid $260,000 as compensation to our sales agents and we reclassified $49,000 of accumulated costs associated with this agreement to additional paid in capital. Accordingly, at September 30, 2017, we had $185,162,000 available under our Equity Distribution Agreements.

Also, during the nine months ended September 30, 2017 and 2016, we acquired 41,592 shares and 49,094 shares respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Available Shelf Registrations. In 2016, we filed a new automatic shelf registration statement 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)*:

	Nine Months Ended			
	September 30, 2017		September 30, 2016	
	Declared	Paid	Declared	Paid
Common Stock	$ 67,664 (1)	$ 67,664 (1)	$ 62,211 (2)	$ 62,211 (2)

(1) Represents $0.19 per share per month for the nine months ended September 30, 2017.

(2) Represents $0.18 per share per month for the nine months ended September 30, 2016.

In October 2017, we declared a monthly cash dividend of $0.19 per share on our common stock for the months of October, November and December, payable on October 31, November 30, and December 29, 2017, respectively, to stockholders of record on October 23, November 22, and December 21, 2017, respectively.

LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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Stock-Based Compensation. During 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaced 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 nine months ended September 30, 2017 and 2016, no stock options were granted. The stock options exercised during the nine months ended September 30, 2017 and 2016 were as follows:

	Options Exercised	Weighted Average Exercise Price	Option Value	Market Value[1]
2017	8,334	$ 24.31	$ 202,566	$ 410,797
2016	6,667	$ 23.79	$ 159,000	$ 311,000

(1) As of exercise date.

At September 30, 2017, we had 25,000 stock options outstanding and exercisable. Compensation expense related to the vesting of stock options was $2,000 and $11,000 for the nine months ended September 30, 2017 and 2016, respectively.

During the nine months ended September 30, 2017 and 2016, we cancelled 15,400 and 640 shares of restricted stock, respectively, under the 2015 Plan and 2008 Plan. Additionally, during the nine months ended September 30, 2017, we cancelled 8,706 performance-based stock units. During the nine months ended September 30, 2017 and 2016, we granted restricted stock and performance-based stock units under the 2015 Plan as follows:

Year	No. of Shares/Units	Price per Share	Vesting Period
2017	74,760	$ 45.76	ratably over 3 years
	57,881	$ 45.76	TSR targets [1]
	7,416	$ 48.55	June 1, 2018
	3,000	$ 50.50	ratably over 3 years
	143,057		
2016	65,300	$ 43.24	ratably over 3 years
	54,107	$ 46.87	TSR targets [2]
	7,680	$ 46.87	June 1, 2017
	127,087		

(1) Vesting is based on achieving certain total shareholder return (or TSR) targets in 4 years with acceleration opportunity in 3 years.

(2) Vesting is based on achieving certain TSR targets in 3.7 years with acceleration opportunity in 2.7 years.

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

Compensation expense recognized related to the vesting of restricted common stock for the nine months ended September 30, 2017 was $3,965,000, compared to $3,138,000 for the same period in 2016. At September 30, 2017, the 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	Remaining Compensation Expense
2017	$ 1,282,000
2018	3,947,000
2019	2,149,000
2020	259,000
	$ 7,637,000

7. Commitments and Contingencies

At September 30, 2017, we had commitments as follows (in thousands):

	Investment Commitment	2017 Funding	Total Commitment Funded	Remaining Commitment
Real estate properties (See *Note 2. Real Estate Investments*)	$ 60,274 (1)	$ 12,120	$ 28,456	$ 31,818
Accrued incentives and earn-out liabilities (2)	14,000	—	—	14,000
Lease incentives	7,113	438	438	6,675
Mortgage loans (See *Note 2.Real Estate Investments*)	51,000 (1)	9,333	14,672	36,328
Joint venture investments (See *Note 3. Investments in Unconsolidated Joint Ventures*)	25,650	1,101	23,014	2,636
Notes receivable (See *Note 4. Notes Receivable*)	500	—	—	500
Totals	$ 158,537	$ 22,992	$ 66,580	$ 91,957

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

(2) During the three and nine months ended September 30, 2017, we recorded non-cash interest expense of $125 and $476, respectively, related to these contingent liabilities. At September 30, 2017, the fair value of our contingent payments was $8,790.

As part of a lease arrangement, we committed to provide the lessee a lease incentive payment upon the properties covered under the lease achieving a certain rent coverage ratios. Based on the projected performance at lease commencement, the lease incentive payment was deemed probable and estimable; therefore, we recorded the contingent lease incentive liability and the related lease incentive asset. The contingent lease incentive liability was accreting up to the settlement amount of the estimated payment date and the related lease incentive asset was amortizing as a yield adjustment over the life of the lease. During the third quarter of 2017, upon reviewing the current projections of the properties, we concluded that as a result of the lessee changing its business model, the payment of the contingent lease incentive was not probable and the current projections do not support the properties achieving the required rent coverage ratios within the exercisable period. Accordingly, we wrote off the accrued incentive liability of $3,476,000 and the related lease incentive asset of $2,634,000 resulting in income of $842,000 which was included in the interest and other income line item in our consolidated statement of income.

