
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, 2022

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 ☒ 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 ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of common stock outstanding on October 20, 2022 was 40,504,791.

LTC PROPERTIES, INC.

FORM 10-Q

September 30, 2022

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	<i>(unaudited)</i>	<i>(audited)</i>
ASSETS		
Investments:		
Land	\$ 124,665	\$ 123,239
Buildings and improvements	1,270,722	1,285,318
Accumulated depreciation and amortization	(379,915)	(374,606)
Operating real estate property, net	1,015,472	1,033,951
Properties held-for-sale, net of accumulated depreciation: 2022—\$2,305; 2021—\$0	10,710	—
Real property investments, net	1,026,182	1,033,951
Financing receivable, net of credit loss reserve: 2022—\$760; 2021—\$0	75,507	—
Mortgage loans receivable, net of credit loss reserve: 2022—\$3,862; 2021—\$3,473	383,006	344,442
Real estate investments, net	1,484,695	1,378,393
Notes receivable, net of credit loss reserve: 2022—\$590; 2021—\$286	58,424	28,337
Investments in unconsolidated joint ventures	19,340	19,340
Investments, net	1,562,459	1,426,070
Other assets:		
Cash and cash equivalents	6,478	5,161
Debt issue costs related to revolving line of credit	2,480	3,057
Interest receivable	44,290	39,522
Straight-line rent receivable	22,253	24,146
Lease incentives	2,001	2,678
Prepaid expenses and other assets	12,004	4,191
Total assets	<u>\$ 1,651,965</u>	<u>\$ 1,504,825</u>
LIABILITIES		
Revolving line of credit	\$ 151,000	\$ 110,900
Term loans, net of debt issue costs: 2022—\$526; 2021—\$637	99,474	99,363
Senior unsecured notes, net of debt issue costs: 2022—\$1,533; 2021—\$524	543,287	512,456
Accrued interest	3,120	3,745
Accrued expenses and other liabilities	29,915	33,234
Total liabilities	826,796	759,698
EQUITY		
Stockholders' equity:		
Common stock: \$0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2022—40,505; 2021—39,374	404	394
Capital in excess of par value	899,921	856,895
Cumulative net income	1,526,721	1,444,636
Accumulated other comprehensive income (loss)	9,445	(172)
Cumulative distributions	(1,633,241)	(1,565,039)
Total LTC Properties, Inc. stockholders' equity	803,250	736,714
Non-controlling interests	21,919	8,413
Total equity	825,169	745,127
Total liabilities and equity	<u>\$ 1,651,965</u>	<u>\$ 1,504,825</u>

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Rental income	\$ 31,585	\$ 29,320	\$ 93,537	\$ 91,097
Interest income from financing receivable	357	—	357	—
Interest income from mortgage loans	10,379	7,924	30,112	23,779
Interest and other income	1,182	228	3,308	1,005
Total revenues	43,503	37,472	127,314	115,881
Expenses:				
Interest expense	7,941	6,610	22,607	20,442
Depreciation and amortization	9,385	9,462	28,202	28,847
Impairment charges	1,286	—	1,286	—
Provision for credit losses	795	68	1,454	59
Transaction costs	629	4,046	728	4,271
Property tax expense	4,179	3,932	12,180	11,713
General and administrative expenses	5,888	5,318	17,407	15,688
Total expenses	30,103	29,436	83,864	81,020
Other operating income:				
(Loss) gain on sale of real estate, net	(387)	2,702	37,809	7,392
Operating income	13,013	10,738	81,259	42,253
Income from unconsolidated joint ventures	376	376	1,127	1,041
Net income	13,389	11,114	82,386	43,294
Income allocated to non-controlling interests	(99)	(92)	(301)	(271)
Net income attributable to LTC Properties, Inc.	13,290	11,022	82,085	43,023
Income allocated to participating securities	(131)	(113)	(481)	(346)
Net income available to common stockholders	\$ 13,159	\$ 10,909	\$ 81,604	\$ 42,677
Earnings per common share:				
Basic	\$ 0.33	\$ 0.28	\$ 2.06	\$ 1.09
Diluted	\$ 0.32	\$ 0.28	\$ 2.04	\$ 1.09
Weighted average shares used to calculate earnings per common share:				
Basic	40,270	39,177	39,658	39,149
Diluted	40,552	39,177	39,939	39,149
Dividends declared and paid per common share	\$ 0.57	\$ 0.57	\$ 1.71	\$ 1.71

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 13,389	\$ 11,114	\$ 82,386	\$ 43,294
Unrealized gain on cash flow hedges before reclassification	3,501	—	9,361	—
(Gains) losses reclassified from accumulated other comprehensive income to interest expense	(195)	—	256	—
Comprehensive income	16,695	11,114	92,003	43,294
Less: Comprehensive income allocated to non-controlling interests	(99)	(92)	(301)	(271)
Comprehensive income attributable to LTC Properties, Inc.	<u>\$ 16,596</u>	<u>\$ 11,022</u>	<u>\$ 91,702</u>	<u>\$ 43,023</u>

