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, 2019

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)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $.01 par value	LTC	New York Stock Exchange

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 þ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ 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 þ Accelerated filer ☐ Non-accelerated filer ☐ 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 þ

The number of shares of common stock outstanding on October 24, 2019 was 39,751,704.

LTC PROPERTIES, INC.

FORM 10-Q

September 30, 2019

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

	September 30, 2019 (unaudited)	December 31, 2018 (audited)
ASSETS		
Investments:		
Land	$ 129,403	$ 125,358
Buildings and improvements	1,339,543	1,290,352
Accumulated depreciation and amortization	(340,505)	(312,959)
Operating real estate property, net	1,128,441	1,102,751
Properties held-for-sale, net of accumulated depreciation: 2019—$1,916; 2018—$1,916	3,830	3,830
Real property investments, net	1,132,271	1,106,581
Mortgage loans receivable, net of loan loss reserve: 2019—$2,551; 2018—$2,447	253,186	242,939
Real estate investments, net	1,385,457	1,349,520
Notes receivable, net of loan loss reserve: 2019—$177; 2018—$128	17,552	12,715
Investments in unconsolidated joint ventures	24,426	30,615
Investments, net	1,427,435	1,392,850
Other assets:		
Cash and cash equivalents	3,960	2,656
Restricted cash	2,108	2,108
Debt issue costs related to bank borrowings	2,380	2,989
Interest receivable	25,099	20,732
Straight-line rent receivable, net of allowance for doubtful accounts: 2019—$0; 2018—$746	44,814	73,857
Lease incentives	2,590	14,443
Prepaid expenses and other assets	3,845	3,985
Total assets	$ 1,512,231	$ 1,513,620
LIABILITIES		
Bank borrowings	$ 165,400	$ 112,000
Senior unsecured notes, net of debt issue costs: 2019—$831; 2018—$938	518,469	533,029
Accrued interest	3,996	4,180
Accrued expenses and other liabilities	30,472	31,440
Total liabilities	718,337	680,649
EQUITY		
Stockholders' equity:		
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2019—39,752; 2018—39,657	398	397
Capital in excess of par value	865,721	862,712
Cumulative net income	1,280,940	1,255,764
Cumulative distributions	(1,361,625)	(1,293,383)
Total LTC Properties, Inc. stockholders' equity	785,434	825,490
Non-controlling interests	8,460	7,481
Total equity	793,894	832,971
Total liabilities and equity	$ 1,512,231	$ 1,513,620

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Rental income	$ 38,665	$ 34,211	$ 114,566	$ 102,646
Interest income from mortgage loans	7,646	7,087	22,308	20,910
Interest and other income	808	478	1,967	1,502
Total revenues	47,119	41,776	138,841	125,058
Expenses:				
Interest expense	7,827	7,497	23,004	22,981
Depreciation and amortization	9,932	9,447	29,399	28,159
(Recovery) provision for doubtful accounts	(14)	106	153	76
Transaction costs	75	9	275	19
Property tax expense	4,270	—	12,566	—
General and administrative expenses	4,745	4,879	13,912	14,392
Total expenses	26,835	21,938	79,309	65,627
Other operating income:				
Gain on sale of real estate, net	6,236	14,353	6,736	62,698
Operating income	26,520	34,191	66,268	122,129
Income from unconsolidated joint ventures	760	746	1,973	2,103
Net income	27,280	34,937	68,241	124,232
Income allocated to non-controlling interests	(88)	(17)	(257)	(17)
Net income attributable to LTC Properties, Inc.	27,192	34,920	67,984	124,215
Income allocated to participating securities	(112)	(138)	(298)	(504)
Net income available to common stockholders	$ 27,080	$ 34,782	$ 67,686	$ 123,711
Earnings per common share:				
Basic	$ 0.68	$ 0.88	$ 1.71	$ 3.13
Diluted	$ 0.68	$ 0.88	$ 1.69	$ 3.12
Weighted average shares used to calculate earnings per common share:				
Basic	39,586	39,487	39,565	39,470
Diluted	39,965	39,865	39,944	39,845
Dividends declared and paid per common share	$ 0.57	$ 0.57	$ 1.71	$ 1.71
Comprehensive Income:				
Net income	$ 27,280	$ 34,937	$ 68,241	$ 124,232
Comprehensive income	$ 27,280	$ 34,937	$ 68,241	$ 124,232

See accompanying notes.

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LTC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Cumulative Net Income	Cumulative Distributions	Total Stockholder's Equity	Non-Controlling Interests	Total Equity
Balance—December 31, 2017	**39,570**	**$ 396**	**$ 856,992**	**$ 1,100,783**	**$ (1,203,011)**	**$ 755,160**	**$ 3,488**	**$ 758,648**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,578)	(22,578)	—	(22,578)
Issuance of restricted stock	82	—	—	—	—	—	—	—
Stock option exercises	5	—	123	—	—	123	—	123
Stock-based compensation expense	—	—	1,376	—	—	1,376	—	1,376
Net income	—	—	—	20,359	—	20,359	—	20,359
Other	(28)	—	(1,065)	—	—	(1,065)	—	(1,065)
Balance—March 31, 2018	**39,629**	**$ 396**	**$ 857,426**	**$ 1,121,142**	**$ (1,225,589)**	**$ 753,375**	**$ 3,488**	**$ 756,863**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,590)	(22,590)	—	(22,590)
Issuance of restricted stock	9	—	(8)	—	—	(8)	—	(8)
Stock-based compensation expense	—	—	1,521	—	—	1,521	—	1,521
Net income	—	—	—	68,936	—	68,936	—	68,936
Non-controlling interest contributions	—	—	—	—	—	—	1,081	1,081
Other	(3)	—	(107)	—	—	(107)	—	(107)
Balance—June 30, 2018	**39,635**	**$ 396**	**$ 858,832**	**$ 1,190,078**	**$ (1,248,179)**	**$ 801,127**	**$ 4,569**	**$ 805,696**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,600)	(22,600)	—	(22,600)
Proceeds from common stock issued, net of issuance costs	22	1	928	—	—	929	—	929
Stock-based compensation expense	—	—	1,487	—	—	1,487	—	1,487
Net income	—	—	—	34,920	—	34,920	17	34,937
Non-controlling interest contributions	—	—	—	—	—	—	2,882	2,882
Non-controlling interest distributions	—	—	—	—	—	—	(17)	(17)
Other	—	—	(21)	—	—	(21)	—	(21)
Balance—September 30, 2018	**39,657**	**$ 397**	**$ 861,226**	**$ 1,224,998**	**$ (1,270,779)**	**$ 815,842**	**$ 7,451**	**$ 823,293**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,604)	(22,604)	—	(22,604)
Stock-based compensation expense	—	—	1,486	—	—	1,486	—	1,486
Net income	—	—	—	30,766	—	30,766	78	30,844
Non-controlling interest distributions	—	—	—	—	—	—	(48)	(48)
Balance—December 31, 2018	**39,657**	**$ 397**	**$ 862,712**	**$ 1,255,764**	**$ (1,293,383)**	**$ 825,490**	**$ 7,481**	**$ 832,971**
Cumulative effect of the adoption of the ASC 842	—	—	—	(42,808)	—	(42,808)	—	(42,808)
As Adjusted Balance at January 1, 2019	**39,657**	**$ 397**	**$ 862,712**	**$ 1,212,956**	**$ (1,293,383)**	**$ 782,682**	**$ 7,481**	**$ 790,163**
Common Stock cash distributions ($0.57 per share)	48	—	—	—	(22,931)	(22,931)	—	(22,931)
Issuance of restricted stock	78		(1)			(1)		(1)
Stock-based compensation expense	—	—	1,689	—	—	1,689	—	1,689
Net income	—	—	—	20,346	—	20,346	81	20,427
Non-controlling interest contributions	—	—	—	—	—	—	919	919
Non-controlling interest distributions	—	—	—	—	—	—	(89)	(89)
Other	(44)	—	(2,024)	—	—	(2,024)	—	(2,024)
Balance—March 31, 2019	**39,739**	**$ 397**	**$ 862,376**	**$ 1,233,302**	**$ (1,316,314)**	**$ 779,761**	**$ 8,392**	**$ 788,153**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,653)	(22,653)	—	(22,653)
Issuance of restricted stock	8	—	(6)	—	—	(6)	—	(6)
Stock-based compensation expense	—	—	1,623	—	—	1,623	—	1,623
Net income	—	—	—	20,446	—	20,446	88	20,534
Non-controlling interest contributions	—	—	—	—	—	—	46	46
Non-controlling interest distributions	—	—	—	—	—	—	(87)	(87)
Balance—June 30, 2019	**39,747**	**$ 397**	**$ 863,993**	**$ 1,253,748**	**$ (1,338,967)**	**$ 779,171**	**$ 8,439**	**$ 787,610**
Common Stock cash distributions ($0.57 per share)	—	—	—	—	(22,658)	(22,658)	—	(22,658)
Stock option exercises	5	1	122	—	—	123	—	123
Stock-based compensation expense	—	—	1,626	—	—	1,626	—	1,626
Net income	—	—	—	27,192	—	27,192	88	27,280
Non-controlling interest distributions	—	—	—	—	—	—	(67)	(67)
Other	—	—	(20)	—	—	(20)	—	(20)
Balance—September 30, 2019	**39,752**	**$ 398**	**$ 865,721**	**$ 1,280,940**	**$ (1,361,625)**	**$ 785,434**	**$ 8,460**	**$ 793,894**

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

	Nine Months Ended September 30, 2019	2018
OPERATING ACTIVITIES:		
Net income	$ 68,241	$ 124,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,399	28,159
Stock-based compensation expense	4,938	4,384
Gain on sale of real estate, net	(6,736)	(62,698)
Income from unconsolidated joint ventures	(1,973)	(2,103)
Income distributions from unconsolidated joint ventures	2,577	1,727
Insurance proceeds for damaged property	—	2,619
Payment for remediation of damaged property	—	(455)
Straight-line rental income	(3,598)	(8,629)
Adjustment for collectibility of rental income	1,926	—
Lease incentives funded	(322)	(1,272)
Amortization of lease incentives	281	1,651
Provision for doubtful accounts	153	76
Non-cash interest related to contingent liabilities	—	377
Other non-cash items, net	760	923
Increase in interest receivable	(4,367)	(4,240)
Decrease in accrued interest payable	(184)	(1,808)
Net change in other assets and liabilities	(1,003)	495
Net cash provided by operating activities	90,092	83,438
INVESTING ACTIVITIES:		
Investment in real estate properties	(38,334)	(40,408)
Investment in real estate developments	(15,052)	(25,717)
Investment in real estate capital improvements	(2,121)	(2,063)
Capitalized interest	(441)	(850)
Proceeds from sale of real estate, net	8,068	82,340
Investment in real estate mortgage loans receivable	(10,919)	(20,530)
Principal payments received on mortgage loans receivable	565	1,636
Investments in unconsolidated joint ventures	(394)	(580)
Proceeds from dissolution of unconsolidated joint ventures	6,601	—
Advances and originations under notes receivable	(8,531)	(50)
Principal payments received on notes receivable	3,446	3,848
Net cash used in investing activities	(57,112)	(2,374)
FINANCING ACTIVITIES:		
Bank borrowings	73,400	96,500
Repayment of bank borrowings	(20,000)	(73,000)
Principal payments on senior unsecured notes	(14,667)	(20,166)
Proceeds from common stock issued	—	1,005
Stock option exercises	123	123
Distributions paid to stockholders	(68,241)	(67,768)
Contribution from non-controlling interests	46	3,963
Distributions paid to non-controlling interests	(243)	—
Financing costs paid	(41)	(3,162)
Other	(2,053)	(1,201)
Net cash used in financing activities	(31,676)	(63,706)
Increase in cash, cash equivalents and restricted cash	1,304	17,358
Cash, cash equivalents and restricted cash, beginning of period	4,764	5,213
Cash, cash equivalents and restricted cash, end of period	$ 6,068	$ 22,571
Supplemental disclosure of cash flow information:		
Interest paid	$ 22,431	$ 23,869
Non-cash investing and financing transactions:		
Reclassification of notes receivable to lease incentives	$ 200	$ —
Contribution from non-controlling interests	$ 919	$ —

See accompanying notes.