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

8. 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 September 30, 2017:

	Number of		Number of		Percentage of	
Operator	**SNF**	**ALF**	**SNF Beds**	**ALF Units**	**Total Revenue** [(1)]	**Total Assets**
Prestige Healthcare	22	—	2,798	93	16.7 %	16.1 %
Senior Lifestyle Corporation	—	23	—	1,457	11.9 %	11.5 %
Brookdale Senior Living	—	37	—	1,702	9.7 %	5.1 %
Senior Care Centers	11	—	1,444	—	9.6 %	7.9 %
Totals	33	60	4,242	3,252	47.9 %	40.6 %

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

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.

LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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9. Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 20,616	$ 22,411	$ 67,506	$ 64,449
Less net income allocated to participating securities:				
Non-forfeitable dividends on participating securities	(80)	(85)	(269)	(284)
Income allocated to participating securities	—	(5)	(12)	(12)
Total net income allocated to participating securities	(80)	(90)	(281)	(296)
Net income available to common stockholders	20,536	22,321	67,225	64,153
Effect of dilutive securities:				
Participating securities	80	90	281	296
Net income for diluted net income per share	$ 20,616	$ 22,411	$ 67,506	$ 64,449
Shares for basic net income per share	39,428	39,057	39,403	38,161
Effect of dilutive securities:				
Stock options	9	13	11	13
Performance-based stock units	170	108	170	108
Participating securities	141	157	154	173
Total effect of dilutive securities	320	278	335	294
Shares for diluted net income per share	39,748	39,335	39,738	38,455
Basic net income per share	$ 0.52	$ 0.57	$ 1.71	$ 1.68
Diluted net income per share	$ 0.52	$ 0.57	$ 1.70	$ 1.68

LTC PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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10. 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 elect the fair value option for any of our financial assets and financial liabilities.

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments. We do not invest our cash in auction rate securities. The carrying value and fair value of our financial instruments as of September 30, 2017 and December 31, 2016 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	At September 30, 2017		At December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	$ 221,861	$ 271,666 (1)	$ 229,801	$ 294,319 (1)
Bank borrowings	55,000	55,000 (2)	107,100	107,100 (2)
Senior unsecured notes, net of debt issue costs	582,950	589,396 (3)	502,291	498,915 (3)
Accrued incentives and earn-outs	8,790	8,790 (4)	12,229	12,229 (4)

(1) Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable at September 30, 2017 and December 31, 2016 was 8.8% and 8.2%, 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 September 30, 2017 and December 31, 2016 based upon prevailing market interest rates for similar debt arrangements.

(3) Our obligation under our senior unsecured notes is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At September 30, 2017, the discount rate used to value our future cash outflow of our senior unsecured notes was 4.10% for those maturing before year 2026 and 4.30% for those maturing at or beyond year 2026. 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.

(4) Our accrued incentives and earn-outs are classified as Level 3. We estimated the fair value of the accrued incentives and 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. The discount rate used to value our accrued incentives and earn-outs was 5.9% at both September 30, 2017 and December 31, 2016.

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

Subsequent to September 30, 2017 the following events occurred:

Real Estate: We acquired a newly constructed 73-unit assisted living and memory care community in Missouri for $16,555,000. The property was added to an existing master lease agreement at an initial cash yield of 7%.

Debt Obligations: We had a net borrowing of $15,000,000 under our unsecured revolving line of credit. Accordingly, we have $70,000,000 outstanding under our unsecured revolving line of credit with $530,000,000 available for borrowing.

Equity: We declared a monthly cash dividend of $0.19 per share on our common stock for the months of October, November and December 2017, payable on October 31, November 30, and December 29, 2017, respectively to stockholders of record on October 23, November 22, and December 21, 2017, respectively.

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

Statement Regarding Forward Looking Disclosure

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify some of the forward-looking statements by their use of forward-looking words, such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy; the status of capital markets (including prevailing interest rates) and our access to capital; the income and returns available from investments in health care related real estate (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; changes in Medicare and Medicaid reimbursement amounts (including due to federal and state budget constraints); compliance with and changes to regulations and payment policies within the health care industry; debt that we may incur and changes in financing terms; our ability to continue to qualify as a real estate investment trust; the relative illiquidity of our real estate investments; potential limitations on our remedies when mortgage loans default; and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in our publicly available filings with the Securities and Exchange Commission. We do not undertake any responsibility to update or revise any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Business 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. Historically, we had a property classification identified as range of care communities (or ROC) which consisted of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. Since we only have seven ROC remaining and given that these properties derive materially all of their revenue from skilled nursing services, we elected to reclassify them into the SNF property classification. As of September 30, 2017, seniors housing and long-term health care properties comprised approximately 99.4% 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 secure multiple properties.