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

	Common Stock		Capital in	Cumulative	Accumulated	Cumulative	Total	Non-	Total
	Shares	Amount	Excess of Par Value	Net Income	OCI	Distributions	Stockholder's Equity	Controlling Interests	Equity
Balance—December 31, 2020	39,242	\$ 392	\$ 852,780	\$ 1,388,775	\$ —	\$ (1,474,545)	\$ 767,402	\$ 8,404	\$ 775,806
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,405)	(22,405)	—	(22,405)
Vesting of performance-based stock units, including the payment of distributions	109	1	(1)	—	—	(764)	(764)	—	(764)
Stock-based compensation expense	—	—	1,852	—	—	—	1,852	—	1,852
Net income	—	—	—	13,762	—	—	13,762	88	13,850
Non-controlling interest distributions	—	—	—	—	—	—	—	(88)	(88)
Cash paid for taxes in lieu of common shares	(84)	—	(3,470)	—	—	—	(3,470)	—	(3,470)
Other	95	1	(11)	—	—	—	(10)	—	(10)
Balance—March 31, 2021	39,362	\$ 394	\$ 851,150	\$ 1,402,537	\$ —	\$ (1,497,714)	\$ 756,367	\$ 8,404	\$ 764,771
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,439)	(22,439)	—	(22,439)
Vesting of performance-based stock units, including the payment of distributions	—	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	1,958	—	—	—	1,958	—	1,958
Net income	—	—	—	18,239	—	—	18,239	91	18,330
Non-controlling interest distributions	—	—	—	—	—	—	—	(91)	(91)
Cash paid for taxes in lieu of common shares	(3)	—	(103)	—	—	—	(103)	—	(103)
Other	15	—	(46)	—	—	—	(46)	—	(46)
Balance—June 30, 2021	39,374	\$ 394	\$ 852,959	\$ 1,420,776	\$ —	\$ (1,520,153)	\$ 753,976	\$ 8,404	\$ 762,380
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,443)	(22,443)	—	(22,443)
Stock-based compensation expense	—	—	1,975	—	—	—	1,975	—	1,975
Net income	—	—	—	11,022	—	—	11,022	92	11,114
Non-controlling interest distributions	—	—	—	—	—	—	—	(92)	(92)
Non-controlling interest contributions	—	—	—	—	—	—	—	9	9
Other	—	—	(13)	—	—	—	(13)	—	(13)
Balance—September 30, 2021	39,374	\$ 394	\$ 854,921	\$ 1,431,798	\$ —	\$ (1,542,596)	\$ 744,517	\$ 8,413	\$ 752,930
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,443)	(22,443)	—	(22,443)
Stock-based compensation expense	—	—	1,975	—	—	—	1,975	—	1,975
Net income	—	—	—	12,838	—	—	12,838	92	12,930
Non-controlling interest distributions	—	—	—	—	—	—	—	(92)	(92)
Fair market valuation adjustment for interest rate swap	—	—	—	—	(172)	—	(172)	—	(172)
Other	—	—	(1)	—	—	—	(1)	—	(1)
Balance—December 31, 2021	39,374	\$ 394	\$ 856,895	\$ 1,444,636	\$ (172)	\$ (1,565,039)	\$ 736,714	\$ 8,413	\$ 745,127
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,480)	(22,480)	—	(22,480)
Stock-based compensation expense	—	—	1,925	—	—	—	1,925	—	1,925
Net income	—	—	—	14,412	—	—	14,412	95	14,507
Cash paid for taxes in lieu of common shares	(37)	—	(1,255)	—	—	—	(1,255)	—	(1,255)
Non-controlling interest distributions	—	—	—	—	—	—	—	(95)	(95)
Fair market valuation adjustment for interest rate swap	—	—	—	—	4,876	—	4,876	—	4,876
Other	123	1	(7)	—	—	—	(6)	—	(6)
Balance—March 31, 2022	39,460	\$ 395	\$ 857,558	\$ 1,459,048	\$ 4,704	\$ (1,587,519)	\$ 734,186	\$ 8,413	\$ 742,599
Issuance of common stock	910	9	33,684	—	—	—	33,693	—	33,693
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(22,635)	(22,635)	—	(22,635)
Stock-based compensation expense	—	—	2,012	—	—	—	2,012	—	2,012
Net income	—	—	—	54,383	—	—	54,383	107	54,490
Cash paid for taxes in lieu of common shares	(2)	—	(100)	—	—	—	(100)	—	(100)
Non-controlling interest distributions	—	—	—	—	—	—	—	(998)	(998)
Fair market valuation adjustment for interest rate swap	—	—	—	—	1,435	—	1,435	—	1,435
Other	12	—	—	—	—	—	—	—	—
Balance—June 30, 2022	40,380	\$ 404	\$ 893,154	\$ 1,513,431	\$ 6,139	\$ (1,610,154)	\$ 802,974	\$ 7,522	\$ 810,496
Issuance of common stock	125	—	4,753	—	—	—	4,753	—	4,753
Common Stock cash distributions (\$0.57 per share)	—	—	—	—	—	(23,087)	(23,087)	—	(23,087)
Stock-based compensation expense	—	—	2,014	—	—	—	2,014	—	2,014
Net income	—	—	—	13,290	—	—	13,290	99	13,389
Cash paid for taxes in lieu of common shares	—	—	—	—	—	—	—	—	—
Non-controlling interest contributions	—	—	—	—	—	—	—	14,375	14,375
Non-controlling interest distributions	—	—	—	—	—	—	—	(77)	(77)
Fair market valuation adjustment for interest rate swap	—	—	—	—	3,306	—	3,306	—	3,306
Balance—September 30, 2022	40,505	\$ 404	\$ 899,921	\$ 1,526,721	\$ 9,445	\$ (1,633,241)	\$ 803,250	\$ 21,919	\$ 825,169

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

	Nine Months Ended September 30,	
	2022	2021
OPERATING ACTIVITIES:		
Net income	\$ 82,386	\$ 43,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,202	28,847
Stock-based compensation expense	5,951	5,785
Impairment charges	1,286	—
Gain on sale of real estate, net	(37,809)	(7,392)
Income from unconsolidated joint ventures	(1,127)	(1,041)
Income distributions from unconsolidated joint ventures	351	—
Straight-line rental adjustment (income)	963	(619)
Adjustment for collectability of lease incentives and rental income	256	758
Amortization of lease incentives	665	386
Provision for credit losses	1,454	59
Application of interest reserve	(4,348)	—
Amortization of debt issue costs	841	778
Other non-cash items, net	(170)	4
Change in operating assets and liabilities		
Lease incentives funded	(418)	(650)
Increase in interest receivable	(4,768)	(4,730)
Decrease in accrued interest payable	(625)	(1,044)
Net change in other assets and liabilities	(318)	5,146
Net cash provided by operating activities	<u>72,772</u>	<u>69,581</u>
INVESTING ACTIVITIES:		
Investment in real estate properties	(51,815)	—
Investment in real estate developments	(105)	—
Investment in real estate capital improvements	(4,555)	(4,839)
Proceeds from sale of real estate, net	72,628	43,628
Investment in financing receivable	(61,661)	—
Investment in real estate mortgage loans receivable	(35,234)	(2,081)
Principal payments received on mortgage loans receivable	625	625
Investments in unconsolidated joint ventures	—	(5,676)
Advances and originations under notes receivable	(37,008)	(6,453)
Principal payments received on notes receivable	6,618	2,553
Net cash (used in) provided by investing activities	<u>(110,507)</u>	<u>27,757</u>
FINANCING ACTIVITIES:		
Borrowings from revolving line of credit	194,000	92,500
Repayment of revolving line of credit	(153,900)	(48,000)
Proceeds from issuance of senior unsecured notes	75,000	—
Principal payments on senior unsecured notes	(43,160)	(32,160)
Proceeds from common stock issued	38,957	—
Distributions paid to stockholders	(68,202)	(68,051)
Contribution from non-controlling interests	50	9
Distributions paid to non-controlling interests	(1,170)	(271)
Financing costs paid	(1,162)	(35)
Cash paid for taxes in lieu of shares upon vesting of restricted stock and performance-based stock units	(1,355)	(3,573)
Other	(6)	(70)
Net cash provided by (used in) financing activities	<u>39,052</u>	<u>(59,651)</u>
Increase in cash and cash equivalents	1,317	37,687
Cash and cash equivalents, beginning of period	5,161	7,772
Cash and cash equivalents, end of period	<u>\$ 6,478</u>	<u>\$ 45,459</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 22,391	\$ 20,708
Non-cash investing and financing transactions:		
Contribution of financing receivable from non-controlling interest	\$ 14,325	\$ —
Mortgage loan receivable reserve withheld at origination (See Footnote 2. Real Estate Investments)	\$ 102	\$ 142
Preferred return reserve related to investments in unconsolidated joint ventures (See Footnote 3. Investment in Unconsolidated Joint Ventures)	\$ —	\$ 2,324
Accretion of interest reserve recorded as mortgage loan receivable	\$ 4,348	\$ —
Increase in fair value of interest rate swap agreements (See Footnote 6. Debt Obligations)	\$ 9,617	\$ —
Notes receivable reserve withheld at origination (See Footnote 4. Notes Receivable)	\$ —	\$ 353