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

1. General

LTC Properties, Inc., a health care real estate investment trust ("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 ("SNF"), assisted living communities ("ALF"), independent living communities ("ILF"), memory care communities ("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 ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("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 nine months ended September 30, 2019 and 2018 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

New Accounting Standards Adopted by Our Company

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15 ("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. We adopted this standard on January 1, 2018. The adoption of this guidance did not have a material impact on our financial statements.

Revenue Recognition ASC Topic 606. On January 1, 2018, we adopted Accounting Standard codification ("ASC") *Topic 606*, *Revenue From Contracts With Customers* ("ASC 606") using the modified retrospective adoption method. ASC 606 outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We evaluated the impact of this standard by assessing our revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. We concluded that adoption of this standard did not have an impact on our results of operations or financial condition, as our revenue consists of rental income from leasing arrangements and interest income from loan arrangements, both of which are specifically excluded from ASC 606.

Leases ASC *Topic 842.* In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02 ("ASU 2016-02"), *Leases*. ASU 2016-02 and its amendments have now formally entered into the FASB codification as ASC *Topic 842, Leases* ("ASC 842"). The objective of ASC 842 is to establish the principles for lessees and lessors to apply for reporting useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease.

ASC 842 requires 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.

ASC 842 requires the lessors to identify lease and non-lease components of a lease agreement. Revenue related to non-lease components under lease agreements will be subject to the revenue recognition standard, upon adoption of this standard. Also, the new standard narrows definition of initial direct costs. Accordingly, upon adoption of the new standard, certain costs (primarily legal costs related to lease negotiations) should be expensed rather than capitalized.

Further, per ASC 842, lessors are required to assess the probability of collecting substantially all of the lease payments. The standard defines collectibility as lessee's ability and intent to pay. If collectibility of substantially all of the lease payments through maturity is not probable, the lease income recorded during the period would be limited to lesser of the income that would have been recognized if collection were probable, and the lease payments received. If the assessment of collectibility changes, any difference between the lease income that would have been recognized and the lease payments should be recognized as an adjustment to lease income. At adoption, lessors are required to perform a lease-by-lease analysis for collectibility of all lease payments through maturity. If at adoption, it is not probable that substantially all of the lease obligations through maturity will be collected, a cumulative adjustment to equity should be made to reflect all of the lease obligations which are not probable to be collected.

Additionally, ASC 842 provides lessors with the option to elect a practical expedient allowing them to not separate lease and non-lease components and instead, to account for those components as a single lease component. This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the non-lease component and the related lease component and (ii) the lease component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease-based or service-based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASC 842 and predominantly service-based would be accounted for under the ASC 606). This practical expedient option is available as a single election that must be consistently applied to all existing leases at the date of adoption. Also, ASC 842 provides a practical expedient that allows companies to use an optional transition method. Under the optional transition method, a cumulative adjustment to equity during the period of adoption is recorded and prior periods would not require restatement. Consequently, entities that elect both the practical expedient and the optional transitional method will apply the new lease ASC prospectively to leases commencing or modified after January 1, 2019 and will not be required to apply the disclosures under the new lease standard to comparative periods.

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

ASC 842 has subsequently been amended by other issued Accounting Standards Update ("ASU") to clarify and improve the standard as well as to provide certain practical expedients. In December 2018, the FASB issued ASU 2018-20 ("ASU 2018-20"), *Narrow-Scope Improvements for Lessors,* which amends ASC 842 to require the lessors to exclude the lessor costs that are directly paid by the lessee to third parties on lessor's behalf from variable payments. However, the lessor costs that are paid by the lessor and reimbursed by the lessee are required to be included in variable payments. Furthermore, ASC 842 allows for several practical expedients which permit the following: no reassessment of lease classification or initial direct costs and use of the standard's effective date as the date of initial application. In March 2019, the FASB issued ASU 2019-01 ("ASU 2019-01"), *Leases (Topic 842), Codification Improvements* which provides clarification regarding presentation and disclosures. ASC 842 and its amendments are effective January 1, 2019.

Adoption of ASC 842. On January 1, 2019, we adopted ASC 842 using the modified retrospective approach as of the adoption date, whereby the cumulative effect of adoption was recognized on the adoption date and prior periods were not restated.

Upon adoption of the standard, we elected the practical expedients provided for in ASC 842, including:

- No reassessment of whether any expired or existing contracts were or contained leases;
- No reassessment of the lease classification for any expired or existing leases;
- No reassessment of initial direct costs for any existing leases; and
- No separation of lease and non-lease components.

As a lessee, we have an office lease agreement with a 5-year remaining term which was classified as an operating lease under ASC 840. Due to election of the package of practical expedients, upon adoption of ASC 842 this lease agreement will continue to be classified as operating lease. For the nine months ended September 30, 2019, we recorded $224,000 of rent expense related to this lease agreement. Adoption of ASC 842 resulted in recording a right-of use asset and a lease liability which represents the present value of the remaining minimum lease payments using our incremental borrowing rate. At September 30, 2019, the balance of the right-of use asset and the lease liability related to our office lease agreement were $1,354,000.

As a lessor, our properties are leased subject to non-cancelable operating leases. 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. Upon adoption of ASC 842, we recorded real estate taxes that are reimbursed by our operators as *Rental Income* with a corresponding *Property tax expense* in the *Consolidated Statements of Income and Comprehensive Income*. For the nine months ended September 30, 2019, we have recognized $12,094,000 in *Rental Income* related to reimbursement of real estate taxes from our operators.

Furthermore, upon adoption of ASC 842, we assessed the probability of collecting substantially all of our lease payments through maturity. As previously reported, we have been monitoring Anthem Memory Care ("Anthem"), Thrive Senior Living, LLC ("Thrive"), Preferred Care, Inc. ("Preferred Care") and Senior Care Centers, LLC. ("Senior Care") due to cash flow concerns, performance concerns and/or bankruptcy filing. In conjunction with adoption of ASC 842, we evaluated our straight-line rent receivable and lease incentive balances related to the noted operators and determined that we do not have

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

the level of collectibility certainty required by the standard to record the straight-line rent receivable. Accordingly, we wrote-off the straight-line rent receivable and lease incentive balances associated with these leases. Also, we wrote-off our 1% general straight-line rent receivable reserve. These balances totaled $42,808,000 and were written-off to equity effective January 1, 2019 as required by ASC 842.

During the nine months ended September 30, 2019, we received cash rent from Anthem, Thrive, Preferred Care and Senior Care. The total amount of rental income received from these operators was $26,135,000 and is included in *Rental Income* on the *Consolidated Statements of Income and Comprehensive Income*. Of the $26,135,000 received, $5,571,000 and $22,542,000 are comprised of cash payments received for amounts previously written-off in transition to ASC 842 ("Recoveries") during the three and nine months ended September 30, 2019, respectively.

New Accounting Standards Not Yet Adopted by Our Company

In 2016, the FASB issued ASU No. 2016-13*, Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This standard requires a new forward looking "expected loss" model to be used for receivables, held-to-maturity debt, loans, and other instruments. When shared risk characteristics exist, ASU 2016-13 requires a collective basis measurement of expected credit losses of the financial assets. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

2. Real Estate Investments

Assisted living communities, independent living communities, memory care communities and combinations thereof are included in the assisted living property classification (collectively "ALF").

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

Owned Properties. Our 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.

Our leases that contain fixed annual rental escalations and/or have annual rental escalations that are contingent upon changes in the Consumer Price Index, are generally recognized on a straight-line

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basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved.

The following table summarizes our investments in owned properties at September 30, 2019 *(dollar amounts in thousands)*:

Type of Property	Gross Investment	Percentage of Investment	Number of Properties (1)	Number of SNF Beds	Number of ALF Units	Average Investment per Bed/Unit
Assisted Living	$ 844,635	57.3 %	105	—	6,070	$ 139.15
Skilled Nursing	605,763	41.1 %	72	8,835	261	$ 66.60
Under Development (2)	12,934	0.9 %	—	—	—	—
Other (3)	11,360	0.7 %	1	118	—	—
Total	$ 1,474,692	100.0 %	178	8,953	6,331	

(1) We own properties in 28 states that are leased to 30 different operators.

(2) Represents a 78-unit ALF/MC located in Oregon and a 90-bed SNF located in Missouri.

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

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

	Cash Rent (1)
2019	$ 32,265
2020	132,387
2021	124,338
2022	125,420
2023	127,027
Thereafter	731,116

(1) Represents contractual cash rent, except for four master leases which are based on cash rents. See below for more information.

During 2017, we issued a notice of default to Anthem Memory Care ("Anthem") resulting from Anthem's partial payment of minimum rent. Anthem operates 11 memory care communities under a master lease. We currently estimate that Anthem will pay $7,500,000 of annual cash rent during 2019. This amount represents approximately 50% of the contractual amount due under the lease in 2019. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Anthem and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019, as required by the ASC 842 transition guidance.