Portfolio Overview

The following table summarizes our real estate investment portfolio as of September 30, 2017 (*dollar amounts in thousands*):

			Nine Months Ended September 30, 2017				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[5]	$ 803,853	50.8 %	$ 51,293	$ 19,822	57.9 %	97	12,040	274
Assisted Living	743,015	46.9 %	50,985	—	41.5 %	103	—	5,772
Under Development[6]	26,597	1.7 %	—	—	— %	—	—	—
Other[7]	10,216	0.6 %	716	—	0.6 %	1	118	—
Totals	$ 1,583,681	100.0 %	$ 102,994	$ 19,822	100.0 %	201	12,158	6,046

(1) Excludes rental income from properties sold during 2017.

(2) Excludes interest income from mortgage loans paid off during 2017.

(3) We have investments in 28 states leased or mortgaged to 28 different operators.

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

(5) Includes seven communities previously classified as ROC with ALF units.

(6) Represents three development projects consisting of two MC with a total of 132 units and a 143-bed SNF.

(7) Includes three parcels of land held-for-use and one behavioral health care hospital.

As of September 30, 2017 we had $1.3 billion in carrying value of net real estate investments, consisting of $1.1 billion or 82.7% invested in owned and leased properties and $0.2 billion or 17.3% invested in mortgage loans secured by first mortgages.

For the nine months ended September 30, 2017, rental income and interest income from mortgage loans represented 82.0% and 15.9%, respectively, of total gross revenues. In most instances, our lease structure contains fixed annual rental escalations, which are generally recognized on a straight-line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. For those certain leases, the revenue is not recognized until the appropriate contingencies have been resolved.

For the nine months ended September 30, 2017, we recorded $7.4 million in straight-line rental income and recovered a net of $59,000 in straight-line rent receivable reserve. During the nine months ended September 30, 2017, we received $97.9 million of cash rental revenue and recorded amortization of lease incentives cost of $1.7 million. At September 30, 2017, the straight-line rent receivable balance, net of reserves, on the balance sheet was $61.1 million.

During the nine months ended September 30, 2017, an existing lease was amended to extend the term for an additional five years and increase rent by 2%. Additionally, we amended an existing master lease, due to the sale of four assisted living communities as discussed below, resulting in a rental revenue decrease of $0.9 million on an annual basis.

As part of a lease arrangement, we committed to provide the lessee a lease incentive payment upon the properties covered under the lease achieving a certain rent coverage ratios. Based on the projected performance at lease commencement, the lease incentive payment was deemed probable and estimable; therefore, we recorded the contingent lease incentive liability and the related lease incentive asset. The contingent lease incentive liability was accreting up to the settlement amount of the estimated payment date and the related lease incentive asset was amortizing as a yield adjustment over the life of the lease. During the third quarter of 2017, upon reviewing the current projections of the properties, we concluded that as a result of the lessee changing its business model, the payment of the contingent lease incentive was not probable and the current projections do not support the properties achieving the required rent coverage ratios within the exercisable period. Accordingly, we wrote off the accrued incentive liability of $3.4 million and the related lease incentive asset of $2.6 million resulting in income of $0.8 million which was included in the interest and other income line item in our consolidated statement of income.

During the nine months ended September 30, 2017, we purchased a newly constructed 60-unit memory care community in Ohio for $15.7 million, as discussed below, and transitioned two memory care communities in our portfolio to a different operator. These three communities were added to a master lease with the same operator who took over the management of the two memory care communities previously mentioned. Annual rental income under the amended and restated master lease is approximately $6.4 million.

Additionally, during the nine months ended September 30, 2017, we issued a notice of default on the master lease covering two properties under development and nine additional operational memory care communities resulting from lessee’s partial payment of minimum rent. We are currently negotiating the transition of two of the operational properties to another operator in our portfolio. Additionally, we wrote off $1.9 million of straight-line rent and other receivables related to these two properties. Subsequent to September 30, 2017, we entered into a forbearance agreement with our lessee whereby we have agreed not to pursue enforcement of our rights and remedies pertaining to known events of default under the master lease and our guarantees through December 31, 2017, with the stipulation that the lessee pay $0.4 million per month toward their obligations of the master lease through December 31, 2017.

2017 Activities Overview

Investment in Owned Properties

The following table summarizes our acquisitions during the nine months ended September 30, 2017 (dollar amounts in thousands):

Type of Property	Purchase Price	Transaction Costs[1]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Assisted Living[2]	$ 54,463	$ 341	$ 54,804	3	240

(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 construction in progress. Additionally, transaction costs may include costs related to the prior year due to timing and terminated transactions.

(2) We acquired a 107-unit assisted living community and a 73-unit memory care community for an aggregate purchase price of $38,813. Additionally, we acquired a 60-unit memory care community for $15,650.