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-leasebacks, mortgage financing, joint ventures and structured finance solutions including preferred equity and 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. We also invest in other ("OTH") types of properties, such as land parcels, projects under development ("UDP") and behavioral health care hospitals. 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 three and nine months ended September 30, 2022 and 2021 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.

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. 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 majority of our leases contain provisions for specified annual increases over the rents of the prior year.

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

The following table summarizes our investments in owned properties at September 30, 2022 (*dollar amounts in thousands*):

Type of Property	Gross Investment	Percentage of Investment	Number of Properties ⁽¹⁾	Number of		Average Investment per Bed/Unit
				SNF Beds	ALF Units	
Assisted Living	\$ 797,426	56.6 %	99	—	5,497	\$ 145.07
Skilled Nursing	599,058	42.5 %	52	6,348	236	\$ 90.99
Other ⁽²⁾	11,918	0.9 %	1	118	—	—
Total	\$ 1,408,402	100.0 %	152	6,466	5,733	

(1) We own properties in 26 states that are leased to 24 different operators.

(2) 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⁾
2022	\$ 31,970
2023	114,037
2024	94,257
2025	85,460
2026	68,784
Thereafter	263,280

(1) Represents contractual cash rent, except for certain master leases which are based on estimated cash payments. Includes rent from subsequent acquisitions and excludes rent from subsequent dispositions. See *Note 12. Subsequent Events* for more information.

We monitor the collectability of our receivable balances, including deferred rent receivable balances, on an ongoing basis. We write-off uncollectible operator receivable balances, including straight-line rent receivable and lease incentives balances, as a reduction to rental income in the period such balances are no longer probable of being collected. Therefore, recognition of rental income is limited to the lesser of the amount of cash collected or rental income reflected on a “straight-line” basis for those customer receivable balances deemed uncollectible. We wrote-off straight-line rent receivable and lease incentives balances of \$256,000 and \$758,000 for the nine months ended September 30, 2022 and 2021, respectively, as a result of lease terminations and transitioning rental revenue recognition to cash basis.

We continue to take into account the current financial condition of our operators, including consideration of the impact of COVID-19, in our estimation of uncollectible accounts and deferred rents receivable at September 30, 2022. We are closely monitoring the collectability of such rents and will adjust future estimations as appropriate as further information becomes known.

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

The following table summarizes components of our rental income for the three and nine months ended September 30, 2022 and 2021 *(in thousands)*:

Rental Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Base cash rental income	\$ 28,180 ⁽¹⁾	\$ 25,934 ⁽¹⁾	\$ 83,203 ⁽²⁾	\$ 80,967 ⁽²⁾
Variable cash rental income	4,160 ⁽³⁾	3,588 ⁽³⁾	12,218 ⁽³⁾	10,655 ⁽³⁾
Straight-line rent	(436) ⁽⁴⁾	(44) ⁽⁴⁾	(963) ⁽⁵⁾	619 ⁽⁵⁾
Adjustment for lease incentives and rental income	(83) ⁽⁶⁾	—	(256) ⁽⁷⁾	(758) ⁽⁸⁾
Amortization of lease incentives	(236)	(158)	(665)	(386)
Total	<u>\$ 31,585</u>	<u>\$ 29,320</u>	<u>\$ 93,537</u>	<u>\$ 91,097</u>

- (1) Increased primarily due to rent received from properties transitioned from the former Senior Care Centers, LLC (“Senior Care”) and Senior Lifestyle Corporation (“Senior Lifestyle”) portfolios and rental income from acquisitions, completed development projects and annual rent escalations.
- (2) Increased primarily due to (1) above. Also relates to a \$1,181 lease termination fee received in connection with the sale of a 74-unit ALF.
- (3) The variable rental income for the three and nine months ended September 30, 2022, primarily includes reimbursement of real estate taxes by our lessees of \$4,160 and \$12,161, respectively. The variable rental income for the three and nine months ended September 30, 2021, only includes reimbursement of real estate taxes by our lessees of \$3,588 and \$10,655. Increases primarily due to properties transitioned from Senior Care and new acquisitions partially offset by properties sold.
- (4) Decreased primarily due to a deferred rent repayment and normal amortization.
- (5) Decreased primarily due to (4) above. Also relates to the impact of prior year’s 50% reduction of 2021 rent escalations for those leases accounted for on a straight-line basis.
- (6) Represents lease incentive balance write-off related to two properties that were transitioned to another operator in our portfolio.
- (7) Represents a lease incentive balance write-off related to a closed property and subsequent lease termination and (6) above.
- (8) Represents a straight-line rent receivable write-off due to transitioning rental revenue recognition to cash basis for one lease in accordance with Accounting Standard Codification *Topic 842, Leases*.