During 2017, Preferred Care, Inc. ("Preferred Care") and affiliated entities filed for Chapter 11 bankruptcy as a result of a multi-million-dollar judgment in a lawsuit in Kentucky against Preferred Care and certain affiliated entities. The affiliated entities named in the lawsuit operate properties in Kentucky and New Mexico. Preferred Care leased 24 properties under two master leases from us and none of the 24 properties are located in Kentucky or New Mexico. Those 24 properties are in Arizona, Colorado, Iowa, Kansas and Texas. The Preferred Care operating entities that sublease those properties did not file for bankruptcy. The court ordered deadline for affirmation or rejection of the lease passed without action by Preferred Care. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Preferred Care and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019, as required by the ASC 842 transition guidance. During the third quarter of 2019, Preferred Care began paying only $55,000 of monthly rent. The rental obligation under unconfirmed lease was approximately $1,000,000. We applied all of their security deposit to rental income during the third quarter and recorded only the $55,000 cash received in October 2019 to rental income. We are working with Preferred Care on options for the portfolio which likely will include selling the majority of the properties. In October of 2019, we entered into multiple contracts to sell a portion of the properties and are negotiating contracts to sell the remainder of the properties. The contracts are subject to standard due diligence and other contingencies to close. Should these conditions be met, we anticipate reclassifying these properties to held-for-sale.

On December 4, 2018, Senior Care Centers, LLC. and affiliates and subsidiaries ("Senior Care") filed for Chapter 11 bankruptcy as a result of lease terminations from certain landlords and on-going operational challenges. Senior Care did not pay us December 2018 rent, but has paid us January to October 2019 rent, real estate property tax and maintenance deposits. In December 2018, we placed Senior Care on a cash basis. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Senior Care and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019, as required by the ASC 842 transition guidance.

Pursuant to the U.S. Bankruptcy Code, Senior Care had an initial period of 120 days from the petition date to assume or reject the lease. However, the Bankruptcy Code also provides that the court may extend this initial 120-day period for an additional 90 days. Accordingly, Senior Care requested, and the court approved an additional 90 days, which ended on July 2, 2019, to assume or reject the lease. In July 2019, Senior Care filed a motion attempting to affirm the lease. We subsequently filed an objection in opposition to Senior Care's motion. During the fourth quarter of 2019, the court rejected our motion and accordingly, our master lease with Senior Care was affirmed. At October 4, 2019, as of court filing, the court has ordered Senior Care to pay us unpaid rent from December 2018, late fees and legal costs totaling $1,596,000 by the earlier of the bankruptcy plan effective date or December 16, 2019.

During the three months ended March 31, 2019, we placed Thrive Senior Living, LLC. ("Thrive") on a cash basis due to short-payment of contractual rent in November 2018 and non-payment of rent in December 2018 totaling $700,000. This rent was subsequently received in 2019. Thrive did not pay 2019 contractual rent. In April 2019, we issued a notice of default to Thrive. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Thrive and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019, as required by the ASC 842 transition guidance.

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We completed the following for all of the properties in the Thrive portfolio. As of September 30, 2019, Thrive does not operate any property in our portfolio:

- Transitioned two memory care communities located in Ohio and Kentucky with a total of 120-units to an operator new to our portfolio during the second quarter of 2019. The memory care communities are under a 10-year lease term with initial cash rent of $1,250,000 in year one, $1,500,000 in year two, $1,975,000 in year three and $2,150,000 in year four. Rent may increase subject to a contingent escalation formula commencing in year five and annually thereafter. The lease provides the lessee with a purchase option available between 2028-2029;
- Transitioned a 56-unit memory care community located in Texas to an existing operator and added the memory care community to an existing master lease during the second quarter of 2019. As a result of this transition, annual cash rent under the existing master lease was increased by $400,000 effective June 1, 2019 and will increase by an additional $300,000 on June 1, 2020 and 2.5% annually thereafter. Additionally, LTC will be entitled to incremental rent calculated as a percentage of increases in gross revenues generated by the property above an established threshold;
- Transitioned two memory care communities in Georgia and South Carolina with a total of 159-units to an existing operator during the third quarter of 2019. The new 2-year lease agreement has an initial annual cash rent of $1,762,000. The lease provides the lessee one month free rent and the option to defer up to 50% of contractual rent through December 2019. Rent increases 3.5% in year two; and
- Transitioned the remaining 60-unit memory care community located in Florida to an existing operator effective August 1, 2019. The new 10-year lease provides the lessee twelve months free rent, rent of $450,000 in year two and $600,000 in year three and thereafter. In year two the lessee has the option to defer rent in an amount not to exceed $150,000. Rent may increase subject to a contingent escalation formula commencing in year three and annually thereafter. Additionally, the lease provides the lessee with a purchase option available between 2028 and 2029.

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The following table summarizes components of our rental income for the three and nine months ended September 30, 2019 and 2018 *(in thousands):*

Rental Income	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Base cash rental income	$ 33,754 (1)	$ 31,506	$ 100,687 (1)	$ 95,273
Variable cash rental income	3,926 (2)	76 (2)	12,488 (2)	395 (2)
Straight-line rent	1,085 (3)	3,189	3,598 (3)	8,629
Adjustment for collectibility of rental income	—	—	(1,926) (4)	—
Amortization of lease incentives	(100)	(560)	(281)	(1,651)
Total	$ 38,665	$ 34,211	$ 114,566	$ 102,646

(1) Increased due to acquisitions, developments and capital improvements partially offset due to reduced rent from sold properties and properties transitioned to other operators.

(2) The three months ended September 30, 2019 variable rental income includes $77 related to contingent rental income and $3,849 related to our real estate taxes which were reimbursed by our operators. The nine months ended September 30, 2019 variable rental income includes $394 related to contingent rental income and $12,094 related to our real estate taxes which were reimbursed by our operators. Per the provisions of ASC 842, any lessor cost, paid by the lessor and reimbursed by the lessee, must be included as a lease payment. As discussed above, we adopted ASC 842 using a modified retrospective approach as of the adoption date of January 1, 2019. Accordingly, we are not required to report this revenue stream for periods prior to January 1, 2019.

(3) In accordance with ASC 842 lease accounting guidance, we evaluated the collectibility of lease payments through maturity and determined that it was not probable that we would collect substantially all of the contractual obligations from Anthem, Thrive, Preferred Care and Senior Care leases through maturity. Decreased due to these leases being accounted for on cash-basis as of January 1, 2019.

(4) During the first quarter of 2019, we terminated a lease agreement and transitioned two operating seniors housing communities under the lease agreement to a new operator. As a result of the lease termination, we wrote-off $1,926 straight-line rent receivable to contra-revenue in accordance with ASC 842.

Some of our lease agreements provide purchase options allowing the lessees to purchase the properties they currently lease from us. The following table summarizes information about purchase options included in our lease agreements *(dollar amount in thousands):*

State	Type of Property	Number of Properties	Gross Investments	Carrying Value	Option Window
California	ALF/MC	2	$ 38,895	$ 36,777	2024-2029
California	ALF	2	28,246	15,551	2021-TBD (1)
Florida	MC	1	14,201	12,845	2028-2029
Kentucky and Ohio	MC	2	30,087	28,007	2028-2029
Texas	MC	2	25,265	24,490	2025-2027
South Carolina	ALF/MC	1	11,680	10,939	2028-2029
Total			$ 148,374	$ 128,609	

(1) The option window ending date will be either 24 months or 48 months after the option window commences, based on certain contingencies.

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Acquisitions and Developments: The following table summarizes our acquisitions for the nine months ended September 30, 2019 and 2018 *(dollar amounts in thousands):*

Year	Type of Property	Purchase Price	Transaction Costs [(1)]	Total Acquisition Costs	Number of Properties	Number of Beds/Units
2019	Skilled Nursing [(2)]	$ 19,500	$ 77	$ 19,577	1	90
	Assisted Living [(3)]	16,719	176	16,895	1	74
	Land [(4)]	2,732	49	2,781	—	—
Total		$ 38,951	$ 302	$ 39,253	2	164
2018	Assisted Living [(5) (6)]	$ 39,600	$ 65	$ 39,665	3	177
	Land [(6)]	695	48	743	—	—
Total		$ 40,295	$ 113	$ 40,408	3	177

(1) Represents cost associated with our acquisitions; however, upon adoption of ASU 2017-01, our acquisitions meet the definition of an asset acquisition resulting in capitalization of transaction costs to the properties' basis. For our land purchases with forward development commitments, transaction costs are capitalized as part of construction in progress. Transaction costs per our *Consolidated Statements of Income and Comprehensive Income* represents current and prior year transaction costs due to timing and terminated transactions.

(2) We acquired a newly constructed 90-bed SNF located in Missouri.

(3) We entered into a joint venture ("JV") (consolidated on our financial statements) to purchase an existing operational 74-unit ALF/MC community. The non-controlling partner contributed $919 of equity and we contributed $15,971 in cash. Our economic interest in the real estate JV is approximately 95%.

(4) We acquired a parcel of land adjacent to an existing SNF in California. Additionally, we acquired a parcel of land and development of a 90-bed SNF in Missouri. The commitment totals approximately $17,400.

(5) We acquired two MC properties in Texas.

(6) We entered into a JV (consolidated on our financial statements) to purchase an existing operational 89-unit ILF and to own the real estate and develop a 78-unit ALF/MC for $18,108 in Oregon.

During the nine months ended September 30, 2019 and 2018, we invested the following in development and improvement projects *(in thousands)*:

	Nine Months Ended September 30,			
	2019		2018	
Type of Property	Developments	Improvements	Developments	Improvements
Assisted Living Communities	$ 10,266	$ 1,826	$ 19,251	$ 1,131
Skilled Nursing Centers	4,786	—	6,466	500
Other	—	295	—	432
Total	$ 15,052	$ 2,121	$ 25,717	$ 2,063

Completed Developments. The following table summarizes our completed developments during the nine months ended September 30, 2019 and 2018 *(dollar amounts in thousands):*

Year	Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	Total Investment
2019	Development	1	SNF	143	Kentucky	$ 24,496
	Development	1	ILF/ALF/MC	110	Wisconsin	21,893
Total		2		253		$ 46,389
2018	Development	1	MC	66	Illinois	$ 13,974
Total		1		66		$ 13,974

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Properties held-for-sale. The following table summarizes our property held-for-sale as of September 30, 2019 *(dollar amounts in thousands):*

State	Type of Property	Number of Properties	Gross Investment	Accumulated Depreciation	Number of Beds/units
Texas	ILF	1	$ 5,746	$ 1,916	140

Properties Sold. The following table summarizes property sales during the nine months ended September 30, 2019 and 2018 *(dollar amounts in thousands):*

Year	State	Type of Properties		Number of Properties	Number of Beds/Units	Sales Price	Carrying Value	Net Gain (Loss)	
2019	N/A	N/A		—	—	$ —	$ —	$ 500	(1)
	Georgia	SNF		1	148	7,920	1,639	6,236	
Total 2019				1	148	$ 7,920	$ 1,639	$ 6,736	
2018	Alabama	SNF		2	285	$ 17,525	$ 3,272	$ 14,253	
	Kansas	ALF	(2)	—	—	350	346	—	
	Ohio and Pennsylvania	ALF	(1)	6	320	67,500	16,352	48,445	
Total 2018				8	605	$ 85,375	$ 19,970	$ 62,698	

(1) Gain recognized due to the receipt of funds held in escrow related to a portfolio of six ALFs sold during the second quarter of 2018.