Subsequent to September 30, 2017, we acquired a newly constructed 73-unit assisted living and memory care community in Missouri for $16.6 million. The property was added to an existing master lease agreement at an initial cash yield of 7%.

Development Projects

During the nine months ended September 30, 2017, we invested the following in development and improvement projects *(in thousands):*

	Development	Improvements
Assisted Living Communities	$ 10,366	$ 951
Skilled Nursing Centers	3,573	1,357
	$ 13,939	$ 2,308

Property Sales

During the nine months ended September 30, 2017, we sold four assisted living communities with a carrying value of $8.7 million for an aggregate price of $14.3 million. These properties are located in Indiana and Iowa with a total of 175 units. As a result of this sale, we recognized a net gain on sale of $5.1 million.

Investment in Mortgage Loans

A summary of our mortgage loan origination and funding for the nine months ended September 30, 2017, is as follows *(in thousands):*

Originations and fundings under mortgage loans receivable	$ 9,333
Pay-offs received	(16,665)
Scheduled principal payments received	(686)
Net (decrease) increase in mortgage loans receivable	$ (8,018)

Investment in Unconsolidated Joint Ventures

Our investment in unconsolidated joint ventures consists of a preferred equity investment and two mezzanine loans which are accounted for as an unconsolidated joint venture in accordance with GAAP.

Preferred Equity Investment: We provided a total preferred capital contribution commitment of $25.7 million to an entity (or the JV) that owns four properties in Arizona that provides independent, assisted living and memory care services. During the nine months ended September 30, 2017, we funded $1.1 million of the preferred capital contribution with a remaining preferred capital contribution commitment of $2.6 million. At September 30, 2017, our preferred equity investment was $23.4 million. During the nine months ended September 30, 2017, we recognized $1.1 million in income from unconsolidated joint ventures and received $1.0 million of cash interest from our preferred equity investment in the JV.

Mezzanine Loans: We provided two mezzanine loan commitments for the development of two senior housing communities with a total of 226 units in Florida which will provide a combination of assisted living, memory care and independent living services. Per the terms of the loan agreements, a portion of the interest is deferred for a fixed period of time and repaid based on scheduled dates. We used the effective interest method to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance. During 2017, we funded $2.8 million under one of these mezzanine loans and withheld $0.6 million which will be applied to interest. During the nine months ended September 30, 2017, we recognized $0.5 million in income from unconsolidated joint ventures and received $0.2 million of cash interest related to these loans. At September 30, 2017, the outstanding balance under these loans was $6.4 million.

Notes Receivable

Notes receivable consists of mezzanine loans and other loan arrangements. The following table summarizes our notes receivable activities for the nine months ended September 30, 2017 *(dollar amounts in thousands):*

Advances under notes receivable	$	-
Principal payments received under notes receivable		(25)
Net decrease in notes receivable	$	(25)

Health Care Regulatory Climate

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 29, 2016, CMS released a final rule updating fiscal year 2017 Medicare payment rates and quality programs 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. On July 31, 2017, CMS released a final rule updating Medicare skilled nursing facility rates and policies for fiscal year 2018, which began on October 1, 2017. CMS expects the rule to increase overall payments to SNFs by $370 million in fiscal year 2018, or 1.0%, compared to fiscal year 2017 levels. The 1% update for fiscal year 2018 was set by Congress in 2015 legislation. In addition, the final rule updates Quality Reporting Program measures and adopts additional policies to implement the Value-Based Purchasing Program in fiscal year 2019. On April 27, 2017, CMS released an advance notice of proposed rulemaking or prerule, to request comments on the possibility of replacing the skilled nursing facility prospective payment system's existing case-mix classification model, the Resource Utilization Groups, Version 4 (RUG-IV), with a new model, the Resident Classification System, Version I (RCS-I). Among other features of this proposal, CMS anticipates that this model would more closely link facility payment to objective resident characteristics, rather than minutes of therapy provided. CMS intends to propose case-mix refinements in the fiscal year 2019 skilled nursing facility prospective payment system proposed rule; additional details regarding the potential reforms are expected to be available at that time.

On September 28, 2016, CMS released a final rule revising 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, infection control, and residents' rights and compliance and ethics programs, among other key provisions. While the rule also banned pre-dispute arbitration agreements, that provision was stayed due to litigation challenging the requirement. On June 8, 2017, CMS published a proposed rule that would eliminate the prohibition on pre-dispute binding arbitration agreements and otherwise modify these requirements. CMS estimates that the requirements for participation will impose an average cost of $62,900 per facility in the first year and $55,000 per facility per year in subsequent years. There can be no assurance that these rules or future regulations modifying Medicare skilled nursing facility payment rates or other requirements for Medicare and/or Medicaid participation will not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

Congress periodically considers legislation revising Medicare and Medicaid policies, including legislation that could have the impact of reducing Medicare reimbursement for skilled nursing facilities and other Medicare providers, limiting state Medicaid funding allotments, encouraging home and community-based long term care services as an alternative to institutional settings, or otherwise reforming payment policy for post-acute care services. There can be no assurances that enacted or future legislation will not have an adverse impact on the financial condition of our borrowers and lessees, which subsequently could materially adversely impact our company.