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 amounts in thousands)*:

State	Type of Property	Number of Properties	Gross Investments	Carrying Value	Option Window
California	ALF/MC	2	\$ 38,895	\$ 33,954	2023-2029
Florida	MC	1	15,201	12,614	2029
Florida	SNF	3	76,267	76,267	2025-2027 ⁽¹⁾
Nebraska	ALF	3	7,633	3,008	TBD ⁽²⁾
South Carolina	ALF/MC	1	11,680	9,197	2029
Texas	SNF	4	51,816	51,157	2027-2029 ⁽³⁾
Total			<u>\$ 201,492</u>	<u>\$ 186,197</u>	

- (1) During the third quarter of 2022, we entered into a joint venture (“JV”) to purchase three skilled nursing centers. The JV leased the properties under a 10-year master lease. For more information regarding this transaction see *Financing Receivable* below.
- (2) Subject to the properties achieving certain coverage ratios.
- (3) During the second quarter of 2022, we purchased four skilled nursing centers and leased these properties under a 10-year lease with an existing operator. The lease provides the operator to elect either an earn-out payment or purchase option. If neither option is elected within the timeframe defined in the lease, both elections are terminated. For more information regarding the earn-out see *Note 8. Commitments and Contingencies*.

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On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, and on March 13, 2020, the United States declared a national emergency with regard to COVID-19. At September 30, 2022, in conjunction with the continued levels of uncertainty related to the adverse effects of COVID-19, we assessed the probability of collecting substantially all of our lease payments through maturity and concluded that we did not have sufficient information available to evaluate the impact of COVID-19 on the collectability of our lease payments. The extent to which COVID-19 could impact our operators and the collectability of our future lease payments will depend on the future developments including the financial impact significance, government support and subsidies and the duration of the pandemic.

In recognition of the pandemic's ongoing impact affecting our operators, we have agreed to provide assistance in form of rent abatements and rent deferrals and we will continue to provide assistance as needed.

Impairment Charges. During 2022, we made the decision to sell an assisted living community located in Kentucky which decreased the period over which we could recover the carrying value of the community. As a result of our decision to sell, we determined that the property's carrying value would not be fully recoverable and recorded an impairment loss of \$1,286,000. As of September 30, 2022, the community was classified as held-for-sale.

Properties Held -for-Sale: The following summarizes our held-for-sale properties as of September 30, 2020 (*dollar amounts in thousands*):

State	Type of Property	Number of Properties	Number of Beds/units	Gross Investment	Accumulated Depreciation
KY	ALF	1	60	\$ 13,015	\$ 2,305

Acquisitions and Improvements: During the nine months ended September 30, 2021 we did not have any acquisitions. The following table summarizes our acquisitions for the nine months ended September 30, 2022 (*dollar amounts in thousands*):

Year	Type of Property	Purchase Price	Transaction Costs	Total Acquisition Costs	Number of Properties	Number of Beds/Units
2022	SNF	\$ 51,534	\$ 281	\$ 51,815	4	339

We accounted for the above acquisition as an asset acquisition. The properties are located in Texas and are leased to an affiliate of an existing operator under a 10-year lease with two 5-year renewal options. Additionally, the lease provides the operator to elect either an earn-out payment or purchase option. If neither option is elected within the timeframe defined in the lease, both elections are terminated. The earn-out payment is available, contingent on achieving certain thresholds per the lease, beginning at the end of the second lease year through the end of the fifth lease year. The purchase option is available beginning in the sixth lease year through the end of the seventh lease year. The initial cash yield is 8% for the first year, increasing to 8.25% for the second year, then increases annually by 2.0% to 4.0% based on the change in the Medicare Market Basket Rate. In connection with the transaction, we provided the lessee a 10-year working capital loan for up to \$2,000, of which \$1,867 has been funded, at 8% for first year, increasing to 8.25% for the second year, then increasing annually with the lease rate.

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During the nine months ended September 30, 2022 and 2021, we invested the following developments and improvements projects (*in thousands*):

Type of Property	2022		2021	
	Developments	Improvements	Developments	Improvements
Assisted Living Communities	\$ 105	\$ 3,015	\$ —	\$ 4,560
Skilled Nursing Centers	—	981	—	279
Other	—	559	—	—
Total	<u>\$ 105</u>	<u>\$ 4,555</u>	<u>\$ —</u>	<u>\$ 4,839</u>

Properties Sold. During the three months ended September 30, 2022 and 2021, we recorded a net (loss)/gain on sale of (\$387,000) and \$2,702,000, respectively. The following table summarizes property sales during the nine months ended September 30, 2022 and 2021 (*dollar amounts in thousands*):

Year	State	Type of Properties	Number of Properties	Number of Beds/Units	Sales Price	Carrying Value	Net Gain (loss) ⁽¹⁾
2022	California	ALF	2	232	\$ 43,715	\$ 17,832	\$ 25,867
	California	SNF	1	121	13,250	1,846	10,846
	Texas	SNF	1	—	485	697	(434)
	Virginia	ALF	1	74	16,895	15,549	1,344 ⁽²⁾
	n/a	n/a	—	—	—	—	186 ⁽³⁾
Total 2022			<u>5</u>	<u>427</u>	<u>\$ 74,345</u>	<u>\$ 35,924</u>	<u>\$ 37,809</u>
2021	Florida	ALF	1	—	\$ 2,000	\$ 2,626	\$ (858)
	Nebraska	ALF	1	40	900	1,079	(198)
	Washington	SNF	1	123	7,700	4,528	2,562
	Wisconsin	ALF	3	263	35,000	28,295	5,594
	n/a	n/a	—	—	—	—	292 ⁽³⁾
Total 2021			<u>6</u>	<u>426</u>	<u>\$ 45,600</u>	<u>\$ 36,528</u>	<u>\$ 7,392</u>

- (1) Calculation of net gain (loss) includes cost of sales and write-off of straight-line receivable and lease incentives, when applicable.
- (2) In connection with this sale, the former operator paid us a lease termination fee of \$1,181 which is not included in the gain on sale.
- (3) We recognized additional gain due to the reassessment adjustment of the holdbacks related to properties sold during 2019 and 2020, under the expected value model per *ASC Topic 606, Contracts with Customers* ("ASC 606").