(2) We sold land adjacent to an existing ALF community in Kansas.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2019 *(dollar amounts in thousands)*:

Interest Rate (1)	Maturity	Gross Investment	Type of Property	Percentage of Investment	Number of Loans (2)	Number of Properties (3)	SNF Beds	Investment per Bed/Unit
9.7%	2043	$ 186,510	SNF	72.9 %	1	15	2,029	$ 91.92
9.2%	2045	34,886	SNF	13.6 %	1	4	501	$ 69.63
9.4%	2045	19,391	SNF	7.6 %	1	2	205	$ 94.59
9.4%	2045	14,950	SNF	5.9 %	1	1	157	$ 95.22
Total		$ 255,737		100.0 %	4	22	2,892	$ 88.43

(1) The majority of the mortgage loans provide for annual increases in the interest rate after a certain time period based upon a specified increase of 2.25%.

(2) Some loans contain certain guarantees, provide for certain facility fees and the majority of the mortgage loans have a 30-year term.

(3) The properties securing these mortgage loans are located in one state and are operated by one operator.

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The following table summarizes our mortgage loan activity for the nine months ended September 30, 2019 and 2018 *(in thousands):*

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Originations and funding under mortgage loans receivable	$ 10,919 (1)	$ 20,530 (2)
Pay-offs received	—	(1,086)
Scheduled principal payments received	(565)	(550)
Mortgage loan premium amortization	(3)	(3)
Provision for loan loss reserve	(104)	(189)
Net increase in mortgage loans receivable	$ 10,247	$ 18,702

(1) During 2019, we funded an additional $7,500 under an existing mortgage loan. The incremental funding bears interest at 9.41%, fixed for two years, and escalating by 2.25% thereafter.

(2) During 2018, we funded an additional $7,400 under an existing mortgage loan for the purchase of a 112-bed SNF in Michigan. The incremental funding bears interest at 8.7%, fixed for five years, and escalating by 2.25% thereafter. Also, we funded additional loan proceeds of $7,125 under an existing mortgage loan for the purchase of a 126-bed skilled nursing center in Michigan. This incremental funding bears interest at 9.41%, fixed for five years, and escalating by 2.25% thereafter.

3. Investment in Unconsolidated Joint Ventures

The following table summarizes our investment in an unconsolidated joint venture *(dollar amounts in thousands):*

State	Type of Properties	Type of Investment	Total Preferred Return	Currently Paid in Cash	Number of Beds/ Units	Investment Commitment	Carrying Value
Arizona	ALF/MC/ILF	Preferred Equity (1)	15 %	8 % (2)	585	$ 25,650	$ 24,426
Total					585	$ 25,650	$ 24,426

(1) We have concluded that the JV is a variable interest entity ("VIE") in accordance with GAAP. 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 the JV investment using the equity method.

(2) Effective second quarter of 2019, this JV was placed on cash basis due to delinquency of our preferred return.

Subsequent to September 30, 2019, the JV in which we hold our preferred equity investment signed a letter of intent for the sale of the four properties comprising the JV. Concurrently, the JV is pursuing a refinancing alternative to take advantage of lower interest rates in today's market. Based upon the information available to us regarding available alternatives and courses of action as of September 30, 2019, we performed a recoverability test on the carrying amount of our preferred equity investment and concluded the preferred equity investment was not impaired.

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The following table summarizes our capital contributions, income recognized, and cash interest received related to our investments in unconsolidated joint ventures *(in thousands):*

Year	Type of Properties		Capital Contribution		Income Recognized		Cash Interest Received	
2019	ALF/MC/ILF		$ 394		$ 614		$ 1,166	
	ALF/ILF/MC	(1)	—	(1)	955	(1)	979	(1)
	ALF/MC	(2)	—	(2)	404	(2)	432	(2)
Total			$ 394		$ 1,973		$ 2,577	
2018	ALF/MC/ILF		$ 580		$ 1,490		$ 1,436	
	ALF/ILF/MC	(1)	—	(1)	383	(1)	291	(1)
	ALF/MC	(2)	—	(2)	230	(2)	—	(2)
Total			$ 580		$ 2,103		$ 1,727	

(1) We had a $2,900 mezzanine loan commitment for a 99-unit seniors housing community in Florida with a total preferred return of 15%. The mezzanine loan was an ADC arrangement which we determined it to have characteristics similar to a jointly-owned arrangement and recorded it as an unconsolidated joint venture. Since interest payments were deferred and no interest was recorded for the first twelve months of the loan, we used the effective interest method in accordance with GAAP to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance. During the third quarter of 2019, the mezzanine loan was paid off.

(2) We had a $3,400 mezzanine loan commitment for the development of a 127-unit seniors housing community in Florida with a total preferred return of 15%. The mezzanine loan was an ADC arrangement which we determined it to have characteristics similar to a jointly-owned arrangement and recorded it as an unconsolidated joint venture. During the first quarter of 2019, the mezzanine loan was paid off.

4. Notes Receivable

Notes receivable consists of mezzanine loans and other loan arrangements. The following table is a summary of our notes receivable components as of September 30, 2019 and December 31, 2018 *(in thousands):*

	At September 30, 2019	At December 31, 2018
Mezzanine loans	$ 13,284	$ 9,868
Other loans	4,445	2,975
Notes receivable reserve	(177)	(128)
Total	$ 17,552	$ 12,715

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The following tables summarizes our notes receivable activity for the nine months ended September 30, 2019 and 2018 (*dollar amounts in thousands*):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Advances under notes receivable	$ 8,531 (1)	$ 50
Principal payments received under notes receivable	(3,446)	(3,848)
Reclassified to lease incentives (2)	(200)(2)	—
Notes receivable reserve	(48)	38
Total	$ 4,837	$ (3,760)

(1) We originated a $6,800 mezzanine loan commitment for the development of a 204-unit ILF/ALF/MC in Georgia. The mezzanine loan has a five-year term and a 12.0% return, a portion of which is paid in cash, and the remaining portion of which is deferred during the first 46 months. Additionally, we originated a $1,400 note agreement, funding $1,124 with a commitment to fund $276. The note bears interest at 7.0%. Further, we originated a $550 note agreement, funding $400 with a commitment to fund $150. The note bears interest at 7.5%.

(2) Represents an interim working capital loan related to a development project which matured upon completion of the development project and commencement of the lease.

5. Lease Incentives

Our lease incentives balances at September 30, 2019 and December 31, 2018 are as follows *(in thousands):*

	September 30, 2019	December 31, 2018
Non-contingent lease incentives	$ 2,590	$ 14,443

The following table summarizes our lease incentive activity for the nine months ended September 30, 2019 and 2018*(in thousands)*:

	Nine Months Ended September 30,				
	2019			2018	
	Funding	Amortization	Reclassification	Funding	Amortization
Non-contingent lease incentives	$ 322	$ (281)	$ (11,893)(1)	$ 1,272	$ (1,292)
Contingent lease incentives	—	—	—	—	(359)
Net increase (decrease) in lease incentives	$ 322	$ (281)	$ (11,893)	$ 1,272	$ (1,651)

(1) In accordance with ASC 842 lease standard adopted on January 1, 2019, we wrote-off $12,093 of lease incentives related to leases for which we determined it is not probable we will collect substantially all of the contractual lease obligation through maturity. See *Note 1. General* for further discussion. Additionally, we reclassified a $200 interim working capital loan as lease incentive. See *Note 4. Notes Receivable for further discussion.*

Non-contingent lease incentives represent payments made to our lessees for various reasons including entering into a new lease or lease amendments and extensions. Contingent lease incentives represent potential contingent earn-out payments that may be made to our lessees in the future, as part of our lease agreements. From time to time, we may commit to provide contingent payments to our lessees, upon our properties achieving certain rent coverage ratios. Once the contingent payment becomes probable and estimable, the contingent payment is recorded as a lease incentive. Lease incentives are amortized as a yield adjustment to rental income over the remaining life of the lease.

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6. Debt Obligations

Bank Borrowings. During 2018, we amended and restated our unsecured credit agreement to replace the previous unsecured credit agreement, prior to its expiration on October 14, 2018. The amended credit agreement maintains the $600,000,000 aggregate commitment of the lenders under the prior agreement and provides for the opportunity to increase the commitment size of the credit agreement up to a total of $1,000,000,000. The amended credit agreement extends the maturity of the credit agreement to June 27, 2022 and provides for a one-year extension option at our discretion, subject to customary conditions. Additionally, the amended credit agreement decreases the interest rate margins and converts from the payment of unused commitment fees to a facility fee. Based on our leverage at September 30, 2019, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points. At September 30, 2019, we were in compliance with all covenants.

Senior Unsecured Notes. We have a $337,500,000 shelf agreement with affiliates and managed accounts of PGIM, Inc. ("Prudential") which expires on February 16, 2020.

The debt obligations by component as of September 30, 2019 and December 31, 2018 are as follows (*dollar amounts in thousands):*

		At September 30, 2019		At December 31, 2018	
Debt Obligations	**Applicable Interest Rate (1)**	**Outstanding Balance**	**Available for Borrowing**	**Outstanding Balance**	**Available for Borrowing**
Bank borrowings (2)	3.39%	$ 165,400	$ 434,600	$ 112,000	$ 488,000
Senior unsecured notes, net of debt issue costs (3)	4.48%	518,469	107,500	533,029	93,833
Total	4.22%	$ 683,869	$ 542,100	$ 645,029	$ 581,833

(1) Represents weighted average of interest rate as of September 30, 2019.

(2) Subsequent to September 30, 2019, we paid down $100,000 under our unsecured revolving line of credit, using the proceeds from the sale of $100,000 senior unsecured notes as explained below. Accordingly, we have $65,400 outstanding under our revolving line of credit with $534,600 available for borrowing.

(3) Subsequent to September 30, 2019, we sold $100,000 aggregate principal amount of 3.85% senior unsecured notes maturing in 2031 to Prudential. Accordingly, we have $618,469 outstanding and $7,500 available under our senior unsecured notes.