Additional reforms affecting the payment for and availability of health care services have been proposed at the federal and 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. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Key Performance Indicators, Trends and Uncertainties

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

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

	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16
Asset mix:					
Real property	$ 1,359,586	$ 1,354,369	$ 1,305,918	$ 1,301,563	$ 1,292,459
Loans receivable	224,095	222,604	225,541	232,116	236,707
Investment mix:					
Skilled nursing centers(1)	$ 803,853	$ 802,361	$ 799,298	$ 796,468	$ 801,397
Assisted living communities	743,015	742,518	703,668	711,645	706,279
Under development	26,597	21,878	17,071	14,142	10,065
Other(2)	10,216	10,216	11,422	11,424	11,425
Operator mix:					
Prestige Healthcare(2)	$ 236,105	$ 234,601	$ 231,657	$ 227,274	$ 226,204
Senior Lifestyle Corporation	189,025	189,025	201,862	201,862	201,227
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 (3)	121,138	117,807	113,978	111,620	106,637
Remaining operators	772,313	770,440	718,862	727,823	729,998
Geographic mix:					
Texas	$ 269,279	$ 269,168	$ 269,067	$ 274,547	$ 280,486
Michigan	223,916	222,412	219,467	215,085	214,014
Wisconsin	126,313	126,314	126,133	126,133	125,990
Ohio	115,258	115,236	99,300	99,300	99,133
Colorado	114,923	114,923	114,923	114,923	114,924
Remaining states	733,992	728,920	702,569	703,691	694,619

(1) Historically, we had a property classification identified as ROCs which consisted of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. Since we only have seven ROC remaining and given that these properties derive materially all of their revenue from skilled nursing services, we elected to reclassify them into the SNF property classification.

(2) We have three parcels of land as of September 30, 2017. These parcels are located adjacent to properties securing the Prestige Healthcare mortgage loan and are managed by Prestige.

(3) During the 2017 second quarter, we issued a default notice on the Anthem master lease. We are currently negotiating the transition of two of the operational properties under the master lease to another operator in our portfolio. Regarding the remaining properties under the master lease, we have executed a forbearance agreement with the Anthem and will continue to explore our options which may include transitioning some or all of the properties to another operator and/or a possible sale of some or all of the properties.

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

Balance Sheet Metrics

	Year to Date	Quarter Ended								
	9/30/17	9/30/17		6/30/17		3/31/17		12/31/16		9/30/16
Debt to gross asset value	36.8 %	36.8 %	(1)	37.1 %	(4)	35.6 %	(6)	36.4 %	(4)	35.9 %
Debt to market capitalization ratio	25.5 %	25.5 %	(2)	24.0 %		24.0 %	(7)	24.9 %	(9)	22.4 %
Interest coverage ratio(10)	5.0 x	4.8 x	(3)	5.3 x	(5)	5.0 x	(8)	5.3 x	(10)	5.2 x
Fixed charge coverage ratio(10)	5.0 x	4.8 x	(3)	5.3 x	(5)	5.0 x	(8)	5.3 x	(10)	5.2 x

(1) Decreased due to decrease in outstanding debt partially offset by decrease in gross asset value.

(2) Increased primarily due to decrease in market capitalization.

(3) Decreased due to decrease in net income primarily related to a defaulted master lease, as previously discussed, that was placed on cash basis and the reduction of rent related to the properties sold in the second quarter of 2017, partially offset by acquisitions and capital improvement investments and increase in interest expense resulting from increase in outstanding debt.

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

(5) Increase primarily due to decrease in interest expense resulting from decrease in average outstanding debt.

(6) Decreased due to decrease in outstanding debt as well as increase in gross asset value from additional developments and capital improvements.

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

(8) Decreased primarily due to increase in interest expense resulting from the sale of senior unsecured notes in 2017 and 2016.

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

(10) 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 (or GAAP) (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 GAAP. You should not rely on Adjusted EBITDA as a substitute for any such GAAP financial measures or consider it in isolation, for the purpose of analyzing our financial performance, financial position or cash flows. Net income is the most directly comparable GAAP measure to Adjusted EBITDA.