Financing Receivable. As part of our acquisitions, we may from time to time, invest in sale and leaseback transactions. In accordance with *ASC Topic 842, Leases* ("ACS 842"), we are required to determine whether the sale and leaseback transaction qualifies as a sale. ASC 842 clarifies that an option for the seller-lessee to repurchase a real estate asset would generally preclude accounting for the transfer of the asset as a sale. Therefore, a sale and leaseback transaction of real estate that includes a seller-lessee repurchase option is accounted for as a failed sale and leaseback transaction. As a result, the purchased assets of a failed sale and leaseback transaction would be presented as a *Financing receivable* on our *Consolidated Balance Sheets* and the rental revenue from these properties is recorded as *Interest income from financing receivable* on our *Consolidated Statements of Income*. Furthermore, upon expiration of the purchase option if the purchase option remains unexercised by the seller-lessee, the purchased assets will be reclassified from *Financing receivable* to *Real property investments* on our *Consolidated Balance Sheets*.

During the third quarter of 2022, we entered into a joint venture and contributed \$61,661,000 into

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the JV that purchased three skilled nursing centers located in Florida for \$75,825,000. Our JV partner contributed the remaining \$14,325,000 of equity. The JV leased the centers back to an affiliate of the seller under a 10-year master lease, with two five-year renewal options and provided the seller-lessee with a purchase option, exercisable at the beginning of the fourth year through the end of the fifth year. Accordingly, the transaction has been accounted for as a failed sale and leaseback transaction and recorded as a *Financing receivable*. During this quarter, we recognized \$357,000 of *Interest income from financing receivable* on our *Consolidated Statements of Income*. Additionally, we recorded \$760,000 provision for expected loan losses during the three months ended September 30, 2022.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2022 (*dollar amounts in thousands*):

Interest Rate	Maturity	State	Gross Investment	Type of Property	Percentage of Investment	Number of			Investment per Bed/Unit
						Loans ⁽¹⁾	Properties ⁽²⁾	SNF Beds	ALF Units
7.5%	2023	MO	\$ 1,886	OTH	0.5 %	1	— ⁽³⁾	—	—
7.5%	2024	LA	27,347	SNF	7.1 %	1	1	189	—
7.8%	2025	FL	13,123	ALF	3.4 %	1	1	—	68
7.3% ⁽⁴⁾	2025	NC/SC	52,812	ALF	13.6 %	1	13	—	523
7.3%	2026	NC	32,373	ALF	8.4 %	1	4	—	217
7.3%	2026	NC	782	OTH	0.2 %	1	— ⁽⁵⁾	—	—
10.4% ⁽⁶⁾	2043	MI	184,854	SNF	47.8 %	1	15	1,875	—
9.5% ⁽⁶⁾	2045	MI	39,066	SNF	10.1 %	1	4	501	—
9.9% ⁽⁶⁾	2045	MI	19,750	SNF	5.1 %	1	2	205	—
10% ⁽⁶⁾	2045	MI	14,875	SNF	3.8 %	1	1	146	—
Total			\$ 386,868		100.0 %	10	41	2,916	808

- (1) Some loans contain certain guarantees and provide for certain facility fees.
- (2) Our mortgage loans are secured by properties located in six states with five borrowers.
- (3) Represents a mortgage loan secured by a parcel of land for the future development of a 91-bed post-acute SNF.
- (4) Represents the initial rate. This loan has an IRR of 8%.
- (5) Represents a mortgage loan secured by a parcel of land in North Carolina held for future development of a seniors housing community.
- (6) Mortgage loans provide for 2.25% annual increases in the interest rate after a certain time period.

The following table summarizes our mortgage loan activity for the nine months ended September 30, 2022 and 2021 (*in thousands*):

	Nine Months Ended September 30,	
	2022	2021
Originations and funding under mortgage loans receivable	\$ 35,234 ⁽¹⁾	\$ 2,223
Application of interest reserve	4,348	—
Scheduled principal payments received	(625)	(625)
Mortgage loan premium amortization	(4)	(4)
(Provision) recovery for loan loss reserve	(389)	(16)
Net increase in mortgage loans receivable	\$ 38,564	\$ 1,578

- (1) We originated two senior mortgage loans, secured by four ALFs operated by an existing operator, as well as a land parcel in North Carolina. The communities have a combined total of 217 units, with an average age of less than four years. The land parcel is approximately 7.6 acres adjacent to one of the ALFs and is being held for the future development of a seniors housing community. The mortgage loans have a four-year term, an interest rate of 7.25% and an IRR of 8%.

We apply ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) and the “expected loss” model to estimate our loan losses on our mortgage loans and notes

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receivable. In determining the expected losses on these receivables, we utilize the probability of default and discounted cash flow methods. Further, we stress-test the results to reflect the impact of unknown adverse future events including recessions.

As of September 30, 2022, the accrued interest receivable of \$44,290,000 was not included in the measurement of expected credit losses on the mortgage loan receivable and notes receivable (see *Note 4. Notes Receivable*). We elected not to measure an allowance for expected credit losses on the related accrued interest receivable using the expected credit loss standard. Rather, we have elected to write-off accrued interest receivable by reversing interest income and/or recognizing credit loss expense as incurred. We review the collectability of the accrued interest receivable quarterly as part of our review of the mortgage loan or notes receivables including the performance of the underlying collateral and net worth of the borrower. For the nine months ended September 30, 2022 and 2021, the Company did not write-off any accrued interest receivable.

3. Investment in Unconsolidated Joint Ventures

We have preferred equity investments in two joint ventures. We determined that each of these JVs meets the accounting criteria to be considered a variable interest entity (“VIE”). We are not the primary beneficiary of the JVs as we do not have the power to direct the activities that most significantly affect the JVs’ economic performance. However, we do have significant influence over the JVs. Therefore, we have accounted for the JVs using the equity method of accounting. The following table provides information regarding these preferred equity investments (*dollar amounts in thousands*):

State	Type of Properties	Type of Investment	Total Preferred Return	Contractual Cash Portion	Number of Beds/ Units	Carrying Value
Washington	ALF/MC	Preferred Equity (1)	12 %	7 %	95	\$ 6,340 (1)
Washington	UDP	Preferred Equity (2)	12 %	8 %	—	13,000 (2)
Total					95	\$ 19,340

(1) Represents a preferred equity in an entity that developed and owns a 95-unit ALF and MC in Washington. Our investment represents 15.5% of the total investment. The preferred equity investment earns an initial cash rate of 7% increasing to 9% in year four until the internal rate of return (“IRR”) is 8%. After achieving an 8% IRR, the cash rate drops to 8% until achieving an IRR ranging between 12% to 14%, depending upon timing of redemption. During the fourth quarter of 2021, the entity completed the development project and received its certificate of occupancy. We have the option to require the JV partner to purchase our preferred equity interest at any time between August 17, 2031 and December 31, 2036.