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

	Nine Months Ended September 30,			
	2019		2018	
Debt Obligations	**Borrowings**	**Repayments**	**Borrowings**	**Repayments**
Bank borrowings	$ 73,400	$ (20,000)	$ 96,500	$ (73,000)
Senior unsecured notes	—	(14,667)	—	(20,166)
Total	$ 73,400	$ (34,667)	$ 96,500	$ (93,166)

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7. Equity

Common Stock. We have separate equity distribution agreements (collectively, "Equity Distribution Agreements") to offer and sell, from time to time, up to $200,000,000 in aggregate offering price of shares of our common stock. As of September 30, 2019, no shares had been issued under the Equity Distribution Agreements. Accordingly, at September 30, 2019, we had $200,000,000 available under the Equity Distribution Agreements.

During the nine months ended September 30, 2019 and 2018, we acquired 45,030 shares and 31,326 shares, respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Non-controlling Interests. We have entered into partnerships to develop and/or own real estate. Given that our limited members do not have the substantive kick-out rights, liquidation rights, or participation rights, we have concluded that the partnerships are VIEs. As we exercise power over and receive benefits from the VIEs, we are considered the primary beneficiary. Accordingly, we consolidate the VIEs and record the non-controlling interests at cost.

As of September 30, 2019, we have the following consolidated VIEs *(dollar amounts in thousands):*

Investment Year	Purpose	Property Type	State	Gross Consolidated Assets	Non-Controlling Interests
2019	Owned real estate	ALF/MC	VA	$ 16,895	$ 919
2018	Owned real estate	ILF	OR	14,400 (1)	2,857 (1)
2018	Owned real estate and development	UDP	OR	9,987 (1)	1,081 (1)
2017	Owned real estate and development	ILF/ALF/MC	WI	21,893 (2)	2,318 (2)
2017	Owned real estate	ALF/MC	SC	11,680	1,285
Total				$ 74,855	$ 8,460

(1) We entered into a JV to develop, purchase and own seniors housing properties. During the second quarter of 2018, the JV purchased land for the development of a 78-unit ALF/MC for a total anticipated project cost of $18,108. The non-controlling partner contributed $1,081 of cash and we committed to fund the remaining $17,027 project cost. During the third quarter of 2018, in a sale-leaseback transaction, the JV purchased an existing operational 89-unit ILF adjacent to the 78-unit ALF/MC we are developing for $14,400. The non-controlling partner contributed $2,857 of equity and we contributed $11,543 in cash. Upon completion of the development project, our combined economic interest in the JV will be approximately 88%.

(2) We entered into a JV to own the real estate and develop a 110-unit ILF/ALF/MC community in Wisconsin. This development project completed during the second quarter of 2019.

Available Shelf Registration. We have an automatic shelf registration statement on file with the SEC, and currently have the ability to file additional automatic shelf registration statements, to provide us with 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 our automatic shelf registration statement 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. Our shelf registration statement expires on February 28, 2022.

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

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

	Nine Months Ended September 30,			
	2019		2018	
	Declared	Paid	Declared	Paid
Common Stock [(1)]	$ 68,241	$ 68,241	$ 67,768	$ 67,768

(1) Represents $0.19 per share per month for the nine months ended September 30, 2019 and 2018.

In October 2019, we declared a monthly cash dividend of $0.19 per share on our common stock for the months of October, November and December 2019, payable on October 31, November 29, and December 31, 2019, respectively, to stockholders of record on October 23, November 21, and December 23, 2019, respectively.

Stock-Based Compensation. Under our 2015 Equity Participation Plan ("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.

At September 30, 2019, we had 15,000 stock options outstanding and exercisable. During the nine months ended September 30, 2019 and 2018, no stock options were granted. The stock options exercised during the nine months ended September 30, 2019 and 2018 were as follows:

	Options Exercised	Weighted Average Exercise Price	Option Value	Market Value [(1)]
2019	5,000	$ 24.65	$ 123,000	$ 233,000
2018	5,000	$ 24.65	$ 123,000	$ 205,000

(1) As of exercise date.

The following table summarizes our restricted stock and performance-based stock units activity for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,	
	2019	2018
Outstanding, January 1	325,750	244,181
Granted	147,608	156,718
Vested	(127,725)(1)	(75,149)
Outstanding, September 30	345,633	325,750

(1) Includes 48,225 performance-based stock units.

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

During the nine months ended September 30, 2019 and 2018, 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
2019	78,276	$ 46.54	ratably over 3 years
	60,836	$ 46.54	TSR targets [1]
	8,496	$ 44.73	May 29, 2020
	147,608		
2018	81,819	$ 38.18	ratably over 3 years
	66,171	$ 38.18	TSR targets [1]
	8,728	$ 41.25	May 30, 2019
	156,718		

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

Compensation expense recognized related to the vesting of restricted common stock and performance-based stock units for the nine months ended September 30, 2019 and 2018 were $4,938,000 and $4,384,000, respectively. At September 30, 2019, 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 *(in thousands):*

Vesting Date	Remaining Compensation Expense
2019	$ 1,627
2020	4,619
2021	2,503
2022	189
Total	$ 8,938

8. Commitments and Contingencies

At September 30, 2019, we had commitments as follows *(in thousands):*

	Investment Commitment	2019 Funding	Total Commitment Funded	Remaining Commitment
Real estate properties (*Note 2. Real Estate Investments*)	$ 50,647 (1)	$ 9,450	$ 18,959	$ 31,688
Accrued incentives and earn-out liabilities *(Note 5. Lease Incentives)*	9,000	—	—	9,000
Mortgage loans (*Note 2. Real Estate Investments*)	56,200 (2)	3,419	22,009	34,191
Joint venture investments (*Note 3. Investments in Unconsolidated Joint Ventures*)	25,650	394	24,078	1,572
Notes receivable (*Note 4. Notes Receivable*)	2,850	1,603	1,627	1,223
Total	$ 144,347	$ 14,866	$ 66,673	$ 77,674

(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) Represents $35,700 of commitments to expand and renovate the seniors housing and health care properties securing the mortgage loans and $20,500 represents contingent funding upon the borrower achieving certain coverage ratios.

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

Also, some of our lease agreements provide purchase options allowing the lessee to purchase the properties they currently lease from us. See *Note 2. Real Estate Investments* for a table summarizing information about our purchase options.

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.

9. Major Operators

We have two operators from each of which we derive 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, 2019:

	Number of		Number of		Percentage of	
Operator	**SNF**	**ALF**	**SNF Beds**	**ALF Units**	**Total Revenue (1)**	**Total Assets**
Prestige Healthcare	24	—	3,010	93	17.0 %	17.3 %
Senior Lifestyle Corporation	—	23	—	1,457	10.8 %	10.3 %
Total	24	23	3,010	1,550	27.8 %	27.6 %

(1) Includes rental income from owned properties and interest income from mortgage loans as of September 30, 2019 and excludes rental income due to lessee reimbursement of our real estate taxes and adjustment for collectability of rental income.

Our financial position and ability to make distributions may be adversely affected if Prestige Healthcare, Senior Lifestyle Corporation, 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
(Unaudited)

10. Earnings per Share

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net income	$ 27,280	$ 34,937	$ 68,241	$ 124,232
Less income allocated to non-controlling interests	(88)	(17)	(257)	(17)
Less income allocated to participating securities:				
Non-forfeitable dividends on participating securities	(93)	(89)	(279)	(268)
Income allocated to participating securities	(19)	(49)	(19)	(236)
Total net income allocated to participating securities	(112)	(138)	(298)	(504)
Net income available to common stockholders	27,080	34,782	67,686	123,711
Effect of dilutive securities:				
Participating securities	— (1)	138	— (1)	504
Net income for diluted net income per share	$ 27,080	$ 34,920	$ 67,686	$ 124,215
Shares for basic net income per share	39,586	39,487	39,565	39,470
Effect of dilutive securities:				
Stock options	4	4	4	3
Performance-based stock units	375	217	375	217
Participating securities	— (1)	157	— (1)	155
Total effect of dilutive securities	379	378	379	375
Shares for diluted net income per share	39,965	39,865	39,944	39,845
Basic net income per share	$ 0.68	$ 0.88	$ 1.71	$ 3.13
Diluted net income per share	$ 0.68	$ 0.88	$ 1.69	$ 3.12

(1) For the three and nine months ended September 30, 2019, the participating securities have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive.

11. Fair Value Measurements

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

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

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, 2019 and December 31, 2018 assuming election of fair value for our financial assets and financial liabilities were as follows (*in thousands*):

	At September 30, 2019		At December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	$ 253,186	$ 310,842 (1)	$ 242,939	$ 295,492 (1)
Bank borrowings	165,400	165,400 (2)	112,000	112,000 (2)
Senior unsecured notes, net of debt issue costs	518,469	537,739 (3)	533,029	508,613 (3)

(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, 2019 and December 31, 2018 was 9.0%.

(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, 2019 and December 31, 2018 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, 2019, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.50% for those maturing before year 2026 and 3.70% for those maturing at or beyond year 2026. At December 31, 2018, the discount rate used to value our future cash outflow of our senior unsecured notes was 5.15% for those maturing before year 2026 and 5.40% for those maturing at or beyond year 2026.

12. Subsequent Events

Subsequent to September 30, 2019 the following events occurred:

Debt. We sold $100,000,000 aggregate principal amount of 3.85% senior unsecured notes due in 2031 to Prudential. Accordingly, we have $618,469,000 outstanding and $7,500,000 available under our senior unsecured notes. Additionally, we paid down $100,000,000 under our unsecured revolving line of credit using the proceeds from the sale of senior unsecured noted explained above. Accordingly, we have $65,400,000 outstanding under our revolving line of credit with $534,600,000 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 2019, payable on October 31, November 29, and December 31, 2019, respectively to stockholders of record on October 23, November 21, and December 23, 2019, respectively.

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

Statement Regarding Forward Looking Disclosure

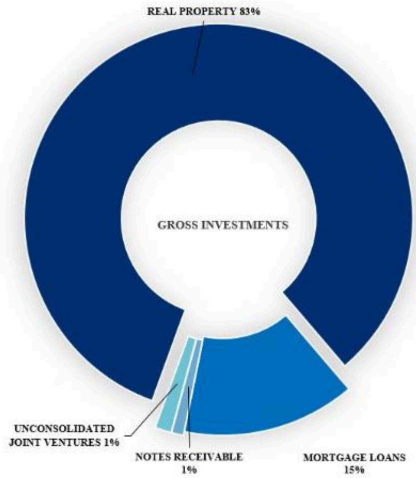
This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not 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," "could," "would," "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; our dependence on operators for revenue and cash flow; the bankruptcy, insolvency or financial deterioration of our lessees; potential limitations on our remedies when mortgage loans default; 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; 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, 2018 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 ("REIT") that invests in seniors housing and health care properties 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.

The following graph summarizes our gross investments as of September 30, 2019:



Our primary seniors housing and health care property classifications include skilled nursing centers ("SNF"), assisted living communities ("ALF"), independent living communities ("ILF"), memory care communities ("MC") and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF classification. As of September 30, 2019, seniors housing and long-term health care properties comprised approximately 99.3% 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, interest earned on outstanding loans receivable and income from investments in unconsolidated joint ventures. 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 property type and operator. Our monitoring process includes periodic review of financial statements for each facility, periodic review of operator credit, scheduled property inspections and review of covenant compliance.