	Year to Date	Quarter Ended				
	9/30/17	9/30/17	6/30/17	3/31/17	12/31/16	9/30/16
Net income	$ 67,506	$ 20,616	$ 25,377	$ 21,513	$ 20,666	$ 22,411
Less: Gain on sale	(5,054)	—	(5,054)	—	—	(1,780)
Add: Impairment charges	1,880	—	1,880	—	766	—
Add: Interest expense	22,266	7,644	7,151	7,471	6,856	6,836
Add: Depreciation and amortization	28,186	9,519	9,308	9,359	9,309	9,155
Total adjusted EBITDA	$ 114,784	$ 37,779	$ 38,662	$ 38,343	$ 37,597	$ 36,622
Interest expense	$ 22,266	$ 7,644	$ 7,151	$ 7,471	$ 6,856	$ 6,836
Add: Capitalized interest	627	256	201	170	215	251
Interest incurred	$ 22,893	$ 7,900	$ 7,352	$ 7,641	$ 7,071	$ 7,087
Interest coverage ratio	5.0 x	4.8 x	5.3 x	5.0 x	5.3 x	5.2 x
Interest incurred	$ 22,893	$ 7,900	$ 7,352	$ 7,641	$ 7,071	$ 7,087
Total fixed charges	$ 22,893	$ 7,900	$ 7,352	$ 7,641	$ 7,071	$ 7,087
Fixed charge coverage ratio	5.0 x	4.8 x	5.3 x	5.0 x	5.3 x	5.2 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 seniors 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 *(unaudited, in thousands)*

	Three Months Ended September 30, 2017	2016	Difference
Revenues:			
Rental income	$ 33,233	$ 33,753	$ (520)(1)
Interest income from mortgage loans	6,677	6,958	(281)(2)
Interest and other income	1,336	131	1,205 (3)
Total revenues	41,246	40,842	404
Expenses:			
Interest expense	7,644	6,836	(808)(4)
Depreciation and amortization	9,519	9,155	(364)(1)
(Recovery) provision for doubtful accounts	(96)	43	139 (5)
Transaction costs	34	2	(32)
General and administrative expenses	4,144	4,464	320 (6)
Total expenses	21,245	20,500	(745)
Operating income	20,001	20,342	(341)
Income from unconsolidated joint ventures	615	289	326 (7)
Gain on sale of real estate, net	—	1,780	(1,780)(8)
Net income	20,616	22,411	(1,795)
Income allocated to participating securities	(80)	(90)	10
Net income available to common stockholders	$ 20,536	$ 22,321	$ (1,785)

(1) Decreased due to a defaulted master lease, as previously discussed, that was placed on cash basis and the reduction of rent related to properties sold during the second quarter of 2017, partially offset by acquisitions and capital improvement investments.

(2) Decreased primarily due to mortgage loan payoffs partially offset by an increase in effective interest income on certain mortgage loans.

(3) Increased primarily due to mezzanine loan originations and the net write-off of an earn-out liability and the related lease incentive asset during the third quarter of 2017 due to change to the business model on a certain lease that resulted in lower net operating income and the improbability of paying the earn-out.

(4) Increased primarily due to sales of senior unsecured notes.

(5) Decreased due to mortgage loan payoffs and reversal of straight-line rent reserve.

(6) Decreased due to decrease in investment activity during 2017.

(7) Increased primarily due to income generated from additional funding under a preferred capital contribution commitment and income from a mezzanine loan accounted for as an unconsolidated joint venture in accordance with GAAP which was previously deferred.

(8) Related to the sale of an assisted living community in Florida during the third quarter of 2016, resulting in a net gain of $1,973, partially offset by the net loss on sale of $193 resulting from the sale of a school property in New Jersey.

	Nine Months Ended September 30, 2017	2016	Difference
Revenues:			
Rental income	$ 103,533	$ 98,705	$ 4,828 (1)
Interest income from mortgage loans	20,050	20,347	(297)(2)
Interest and other income	2,753	390	2,363 (3)
Total revenues	126,336	119,442	6,894
Expenses:			
Interest expense	22,266	19,586	(2,680)(4)
Depreciation and amortization	28,186	26,623	(1,563)(1)
Impairment on receivables	1,880	—	(1,880)(5)
(Recovery) provision for doubtful accounts	(139)	245	384 (6)
Transaction costs	56	96	40
General and administrative expenses	13,270	12,864	(406)(7)
Total expenses	65,519	59,414	(6,105)
Operating income	60,817	60,028	789
Income from unconsolidated joint ventures	1,635	839	796 (8)
Gain on sale of real estate, net	5,054 (9)	3,582 (10)	1,472
Net income	67,506	64,449	3,057
Income allocated to participating securities	(281)	(296)	15
Net income available to common stockholders	$ 67,225	$ 64,153	$ 3,072

(1) Increased due to acquisitions, development and capital improvement investments partially offset by a defaulted master lease placed on cash basis, as previously discussed, and the reduction of rent related to the properties sold in the second quarter of 2017.

(2) Decreased primarily due to mortgage loan payoffs partially offset by increase in interest income resulting from loan additions and construction loan funding.