(2) Represents a preferred equity in an entity that will develop and own a 267-unit ILF and ALF in Washington. Our investment represents 11.6% of the estimated total investment. The preferred equity investment earns an initial cash rate of 8% with an IRR of 12%. The JV partner has the option to buy out our investment at any time after August 31, 2023 at the IRR rate. Also, we have the option to require the JV partner to purchase our preferred equity interest at any time between August 31, 2027 and, upon project completion and leasing the property, prior to the end of the first renewal term of the lease.

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During the three months ended September 30, 2022 and 2021, we recognized \$376,000 in income from unconsolidated joint ventures. The following table summarizes our capital contributions, income recognized, and cash interest received related to our investments in unconsolidated joint ventures for the nine months ended September 30, 2022 and 2021 *(in thousands)*:

Year	Type of Properties	Capital Contribution	Income Recognized	Cash Interest Earned	Application of Interest Reserve
2022	ALF/MC	\$ —	\$ 337	\$ —	\$ 337
	UDP (1)	—	790	351	439
Total		\$ —	\$ 1,127	\$ 351	\$ 776
2021	ALF/MC	\$ —	\$ 337	\$ —	\$ 300
	UDP (1)	8,000	704	—	616
Total		\$ 8,000	\$ 1,041	\$ —	\$ 916

(1) During 2021, we funded the remaining \$8,000 related to a \$13,000 preferred equity investment commitment in an entity that will develop and own a 267-unit ILF and ALF in Washington. Additionally, we withheld \$2,324 from the \$8,000 funding for a total reserve of \$3,777 related to this preferred equity investment.

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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, 2022 and December 31, 2021 *(in thousands)*:

	September 30, 2022	December 31, 2021
Mezzanine loans ⁽¹⁾	\$ 36,816	\$ 11,815
Other loans	22,198	16,808
Notes receivable credit loss reserve	(590)	(286)
Total	<u>\$ 58,424</u>	<u>\$ 28,337</u>

- (1) During the first quarter of 2022, we originated a \$25,000 mezzanine loan for the recapitalization of a five-property seniors housing portfolio. The mezzanine loan has a term of approximately five years, with two one-year extension options and bears interest at 8% with an IRR of 11%. The five communities are located in Oregon and Montana, have a total of 621 units, and include independent living, assisted living and memory care.

The following table summarizes our notes receivable activity for the nine months ended September 30, 2022 and 2021 *(in thousands)*:

	Nine Months Ended 2022	September 30, 2021
Advances under notes receivable	\$ 37,008 ⁽¹⁾	\$ 6,453
Interest reserve withheld	—	353
Principal payments received under notes receivable	(6,618)	(2,553)
Provision for credit losses	(303)	43
Net increase in notes receivable	<u>\$ 30,087</u>	<u>\$ 4,296</u>

- (1) Includes origination of a \$25,000 mezzanine loan for the recapitalization of five assisted living communities located in Oregon and Montana. Additionally includes origination of a working capital loan for a commitment of up to \$2,000, of which \$1,867 has been funded and \$9,761 of funding under a working capital loan to HMG Healthcare, LLC ("HMG").

5. Lease Incentives

Our non-contingent lease incentive balances at September 30, 2022 and December 31, 2021 were \$2,001,000 and \$2,678,000, respectively. The following table summarizes our lease incentives activity for the nine months ended September 30, 2022 and 2021 *(in thousands)*:

	Nine Months Ended September 30,				2021	
	Adjustment	Funding	Amortization	Write-off	Funding	Amortization
Non-contingent lease incentives	\$ (174) ⁽¹⁾	\$ 418	\$ (665)	\$ (256) ⁽²⁾	\$ 650	\$ (386)

- (1) Primarily relates to the sale of two ALFs in California during the second quarter of 2022.
(2) Represents the lease incentive balance write-off related to a closed property and subsequent lease termination and lease incentive balance write-off related to 12 assisted living communities transitioned to an existing operator.

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

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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.

6. Debt Obligations

Unsecured Credit Facility. We have an unsecured credit agreement (the “Credit Agreement”) that provides for an aggregate commitment of the lenders of up to \$500,000,000 comprising of a \$400,000,000 revolving credit facility (the “Revolving Line of Credit”) and two \$50,000,000 term loans (the “Term Loans”). The Credit Agreement permits us to request increases to the Revolving Line of Credit and Term Loans commitments up to a total of \$1,000,000,000. The Revolving Line of Credit matures November 19, 2025 and provides for a one-year extension option at our discretion, subject to customary conditions. The Term Loans mature on November 19, 2025 and November 19, 2026.

Based on our leverage at September 30, 2022, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points. At September 30, 2022, we were in compliance with all covenants.

Interest Rate Swap Agreements. In connection with entering into the Term Loans described above, we entered into two receive variable/pay fixed interest rate swap agreements (the “Interest Rate Swaps”) with maturities of November 19, 2025 and November 19, 2026, respectively, that serve to lock-in the forecasted interest payments on the borrowings under the Term Loans over their four and five year terms. The Interest Rate Swaps are considered cash flow hedges and are recorded on our Consolidated Balance Sheets at fair value in prepaid expenses and other assets, with cumulative changes in the fair value of these instruments recognized in Accumulated other comprehensive income (loss) on our *Consolidated Balance Sheets*. During the three and nine months ended September 30, 2022, we recorded increase in fair value of Interest Rate Swaps of \$3,306,000 and \$9,617,000, respectively. During the three and nine months ended September 30, 2021, we did not record an adjustment to the fair value of Interest Rate Swaps.

As of September 30, 2022 and December 31, 2021, the terms of the Interest Rate Swaps are as follows (*dollar amounts in thousands*):

Date Entered	Maturity Date	Swap Rate	Rate Index	Notional Amount	Fair Value at	
					September 30, 2022	December 31, 2021
November 2021	November 19, 2025	2.56 %	1-month LIBOR	\$ 50,000	\$ 4,300	\$ (38)
November 2021	November 19, 2026	2.69 %	1-month LIBOR	\$ 50,000	\$ 5,145	\$ (134)
				\$ 100,000	\$ 9,445	\$ (172)

Senior Unsecured Notes. We have senior unsecured notes held by institutional investors with interest rates ranging from 3.66% to 5.03%. The senior unsecured notes mature between 2024 and 2033. During the nine months ended September 30, 2022, we sold \$75,000,000 aggregate principal amount of 3.66% senior unsecured notes. The notes have an average 10-year life, scheduled principal payments and mature in May 2033.