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

Real Estate Portfolio Overview

The following tables summarize our real estate investment portfolio by owned properties and mortgage loans and by type, as of September 30, 2019 (*dollar amounts in thousands*):

Owned Properties	Gross Investments	Percentage of Investments	Nine Months Ended September 30, 2019 Rental Income (1)	Nine Months Ended September 30, 2019 Interest Income	Percentage of Revenues	Number of Properties (2)	Number of SNF Beds (3)	Number of ALF Units (3)
Assisted Living	$ 844,635	48.8 %	$ 51,023	$ —	40.3 %	105	—	6,070
Skilled Nursing	605,763	35.0 %	52,662	—	41.5 %	72	8,835	261
Under Development (4)	12,934	0.7 %	—	—	— %	—	—	—
Other (5)	11,360	0.7 %	713	—	0.6 %	1	118	—
Total Owned Properties	1,474,692	85.2 %	104,398	—	82.4 %	178	8,953	6,331
Mortgage Loans								
Skilled Nursing	255,737	14.8 %	—	22,308	17.6 %	22	2,892	—
Total Mortgage Loans	255,737	14.8 %	—	22,308	17.6 %	22	2,892	—
Total Portfolio	$ 1,730,429	100.0 %	$ 104,398	$ 22,308	100.0 %	200	11,845	6,331

Summary of Properties by Type	Gross Investments	Percentage of Investments	Nine Months Ended September 30, 2019 Rental Income (1)	Nine Months Ended September 30, 2019 Interest Income	Percentage of Revenues	Number of Properties (2)	Number of SNF Beds (3)	Number of ALF Units (3)
Skilled Nursing	$ 861,500	49.8 %	$ 52,662	$ 22,308	59.2 %	94	11,727	261
Assisted Living	844,635	48.8 %	51,023	—	40.3 %	105	—	6,070
Under Development (4)	12,934	0.7 %	—	—	— %	—	—	—
Other (5)	11,360	0.7 %	713	—	0.5 %	1	118	—
Total Portfolio	$ 1,730,429	100.0 %	$ 104,398	$ 22,308	100.0 %	200	11,845	6,331

(1) Excludes variable rental income of $12,094 related to our real estate taxes which were reimbursed by our operators and adjustment for collectability of rental income.

(2) We have investments in 28 states leased or mortgaged to 30 different operators.

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

(4) Represents a development project consisting of a 78-unit ALF/MC located in Oregon and a 90-bed SNF located in Missouri.

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

As of September 30, 2019, we had $1.4 billion in net carrying value of real estate investments, consisting of $1.1 billion or 81.7% invested in owned and leased properties and $0.3 billion or 18.3% invested in mortgage loans secured by first mortgages. Our investment in mortgage loans mature in 2043 and beyond and contain interest rates between 9.2% and 9.7%.

For the nine months ended September 30, 2019, rental income and interest income from mortgage loans represented 82.5% and 16.1%, respectively, of total gross revenues. In most instances, our lease structure contains fixed annual rental escalations and/or annual rental escalations that are contingent upon changes in the Consumer Price Index, 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 gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved.

During the nine months ended September 30, 2019, there were no lease renewals. For the nine months ended September 30, 2019, we recorded $3.6 million in straight-line rental income and amortization of lease incentive cost of $0.3 million. During the nine months ended September 30, 2019, we received $113.2 million of cash rental income, which includes $12.1 million of operator reimbursements for our real estate taxes. At September 30, 2019, the straight-line rent receivable balance, net of reserves, on the balance sheet was $44.8 million.

Update on Certain Operators

During 2017, we issued a notice of default to Anthem Memory Care ("Anthem") resulting from Anthem's partial payment of minimum rent. Anthem operates 11 memory care communities under a master lease. We currently estimate that Anthem will pay $7.5 million of annual cash rent during 2019. This amount represents approximately 50% of the contractual amount due under the lease in 2019. In accordance with Accounting Standard codification ("ASC") *Topic 842, Leases* ("ASC 842") lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Anthem and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019 as required by the ASC 842 transition guidance.

During 2017, Preferred Care, Inc. ("Preferred Care") and affiliated entities filed for Chapter 11 bankruptcy as a result of a multi-million-dollar judgment in a lawsuit in Kentucky against Preferred Care and certain affiliated entities. The affiliated entities named in the lawsuit operate properties in Kentucky and New Mexico. Preferred Care leased 24 properties under two master leases from us and none of the 24 properties are located in Kentucky or New Mexico. Those 24 properties are in Arizona, Colorado, Iowa, Kansas and Texas. The Preferred Care operating entities that sublease those properties did not file for bankruptcy. The court ordered deadline for affirmation or rejection of the lease passed without action by Preferred Care. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Preferred Care and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019 as required by the ASC 842 transition guidance. Furthermore, we placed Preferred Care on a cash basis on January 1, 2019. In October of 2019, Preferred Care began paying only $55,000 of monthly rent. The rental obligation under unconfirmed lease was approximately $1.0 million. We applied all of their security deposit to rental income during the third quarter and recorded only the $55,000 cash received in October 2019 to rental income. We are working with Preferred Care on options for the portfolio which likely will include selling the majority of the properties. During the fourth quarter of 2019, we entered into multiple contracts to sell a portion of the properties and are negotiating contracts to sell the remainder of the properties. The contracts are subject to standard due diligence and other contingencies to close. Should these conditions be met, we anticipate reclassifying these properties to held-for-sale.

On December 4, 2018, Senior Care Centers, LLC. and affiliates and subsidiaries ("Senior Care") filed for Chapter 11 bankruptcy as a result of lease terminations from certain landlords and on-going operational challenges. Senior Care did not pay us December 2018 rent, but has paid us January to October 2019 rent, real estate property tax and maintenance deposits. In December 2018, we placed Senior Care on a cash basis. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Senior Care and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019 as required by the ASC 842 transition guidance.

Pursuant to the U.S. Bankruptcy Code, Senior Care had an initial period of 120 days from the petition date to assume or reject the lease. However, the Bankruptcy Code also provides that the court may extend this initial 120-day period for an additional 90 days. Accordingly, Senior Care requested, and the court approved an additional 90 days, which ended on July 2, 2019, to assume or reject the lease. In July 2019, Senior Care filed a motion attempting to affirm the lease. We subsequently filed an objection in opposition to Senior Care's motion. During the fourth quarter of 2019, the court rejected our motion and accordingly, our master lease with Senior Care was affirmed. At October 4, 2019, as of court filing, the court has ordered Senior Care to pay us unpaid rent from December 2018, late fees and legal costs totaling $1.6 million by the earlier of the bankruptcy plan effective date or December 16, 2019.

During the three months ended March 31, 2019, we placed Thrive Senior Living, LLC. ("Thrive") on a cash basis due to short-payment of contractual rent in November 2018 and non-payment of rent in December 2018 totaling $0.7 million. This rent was subsequently received in 2019. Thrive did not pay 2019 contractual rent. In April 2019, we issued a notice of default to Thrive. In accordance with ASC 842 lease accounting guidance, at January 1, 2019, we evaluated the collectibility of straight-line rent receivable and lease incentive balances related to Thrive and determined that it was not probable that we would collect substantially all of the contractual lease obligations through maturity. Accordingly, we wrote-off the balances to equity as of January 1, 2019 as required by the ASC 842 transition guidance.

We completed the following for all of the properties in the Thrive portfolio. As of September 30, 2019, Thrive does not operate any property in our portfolio:

- Transitioned two memory care communities located in Ohio and Kentucky with a total of 120-units to an operator new to our portfolio during the second quarter of 2019. The memory care communities are under a 10-year lease term with initial cash rent of $1.3 million in year one, $1.5 million in year two, $2.0 million in year three and $2.2 million in year four. Rent may increase subject to a contingent escalation formula commencing in year five and annually thereafter. The lease provides the lessee with a purchase option available between 2028-2029;
- Transitioned a 56-unit memory care community located in Texas to an existing operator and added the memory care community to an existing master lease during the second quarter of 2019. As a result of this transition, annual cash rent under the existing master lease was increased by $0.4 million effective June 1, 2019 and will increase by an additional $0.3 million on June 1, 2020 and 2.5% annually thereafter. Additionally, LTC will be entitled to incremental rent calculated as a percentage of increases in gross revenues generated by the property above an established threshold;
- Transitioned two memory care communities in Georgia and South Carolina with a total of 159-units to an existing operator during the third quarter of 2019. The new 2-year lease agreement has an initial annual cash rent of $1.8 million. The lease provides the lessee one month free rent and the option to defer up to 50% of contractual rent through December 2019. Rent increases 3.5% in year two; and
- Transitioned the remaining 60-unit memory care community located in Florida to an existing operator effective August 1, 2019. The new 10-year lease provides the lessee twelve months free rent, rent of $0.5 million in year two and $0.6 million in year three and thereafter. In year two the lessee has the option to defer rent in an amount not to exceed $0.2 million. Rent may increase subject to a contingent escalation formula commencing in year three and annually thereafter. Additionally, the lease provides the lessee with a purchase option available between 2028 and 2029.

2019 Activities Overview

The following tables summarize our transactions during the nine months ended September 30, 2019 *(dollar amounts in thousands)*:

Investment in Owned Properties

State	Number of Properties	Type of Properties	Number of Beds/Units	Initial Cash Yield	Purchase Price	Total Transaction Costs	Total Acquisition Costs
California	— (1)	Land	—	N/A	$ 110	$ 27	$ 137
Missouri	1 (2)	SNF/Land	90	(2) %	22,122	99	22,221
Virginia	1 (3)	ALF/MC	74	7.4 %	16,719	176	16,895
Total	2		164		$ 38,951	$ 302	$ 39,253

(1) We acquired a parcel of land adjacent to an existing SNF in California.

(2) We acquired a newly constructed 90-bed SNF located in Missouri for approximately $19,500. The initial cash yield is 8.3% with annual escalation of 2% effective December 2019 and thereafter. Additionally, we acquired a parcel of land and development of a 90-bed SNF in Missouri. The commitment totals approximately $17,400. The initial cash yield upon completion of the development will be 9.3%.

(3) We entered into a joint venture (“JV”) to purchase an existing operational 74-unit ALF/MC community. The non-controlling partner contributed $919 of equity and we contributed $15,971 in cash. Our economic interest in the real estate JV is approximately 95%.