(3) Increased primarily due to mezzanine loan originations, write-off of an earn-out liability and the related lease incentive asset during the third quarter of 2017 due to change to the business model on a certain lease that resulted in lower net operating income and the improbability of paying the earn-out.

(4) Increased primarily due to sales of senior unsecured notes and a decrease in capitalized interest related to development projects partially offset by a decrease in borrowing under our unsecured revolving line of credit.

(5) Represents the write off of straight-line rent and other receivables related to two properties as a result of our current negotiations to transition these properties to another operator in our portfolio.

(6) Decreased due to mortgage loan payoffs and reversal of straight-line rent reserve.

(7) Increased primarily due to the implementation of performance-based stock awards partially offset by decreased investment activity.

(8) Increased primarily due to income generated from additional funding under a preferred capital contribution commitment and income from a mezzanine loan accounted for as an unconsolidated joint venture in accordance with GAAP which was previously deferred.

(9) Related to the sale of four assisted living communities in Indiana and Iowa during the second quarter of 2017.

(10) Increased due to the sale of two skilled nursing centers in Texas and an assisted living community in Florida during the second and third quarter of 2016, respectively, resulting in a net gain on sale of $1,802 and $1,973, respectively, partially offset by the net loss on sale of $193 resulting from the sale of a school property in New Jersey.

Funds From Operations Available to Common Stockholders

Funds from Operations (or FFO) available to common stockholders, basic FFO available to common stockholders per share and diluted FFO available to common stockholders per share are supplemental measures of a REIT’s financial performance that are not defined by GAAP. Real estate values historically rise and fall with market conditions, but cost accounting for real estate assets in accordance with 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 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 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 GAAP net income available to common stockholders to NAREIT FFO available to common stockholders *(unaudited, amounts in thousands, except per share amounts)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
GAAP net income available to common stockholders	$ 20,536	$ 22,321	$ 67,225	$ 64,153
Add: Depreciation and amortization	9,519	9,155	28,186	26,623
Add: Impairment on receivables	—	—	1,880	—
Less: Gain on sale of real estate, net	—	(1,780)	(5,054)	(3,582)
NAREIT FFO attributable to common stockholders	$ 30,055	$ 29,696	$ 92,237	$ 87,194
NAREIT FFO attributable to common stockholders per share:				
Basic	$ 0.76	$ 0.76	$ 2.34	$ 2.28
Diluted	$ 0.76 (1)	$ 0.76 (1)	$ 2.33 (1)	$ 2.28 (1)
Weighted average shares used to calculate NAREIT FFO per share:				
Basic	39,428	39,057	39,403	38,161
Diluted	39,748 (2)	39,335 (2)	39,738 (2)	38,455 (2)

(1) Includes the effect of the participating securities.

(2) Diluted weighted average shares used to calculate FFO per share includes the effect of stock option equivalents, participating securities and performance based stock units.

Liquidity and Capital Resources

Sources and Uses of Cash

As of September 30, 2017, we had a total of $3.8 million of cash and cash equivalents, $545.0 million available under our unsecured revolving line of credit, $51.7 million available under our senior unsecured note shelf agreement and the potential ability to access the capital markets through the issuance of $185.2 million of common stock under our equity distribution agreements. Subsequent to September 30, 2017, we had a net borrowing of $15.0 million under our unsecured revolving line of credit. Accordingly, we have $530.0 million available under our unsecured line of credit. Furthermore, we have the ability to access the capital markets through the issuance of debt and/ or equity securities under our effective shelf registration.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets are sufficient to provide for payment of our current operating costs, meet debt obligations 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 and 2018.

We expect our future income and ability to make distributions from cash flows from operations to depend on the collectibility of our rents and mortgage loans receivable. The collection of these loans and rents will be dependent, in large part, upon the successful operation by the operators of the 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 and private 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*):

	Nine months ended September 30,		Change
Cash provided by (used in):	2017	2016	$
Operating activities	$ 76,134	$ 79,645	$ (3,511)
Investing activities	(53,815)	(120,502)	66,687
Financing activities	(26,468)	31,528	(57,996)
Decrease in cash and cash equivalents	(4,149)	(9,329)	5,180
Cash and cash equivalents, beginning of period	7,991	12,942	(4,951)
Cash and cash equivalents, end of period	$ 3,842	$ 3,613	$ 229

Operating Activities. Cash provided by operating activities for the nine months ended September 30, 2017 decreased to $76.1 million compared to $79.6 million for the nine months ended September 30, 2016 primarily due to an increase in lease incentive payments to certain operators as well as decrease in rent of a defaulted master lease placed on cash basis, as previously discussed, and the reduction of rent related to the properties sold in 2017, partially offset by increased operating cash flow from rent escalations, acquisitions, originations and completed developments and capital improvement projects.

Investing Activities. Cash used in investing activities decreased to $53.8 million for the nine months ended September 30, 2017, compared to the cash used in investing activities of $120.5 million for the comparable 2016 period primarily due to decreased acquisitions, developments and loan originations in 2017, partially offset by cash received from mortgage loan payoffs and proceeds from sale of real estate.