The senior unsecured notes and the Credit Agreement, including the Revolving Line of Credit and the Term Loans, contain financial covenants, which are measured quarterly, that require us to maintain, among other things:

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- a ratio of total indebtedness to total asset value not greater than 0.6 to 1.0;
- a ratio of secured debt to total asset value not greater than 0.35 to 1.0;
- a ratio of unsecured debt to the value of the unencumbered asset value not greater than 0.6 to 1.0; and
- a ratio of EBITDA, as calculated in the debt obligation, to fixed charges not less than 1.50 to 1.0.

At September 30, 2022, we were in compliance with all applicable financial covenants. These debt obligations also contain additional customary covenants and events of default that are subject to a number of important and significant limitations, qualifications and exceptions.

The following table sets forth information regarding debt obligations by component as of September 30, 2022 and December 31, 2021 (*dollar amounts in thousands*):

Debt Obligations	Applicable Interest Rate ⁽¹⁾	At September 30, 2022		At December 31, 2021	
		Outstanding Balance	Available for Borrowing	Outstanding Balance	Available for Borrowing
Revolving line of credit	4.21%	\$ 151,000	\$ 249,000	\$ 110,900	\$ 289,100
Term loans, net of debt issue costs	2.63%	99,474	—	99,363	—
Senior unsecured notes, net of debt issue costs	4.25%	543,287	—	512,456	—
Total	4.04%	<u>\$ 793,761</u>	<u>\$ 249,000</u>	<u>\$ 722,719</u>	<u>\$ 289,100</u>

(1) Represents weighted average of interest rate as of September 30, 2022.

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

Debt Obligations	Nine Months Ended September 30,			
	2022		2021	
	Borrowings	Repayments	Borrowings	Repayments
Revolving line of credit	\$ 194,000	\$ (153,900)	\$ 92,500	\$ (48,000)
Term loans	—	—	—	—
Senior unsecured notes	75,000	(43,160)	—	(32,160)
Total	<u>\$ 269,000</u>	<u>\$ (197,060)</u>	<u>\$ 92,500</u>	<u>\$ (80,160)</u>

7. Equity

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 on the consolidated financial statements.

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As of September 30, 2022, we have the following consolidated VIEs (*in thousands*):

Investment Year	Purpose	Property Type	State	Gross Consolidated Assets	Non-Controlling Interests
2022	Owned real estate	(1) SNF	FL	\$ 76,267	\$ 14,325
2018	Owned real estate	ILF	OR	14,650	2,906
2018	Owned real estate and development	ALF/MC	OR	18,452	1,142
2017	Owned real estate and development	ILF/ALF/MC	WI	22,007	2,305
2017	Owned real estate	ALF/MC	SC	11,680	1,241
Total				\$ 143,056	\$ 21,919

(1) During the third quarter of 2022, we entered into a joint venture and contributed \$61,661 into the JV that purchased three skilled nursing centers located in Florida for \$75,825. Our JV partner contributed the remaining \$14,325 of equity. Additionally, we incurred \$161 of costs associated with this transaction. The JV leased the centers back to an affiliate of the seller under a 10-year master lease, with two five-year renewal options and provided the seller-lessee with a purchase option, exercisable at the beginning of the fourth year through the end of the fifth year. See Note 2. *Real Estate Investments* for more information.

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. During the nine months ended September 30, 2022, we sold 1,035,000 shares of common stock for \$38,957,000 in net proceeds under our Equity Distribution Agreements. In conjunction with the sale of common stock, we paid \$694,000 as compensation to our sales agents and incurred \$511,000 of costs associated with this agreement which have been recorded in additional paid in capital as a reduction of proceeds received. Accordingly, we have \$160,349,000 available under the Equity Distribution Agreements.

During the nine months ended September 30, 2022 and 2021, we acquired 39,463 shares and 87,249 shares, respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

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 17, 2025.

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

	Nine Months Ended September 30,			
	2022		2021	
	Declared	Paid	Declared	Paid
Common Stock ⁽¹⁾	\$ 68,202	\$ 68,202	\$ 68,051 ⁽²⁾	\$ 68,051 ⁽²⁾

(1) Represents \$0.19 per share per month for the nine months ended September 30, 2022 and 2021.

(2) Includes \$764 of distributions that were paid as a result of the vesting of performance-based stock units.

In October 2022, we declared a monthly cash dividend of \$0.19 per share on our common stock

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for the months of October, November and December 2022, payable on October 31, November 30, and December 30, 2022, respectively, to stockholders of record on October 21, November 22, and December 22, 2022, respectively.

Stock-Based Compensation. During the second quarter of 2021, we adopted and our shareholders approved the 2021 Equity Participation Plan (“the 2021 Plan”) which replaces the 2015 Equity Participation Plan (“the 2015 Plan”). Under the 2021 Plan, 1,900,000 shares of common stock have been authorized and reserved for awards, less one share for every one share that was subject to an award granted under the 2015 Plan after December 31, 2020 and prior to adoption. In addition, any shares that are not issued under outstanding awards under the 2015 Plan because the shares were forfeited or cancelled after December 31, 2020 will be added to and again be available for awards under the 2021 Plan. Under the 2021 Plan, the shares were authorized and reserved for awards to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2021 Plan and the 2015 Plan are set by our compensation committee at its discretion.

At September 30, 2022, we had 10,000 stock options outstanding and exercisable. During the nine months ended September 30, 2022, 5,000 stock options expired and were cancelled. During the nine months ended September 30, 2022 and 2021, no stock options were granted or exercised.

The following table summarizes our restricted stock activity for the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30, 2022	2021
Outstanding, January 1	197,422	180,440
Granted	135,210	110,348
Vested	(103,396)	(93,366)
Outstanding, September 30	<u>229,236</u>	<u>197,422</u>

During the nine months ended September 30, 2022 and 2021, we granted 86,332 and 71,892, respectively, of performance-based stock units. Additionally, no performance-based stock units vested during the nine months ended September 30, 2022 and 108,720 performance-based stock units vested during the nine months ended September 30, 2021.