Investment in Development and Improvement projects

	Developments	Improvements
Assisted Living Communities	$ 10,266	$ 1,826
Skilled Nursing Centers	4,786	—
Other	—	295
Total	$ 15,052	$ 2,121

Completed Developments

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	Total Investment
Development	1	SNF	143	Kentucky	$ 24,493
Development	1	ILF/ALF/MC	110	Wisconsin	21,872
	2		253		$ 46,365

Investment in Mortgage Loans

Originations and funding under mortgage loans receivable	$ 10,919 (1)
Scheduled principal payments received	(565)
Mortgage loan premium amortization	(3)
Provision for loan loss reserve	(104)
Net increase in mortgage loans receivable	$ 10,247

(1) During 2019, we funded an additional $7,500 under an existing mortgage loan. The incremental funding bears interest at 9.41%, fixed for two years, and escalating by 2.25% thereafter.

Investment in Unconsolidated Joint Ventures

State	Type of Properties	Type of Investment	Total Preferred Return	Currently Paid in Cash	Number of Beds/ Units	Investment Commitment	Carrying Value	Capital Contribution	Recognized Income	Received Cash Interest
Arizona	ALF/MC/ILF	Preferred Equity	15 %	8 % (1)	585	$ 25,650	$ 24,426	$ 394	$ 614	$ 1,166
Florida (2)	ALF/ILF/MC	Mezzanine	N/A	N/A	N/A	— (2)	— (2)	—	955 (2)	979 (2)
Florida (3)	UDP/ALF/MC	Mezzanine	N/A	N/A	N/A	—	—	—	404 (3)	432 (3)
					585	$ 25,650	$ 24,426	$ 394	$ 1,973	$ 2,577

(1) Effective second quarter of 2019, this JV was placed on cash basis due to delinquency of our preferred return. Subsequent to September 30, 2019, the JV signed a letter of intent for the sale of the four properties comprising the JV. Concurrently, the JV is pursuing a refinancing alternative to take advantage of lower interest rates in today's market. Based upon the information available to us regarding available alternatives and courses of action as of September 30, 2019, we performed a recoverability test on the carrying amount of our preferred equity investment and concluded the preferred equity investment was not impaired.

(2) We had a $2,900 mezzanine loan commitment for a 99-unit seniors housing community in Florida with a total preferred return of 15%. Since interest payments were deferred and no interest was recorded for the first twelve months of the loan, we used the effective interest method in accordance with GAAP to recognize interest income and recorded the difference between the effective interest income and cash interest income to the loan principal balance. During the third quarter of 2019, the mezzanine loan was paid off.

(3) We had a $3,400 mezzanine loan commitment for the development of a 127-unit seniors housing community in Florida with a total preferred return of 15%. During the first quarter of 2019, the mezzanine loan was paid off.

Notes Receivable

Advances under notes receivable	$ 8,531 (1)
Principal payments received under notes receivable	(3,446)
Reclassed to real estate under development	(200) (2)
Notes receivable reserve	(48)
Net decrease in notes receivable	$ 4,837

(1) We originated a $6,800 mezzanine loan commitment for the development of a 204-unit ILF/ALF/MC in Georgia. The mezzanine loan has a five-year term and a 12.0% return, a portion of which is paid in cash, and the remaining portion of which is deferred during the first 46 months. Additionally, we originated a $1,400 note agreement, funding $1,124 with a commitment to fund $276. The note bears interest at 7.0%. Further, we originated a $550 note agreement, funding $400 with a commitment to fund $150. The note bears interest at 7.5%.

(2) Represents an interim working capital loan related to a development project which matured upon completion of the development project and commencement of the lease.

Health Care Regulatory Climate

The Centers for Medicare & Medicaid Services ("CMS") annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 30, 2019, CMS issued its final fiscal year 2020 Medicare skilled nursing facility update. Under the final rule, CMS projects aggregate payments to skilled nursing facilities will increase by $851 million, or 2.4%, for fiscal year 2020 compared with fiscal year 2019. The final rule also addresses implementation of the new Patient-Driven Payment Model case mix classification system that became effective on October 1, 2019, changes to the group therapy definition in the skilled nursing facility setting, and various skilled nursing facility Value-Based Purchasing and quality reporting program policies.

On July 18, 2019, CMS published a final rule that eliminates the prohibition on pre-dispute binding arbitration agreements between long-term care facilities and their residents. The rule also strengthens the transparency of arbitration agreements and makes other changes to arbitration requirements for long-term care facilities. 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 lessees and borrowers, 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, real estate investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our real estate 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. The National Association of Real Estate Investment Trusts (“NAREIT”), an organization representing U.S. REITs and publicly traded real estate companies, classifies a company with 50% or more of assets directly or indirectly in the equity ownership of real estate as an equity REIT. 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 real estate investment that relate to our top five states.

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

	9/30/19	6/30/19	3/31/19	12/31/18	9/30/18
Asset mix:					
Real property	$ 1,474,692	$ 1,452,669	$ 1,445,596	$ 1,421,456	$ 1,414,267
Loans receivable	255,737	254,555	246,775	245,386	245,053
Real estate investment mix:					
Skilled nursing centers	$ 861,500	$ 844,136	$ 834,185	$ 830,485	$ 832,599
Assisted living communities	844,635	843,682	840,926	820,686	812,800
Under development	12,934	8,167	6,193	4,606	2,881
Other (1)	11,360	11,239	11,067	11,065	11,040
Operator mix:					
Prestige Healthcare (1)	$ 268,869	$ 267,688	$ 259,907	$ 258,519	$ 258,186
Senior Lifestyle Corporation	191,283	190,758	190,368	190,368	189,945
Senior Care Centers	138,109	138,109	138,109	138,109	138,109
Anthem Memory Care	136,483	136,397	136,397	136,397	135,946
Carespring Health Care Management	102,042	102,038	99,997	97,461	95,951
Remaining operators	893,643	872,234	867,593	845,988	841,183
Geographic mix:					
Texas	$ 292,238	$ 292,159	$ 292,091	$ 292,317	$ 292,317
Michigan (1)	256,680	255,498	247,718	246,329	245,996
Wisconsin	149,184	149,064	146,750	143,657	137,056
Colorado	114,923	114,923	114,923	114,923	114,923
California	102,561	102,412	102,254	102,254	102,254
Remaining states	814,843	793,168	788,635	767,362	766,774

(1) We have three parcels of land located adjacent to properties securing the Prestige Healthcare mortgage loan and are managed by Prestige.

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to gross asset value and debt to market capitalization. The leverage ratios indicate how much of our consolidated balance sheet capitalization is related to long-term obligations. Our coverage ratios include interest coverage ratio and fixed charge coverage ratio. The coverage ratios indicate our ability to service interest and fixed charges (interest). The coverage ratios are based on earnings before interest, taxes, depreciation and amortization for real estate ("EBITDA*re*") as defined by NAREIT. EBITDA*re* is calculated as net income available to common stockholders (computed in accordance with GAAP) excluding (i) interest expense, (ii) income tax expense, (iii) real estate depreciation and amortization, (iv) impairment write-downs of depreciable real estate, (v) gains or losses on the sale of depreciable real estate, and (vi) adjustments for unconsolidated partnerships and joint ventures. 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				
	9/30/19	9/30/19	6/30/19	3/31/19	12/31/18	9/30/18
Debt to gross asset value	36.8 %	36.8 %	36.8 % (2)	37.1 % (3)	35.2 % (5)	36.4 %
Debt to market capitalization ratio	25.1 %	25.1 % (1)	27.1 %	27.1 % (1)	28.1 % (6)	27.7 %
Interest coverage ratio (8)	4.9 x	4.9 x	4.8 x	4.9 x (4)	5.2 x (7)	4.8 x
Fixed charge coverage ratio (8)	4.9 x	4.9 x	4.8 x	4.9 x (4)	5.2 x (7)	4.8 x

(1) Decreased due to increase in market capitalization.

(2) Decreased due to increase in gross asset value from additional mortgage loan, development and capital improvement funding.

(3) Increased due to increase in outstanding debt and decrease in gross asset value. The decrease in gross asset value was primarily due to adoption of ASC 842 during the three months ended March 31, 2019. ASC 842 requires a lease-by-lease collectibility analysis of receivables and related balances. Based on our assessment, we determined that it was not probable that we would collect substantially all of the contractual lease obligations for certain leases through maturity. Accordingly, we wrote-off the balance of straight-line rent receivable and lease incentives related to these leases as a cumulative adjustment to equity, as required by the transition guidance.

(4) Decreased due to decrease in other income compared to the fourth quarter of 2018. See (7) below for explanation.

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

(6) Increased due to decrease in market capitalization, partially offset by decrease in outstanding debt.

(7) Increased due to decrease in interest expense and increase in other income from the net write-off of Senior Lifestyle contingent lease incentive and the related earn-out liability.

(8) In calculating our interest coverage and fixed charge coverage ratios above, we use EBITDA*re*, which is a financial measure not derived in accordance with GAAP (non-GAAP financial measure). EBITDA*re* 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 EBITDA*re* 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 EBITDA*re*.

	Year to Date	Quarter Ended				
	9/30/19	9/30/19	6/30/19	3/31/19	12/31/18	9/30/18
Net income	$ 68,241	$ 27,280	$ 20,534	$ 20,427	$ 30,844	$ 34,937
Less: Gain on sale	(6,736)	(6,236)	(500)	—	(7,984)	(14,353)
Add: Interest expense	23,004	7,827	7,710	7,467	7,215	7,497
Add: Depreciation and amortization	29,399	9,932	9,860	9,607	9,396	9,447
Total EBITDA*re*	$ 113,908	$ 38,803	$ 37,604	$ 37,501	$ 39,471	$ 37,528
Interest expense	$ 23,004	$ 7,827	$ 7,710	$ 7,467	$ 7,215	$ 7,497
Add: Capitalized interest	441	108	73	260	398	298
Interest incurred	$ 23,445	$ 7,935	$ 7,783	$ 7,727	$ 7,613	$ 7,795
Interest coverage ratio	4.9 x	4.9 x	4.8 x	4.9 x	5.2 x	4.8 x
Interest incurred	$ 23,445	$ 7,935	$ 7,783	$ 7,727	$ 7,613	$ 7,795
Total fixed charges	$ 23,445	$ 7,935	$ 7,783	$ 7,727	$ 7,613	$ 7,795
Fixed charge coverage ratio	4.9 x	4.9 x	4.8 x	4.9 x	5.2 x	4.8 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, 2019	Three Months Ended September 30, 2018	Difference
Revenues:			
Rental income	$ 38,665	$ 34,211	$ 4,454 (1) (2)
Interest income from mortgage loans	7,646	7,087	559 (3)
Interest and other income	808	478	330 (4)
Total revenues	47,119	41,776	5,343
Expenses:			
Interest expense	7,827	7,497	(330)(5)
Depreciation and amortization	9,932	9,447	(485)(6)
(Recovery) provision for doubtful accounts	(14)	106	120
Transaction costs	75	9	(66)
Property tax expense	4,270	—	(4,270)(2)
General and administrative expenses	4,745	4,879	134
Total expenses	26,835	21,938	(4,897)
Other operating income:			
Gain on sale of real estate, net	6,236 (7)	14,353 (8)	(8,117)
Operating income	26,520	34,191	(7,671)
Income from unconsolidated joint ventures	760	746	14
Net income	27,280	34,937	(7,657)
Income allocated to non-controlling interests	(88)	(17)	(71)
Net income attributable to LTC Properties, Inc.	27,192	34,920	(7,728)
Income allocated to participating securities	(112)	(138)	26
Net income available to common stockholders	$ 27,080	$ 34,782	$ (7,702)

(1) Increased due to (2) below and increased rent from acquisitions and developments partially offset by decreased rent from sold properties and properties transitioned to other operators.