Financing Activities. Cash used by financing activities was $26.5 million for the nine months ended September 30, 2017, compared to the cash provided by financing activities of $31.5 million for the comparable 2016 period. This change was primarily due to a decrease in shares of common stock sold under our equity distribution agreement in 2017.

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 September 30, 2017, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. At September 30, 2017, we were in compliance with all covenants.

Senior Unsecured Notes. During the nine months ended September 30, 2017, we amended our shelf agreement with affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) to increase our shelf commitment to $337.5 million.

The debt obligations by component as of September 30, 2017 are as follows *(dollar amounts in thousands):*

Debt Obligations	Applicable Interest Rate[1]	Outstanding Balance	Available for Borrowing
Bank borrowings [2]	2.98%	$ 55,000	$ 545,000
Senior unsecured notes, net of debt issue costs	4.49%	582,950	51,667
Total	4.36%	$ 637,950	$ 596,667

(1) Represents weighted average of interest rate as of September 30, 2017.

(2) Subsequent to September 30, 2017, we had a net borrowing of $15,000 under our unsecured revolving line of credit. Accordingly, we have $70,000 outstanding under our unsecured revolving line of credit with $530,000 available for borrowing.

Our debt borrowings and repayments during the nine months ended September 30, 2017 are as follows *(in thousands):*

	Borrowings	Repayments
Bank borrowings	$ 64,500	$ (116,600)
Senior unsecured notes	100,000 (1)	(19,167)
Total	$ 164,500	$ (135,767)

(1) During the nine months ended September 30, 2017, we sold 15-year senior unsecured notes in the aggregate amount of $100,000 to a group of 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.

Equity

At September 30, 2017, we had 39,570,769 shares of common stock outstanding, equity on our balance sheet totaled $756.6 million and our equity securities had a market value of $1.9 billion. During the nine months ended September 30, 2017, we declared and paid $67.7 million of cash dividends.

Subsequent to September 30, 2017, we declared a monthly cash dividend of $0.19 per share on our common stock for the months of October, November and December 2017, payable on October 31, November 30, and December 29, 2017, respectively, to stockholders of record on October 23, November 22, and December 21, 2017, respectively.

At-The-Market Program. We have an equity distribution 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 nine months ended September 30, 2017, we sold 312,881 shares of common stock for $14.6 million in net proceeds under our equity distribution agreement. The proceeds were used to pay down our unsecured revolving line of credit. At September 30, 2017, we had $185.2 million available under our equity distribution agreement.

Available Shelf Registrations. We have an automatic shelf registration statement which provides 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 (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.

Stock-Based Compensation. During the nine months ended September 30, 2017, we cancelled 15,400 of restricted stock under the 2015 Plan and 2008 Plan. Additionally, during the nine months ended September 30, 2017, we cancelled 8,706 performance-based stock units. During the nine months ended September 30, 2017, we granted restricted stock and performance-based stock units under the 2015 Plan as follows:

Year	No. of Shares/Units	Price per Share	Vesting Period
2017	74,760	$ 45.76	ratably over 3 years
	57,881	$ 45.76	TSR targets [(1)]
	7,416	$ 48.55	June 1, 2018
	3,000	$ 50.50	ratably over 3 years
	143,057		

(1) Vesting is based on achieving certain total shareholder return (or TSR) targets in 4 years with acceleration opportunity in 3 years.

Critical Accounting Policies

There have been no material changes from the critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our market risk during the nine months ended September 30, 2017. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. CONTROLS AND PROCEDURES

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

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

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are and may become from time to time a party to various claims and lawsuits arising in the ordinary course of 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 related to 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 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 6. Exhibits

3.1	LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.1.2 to LTC Properties Inc.'s Current Report on Form 8-K (File No. 1-11314) filed June 6, 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) filed June 5, 2015)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2017 and December 31, 2016; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016; and (iv) Notes to Consolidated Financial Statements

SIGNATURES

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

LTC PROPERTIES, INC.
Registrant

Dated: November 8, 2017

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

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 quarterly report on Form 10-Q of LTC Properties, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly 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)
November 8, 2017

Exhibit 31.2

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

I, Pam Kessler, certify that:

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

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

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

4. The registrant's other certifying officer 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 quarterly 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/ Pam Kessler

Pam Kessler
Executive Vice President, Chief Financial Officer
and Corporate Secretary
(Principal Financial and Accounting Officer)
November 8, 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**

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of LTC Properties, Inc. (the "Company") hereby certifies with respect to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission (the "Report") that to her knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities 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: November 8, 2017

/s/ Wendy L. Simpson
Wendy L. Simpson
Chairman, Chief Executive Officer and President

Date: November 8, 2017

/s/ Pam Kessler
Pam 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.