(2) Increased due to recording $3,849 real estate taxes that are reimbursed by our operators as rental income with a corresponding property tax expense. We adopted ASC 842 using a modified retrospective approach as of the adoption date of January 1, 2019. Accordingly, we are not required to report the expense and revenue stream for periods prior to January 1, 2019. Additionally, we recorded $421 of property tax expense related to Preferred Care. See *Update on Certain Operators* under *Item 2. Real Estate Portfolio Overview*.

(3) Increased primarily due to mortgage originations and capital improvement funding.

(4) Increased due to mezzanine and other loan originations.

(5) Increased due to a higher average outstanding balance on our line of credit partially offset by scheduled principal payments under our senior unsecured notes and decrease in capitalized interest.

(6) Increased due to acquisitions and completed developments partially offset by sold properties.

(7) Represents the net gain on sale of a SNF in Georgia.

(8) Represents the net gain on sale of two SNFs in Alabama.

	Nine Months Ended September 30, 2019	2018	Difference
Revenues:			
Rental income	$ 114,566	$ 102,646	$ 11,920 (1) (2)
Interest income from mortgage loans	22,308	20,910	1,398 (3)
Interest and other income	1,967	1,502	465 (4)
Total revenues	138,841	125,058	13,783
Expenses:			
Interest expense	23,004	22,981	(23)
Depreciation and amortization	29,399	28,159	(1,240)(5)
Provision for doubtful accounts	153	76	(77)
Transaction costs	275	19	(256)
Property tax expense	12,566	—	(12,566)(2)
General and administrative expenses	13,912	14,392	480 (6)
Total expenses	79,309	65,627	(13,682)
Other operating income:			
Gain on sale of real estate, net	6,736 (7)	62,698 (8)	(55,962)
Operating income	66,268	122,129	(55,861)
Income from unconsolidated joint ventures	1,973	2,103	(130)
Net income	68,241	124,232	(55,991)
Income allocated to non-controlling interests	(257)	(17)	(240)
Net income attributable to LTC Properties, Inc.	67,984	124,215	(56,231)
Income allocated to participating securities	(298)	(504)	206
Net income available to common stockholders	$ 67,686	$ 123,711	$ (56,025)

(1) Increased due to (2) below and increased rent from acquisitions and developments partially offset by decreased rent from sold properties and properties transitioned to other operators.

(2) Increased due to recording $12,094 real estate taxes that are reimbursed by our operators as rental income with a corresponding property tax expense. We adopted ASC 842 using a modified retrospective approach as of the adoption date of January 1, 2019. Accordingly, we are not required to report the expense and revenue stream for periods prior to January 1, 2019. Additionally, we recorded $421 of property tax expense related to Preferred Care. See *Update on Certain Operators* under *Item 2. Real Estate Portfolio Overview.*

(3) Increased primarily due to mortgage originations and capital improvement funding.

(4) Increased due to mezzanine and other loan originations partially offset by payoffs.

(5) Increased due to acquisitions and completed developments partially offset by sold properties.

(6) Decreased primarily due to lower accrual of incentive compensation in 2019.

(7) Represents the net gain on sale of $6,236 related to a 148-bed SNF in Georgia. Additionally, during the nine months ended September 30, 2019, due to receipt of funds held in escrow related to a portfolio of six ALFs sold in 2018, we recognized an additional $500 net gain on sale. See (8) below.

(8) Represents the net gain on sale of $48,345 related to a portfolio of six ALFs in Ohio and Pennsylvania and net gain on sale of $14,353 related to two SNFs in Alabama.

Funds From Operations Available to Common Stockholders

Funds from Operations ("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 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,	
	2019	2018	2019	2018
GAAP net income available to common stockholders	$ 27,080	$ 34,782	$ 67,686	$ 123,711
Add: Depreciation and amortization	9,932	9,447	29,399	28,159
Less: Gain on sale of real estate, net	(6,236)	(14,353)	(6,736)	(62,698)
NAREIT FFO attributable to common stockholders	$ 30,776	$ 29,876	$ 90,349	$ 89,172
NAREIT FFO attributable to common stockholders per share:				
Basic	$ 0.78	$ 0.76	$ 2.28	$ 2.26
Diluted	$ 0.77 (1)	$ 0.75 (1)	$ 2.26 (1)	$ 2.25 (1)
Weighted average shares used to calculate NAREIT FFO per share:				
Basic	39,586	39,487	39,565	39,470
Diluted	40,129 (2)	39,865 (2)	40,106 (2)	39,845 (2)

(1) Includes the effect of the participating securities.

(2) 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, 2019, we had a total of $4.0 million of cash and cash equivalents, $434.6 million available under our unsecured revolving line of credit, $107.5 million available under our senior unsecured note shelf agreement and the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our Equity Distribution Agreements. Furthermore, we have the ability to access the capital markets through the issuance of debt and/ or equity securities under an automatic shelf registration statement.

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 used in financing and 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 2019 and 2020.

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 owned properties and mortgage loans, 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 leases have agreed upon annual increases and our loans have predetermined increases in interest rates. 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 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):	2019	2018	$
Operating activities	$ 90,092	$ 83,438	$ 6,654
Investing activities	(57,112)	(2,374)	(54,738)
Financing activities	(31,676)	(63,706)	32,030
Increase in cash, cash equivalents and restricted cash	1,304	17,358	(16,054)
Cash, cash equivalents and restricted cash, beginning of period	4,764	5,213	(449)
Cash, cash equivalents and restricted cash, end of period	$ 6,068	$ 22,571	$ (16,503)

Debt Obligations

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600.0 million in aggregate commitment of the lenders and the opportunity to increase the commitment size of the credit agreement up to a total of $1.0 billion. The Unsecured Credit Agreement matures on June 27, 2022 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at September 30, 2019, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points. At September 30, 2019, we were in compliance with all covenants.

Senior Unsecured Notes. We have a $337.5 million shelf agreement with affiliates and managed accounts of PGIM, Inc. (“Prudential”) which expires on February 16, 2020.

The debt obligations by component as of September 30, 2019 are as follows *(dollar amounts in thousands):*

Debt Obligations	Applicable Interest Rate (1)	Outstanding Balance	Available for Borrowing
Bank borrowings (2)	3.39%	$ 165,400	$ 434,600
Senior unsecured notes, net of debt issue costs (3)	4.48%	518,469	107,500
Total	4.22%	$ 683,869	$ 542,100

(1) Represents weighted average of interest rate as of September 30, 2019.

(2) Subsequent to September 30, 2019, we paid down $100,000 under our unsecured revolving line of credit, using the proceeds from the sale of $100,000 senior unsecured notes as explained below. Accordingly, we have $65,400 outstanding under our revolving line of credit with $534,600 available for borrowing.

(3) Subsequent to September 30, 2019, we sold $100,000 aggregate principal amount of 3.85% senior unsecured notes maturing in 2031 to Prudential. Accordingly, we have $618,469 outstanding and $7,500 available under our senior unsecured notes.

Our debt borrowings and repayments during the nine months ended September 30, 2019 are as follows *(in thousands):*

Debt Obligations	Borrowings	Repayments
Bank borrowings	$ 73,400	$ (20,000)
Senior unsecured notes	—	(14,667)
Total	$ 73,400	$ (34,667)

Equity

At September 30, 2019, we had 39,751,704 shares of common stock outstanding, equity on our balance sheet totaled $793.9 million and our equity securities had a market value of $2.0 billion. During the nine months ended September 30, 2019, we declared and paid $68.2 million of cash dividends.

Subsequent to September 30, 2019, we declared a monthly cash dividend of $0.19 per share on our common stock for the months of October, November and December 2019, payable on October 31, November 29, and December 31, 2019, respectively, to stockholders of record on October 23, November 21, and December 23, 2019, respectively.

At-The-Market Program. On March 1, 2019, we entered into new separate equity distribution agreements (collectively, “Equity Distribution Agreements”) with four sales agents, replacing prior equity distribution agreements dated August 1, 2016. Under the terms of the new Equity Distribution Agreements, we may offer and sell, from time to time, up to $200.0 in aggregate offering price of shares of our common stock. As of September 30, 2019, no shares had been issued under the Equity Distribution Agreements. Accordingly, at September 30, 2019, we had $200.0 available under the Equity Distribution Agreements.

Available Shelf Registrations. We have an automatic shelf registration statement on file with the SEC and currently have the ability to file additional automatic shelf registration statements to provide us with 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 our automatic registration statement 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. Our shelf registration statement expires on February 28, 2022.

Stock-Based Compensation. During the nine months ended September 30, 2019, we granted restricted stock and performance-based stock units under the 2015 Plan as follows:

No. of Shares	Price per Share	Vesting Period
78,276	$ 46.54	ratably over 3 years
60,836	$ 46.54	TSR targets (1)
8,496	$ 44.73	May 29, 2020
147,608		

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

Critical Accounting Policies

Our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q are prepared in conformity with U.S. generally accepted accounting principles for interim financial information set forth in the Accounting Standards Codification as published by the Financial Accounting Standards Board, which require us to make estimates and assumptions regarding future events that affect the amounts reported in our financial statements and accompanying footnotes. We base these estimates on our experience and assumptions regarding future events we believe to be reasonable under the circumstances. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements. We have described our most critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2018.

There have been no changes to our critical accounting policies or estimates since December 31, 2018, with exception of the adoption of ASC *Topic 842, Leases*. Please refer to *Note 1. General* of these unaudited consolidated financial statements under Part 1, Item 1 of this Quarterly Report on Form 10-Q for information regarding recently adopted standards.

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, 2019. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2018.

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, 2018.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

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.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

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: October 31, 2019

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)
October 31, 2019

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)
October 31, 2019

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, 2019 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: October 31, 2019	/s/ Wendy L. Simpson Wendy L. Simpson Chairman, Chief Executive Officer and President
Date: October 31, 2019	/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.