During the nine months ended September 30, 2022 and 2021, we granted restricted stock and performance-based stock units under the 2021 Plan and 2015 Plan as follows:

Year	No. of Shares/Units	Price per Share	Reward Type	Vesting Period
2022	122,865	\$ 33.94	Restricted stock	ratably over 3 years
	86,332	\$ 33.94	Performance-based stock units	TSR targets ⁽¹⁾
	12,345	\$ 38.48	Restricted stock	May 25, 2023
	<u>221,542</u>			
2021	95,293	\$ 42.27	Restricted stock	ratably over 3 years
	71,892	\$ 42.27	Performance-based stock units	TSR targets ⁽¹⁾
	12,055	\$ 39.40	Restricted stock	May 26, 2022
	3,000	\$ 43.14	Restricted stock	April 1, 2022
	<u>182,240</u>			

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

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

Compensation expense recognized related to the vesting of restricted common stock and performance-based stock units for the nine months ended September 30, 2022 and 2021 were \$5,951,000 and \$5,785,000, respectively. At September 30, 2022, 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
October - December 2022	\$ 2,013
2023	5,603
2024	2,853
2025	309
Total	<u>\$ 10,778</u>

8. Commitments and Contingencies

At September 30, 2022, we had commitments as follows (*in thousands*):

	Investment Commitment	2022 Funding	Total Commitment Funded	Remaining Commitment
Real estate properties (<i>Note 2. Real Estate Investments</i>)	\$ 21,038 ⁽¹⁾	\$ 3,054	\$ 4,692	\$ 16,346
Accrued incentives and earn-out liabilities (<i>Note 5. Lease Incentives</i>)	12,000 ⁽²⁾	—	—	12,000
Mortgage loans (<i>Note 2. Real Estate Investments</i>)	32,507 ⁽³⁾	2,187	5,928	26,579
Notes receivable (<i>Note 4. Notes Receivable</i>)	27,541	12,008	15,778	11,763
Total	<u>\$ 93,086</u>	<u>\$ 17,249</u>	<u>\$ 26,398</u>	<u>\$ 66,688</u>

- (1) Represents commitments to purchase land and improvements, if applicable, and to develop, re-develop, renovate or expand seniors housing and skilled nursing properties.
- (2) Includes an earn-out payment of up to \$3,000 to an operator under a master lease on four skilled nursing centers in Texas which were acquired during the nine months ended September 30, 2022. The master lease provides either an earn-out payment up to \$3,000 or a purchase option. The earn-out payment is available, contingent on achieving certain thresholds per the lease, beginning at the end of the second lease year through the end of the fifth lease year. If neither option is elected within the timeframe defined in the lease, both elections are terminated.
- (3) Represents \$14,507 of commitments for the expansion, renovation and working capital related to seniors housing and skilled nursing properties securing the mortgage loans and \$18,000 of commitments which are contingent upon the borrower achieving certain coverage ratios.

Additionally, 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.

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

9. Major Operators

We have one operator that represents 10% or more of our combined rental revenue and interest income from mortgage loans. The following table sets forth information regarding our major operator as of September 30, 2022:

Operator	Number of		Number of		Percentage of	
	SNF	ALF	SNF Beds	ALF Units	Total Revenue ⁽¹⁾	Total Assets ⁽²⁾
Prestige Healthcare ⁽³⁾	24	—	2,845	93	19.7 %	16.0 %

(1) Includes rental income from owned properties and interest income from mortgage loans as of September 30, 2022.

(2) Represents the net carrying value of the mortgage loans and properties we own divided by the *Total assets* on the *Consolidated Balance Sheets*.

(3) The majority of the revenue derived from this operator relates to interest income from mortgage loans.

Our financial position and ability to make distributions may be adversely affected if Prestige Healthcare 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, continuing impact upon services or occupancy levels due to COVID-19, 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,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 13,389	\$ 11,114	\$ 82,386	\$ 43,294
Less income allocated to non-controlling interests	(99)	(92)	(301)	(271)
Less income allocated to participating securities:				
Non-forfeitable dividends on participating securities	(131)	(113)	(401)	(346)
Income allocated to participating securities	—	—	(80)	—
Total net income allocated to participating securities	(131)	(113)	(481)	(346)
Net income available to common stockholders	13,159	10,909	81,604	42,677
Effect of dilutive securities:				
Participating securities ⁽¹⁾	—	—	—	—
Net income for diluted net income per share	\$ 13,159	\$ 10,909	\$ 81,604	\$ 42,677
Shares for basic net income per share	40,270	39,177	39,658	39,149
Effect of dilutive securities:				
Stock options	1	— ⁽¹⁾	— ⁽¹⁾	— ⁽¹⁾
Performance-based stock units	281	— ⁽²⁾	281	— ⁽²⁾
Participating securities ⁽³⁾	—	—	—	—
Total effect of dilutive securities	282	—	281	—
Shares for diluted net income per share	40,552	39,177	39,939	39,149
Basic net income per share	\$ 0.33	\$ 0.28	\$ 2.06	\$ 1.09
Diluted net income per share	\$ 0.32	\$ 0.28	\$ 2.04	\$ 1.09

- (1) For the nine months ended September 30, 2022 and the three and nine months ended September 30, 2021, stock options have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive.
- (2) For the three and nine months ended September 30, 2021, no performance-based stock units would be earned based on TSR targets.
- (3) For the three and nine months ended September 30, 2022, and 2021, 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.

As of September 30, 2022, we had two interest rate swaps related to our term loans that were designated as cash flow hedges of interest rate risk with a total notional amount of \$100,000,000. See *Note 6. Debt Obligations* within our consolidated financial statements for further detail on our interest rate swaps. We record cash flow hedges either as an asset or a liability measured at fair value. We estimate the fair value of our interest rate swaps using the assistance of a third-party using inputs that are observable in the market which include forward yield curves and other relevant information. Although we have determined that the majority of the inputs used to value our derivative instruments fall within level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize level 3

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

inputs to evaluate the likelihood of default by us and our counterparties.

The carrying amount of cash and cash equivalents, prepaid expenses and other assets (excluding the interest rate swaps which are marked for fair value each reporting period), accrued interest, accrued expenses and other liabilities 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 estimated fair value of our financial instruments as of September 30, 2022 and December 31, 2021 were as follows (*in thousands*):

	At September 30, 2022		At December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financing receivable, net of credit loss reserve	\$ 75,507	\$ 75,507 ⁽¹⁾	\$ —	\$ —
Mortgage loans receivable, net of credit loss reserve	383,006	454,185 ⁽²⁾	344,442	405,162 ⁽²⁾
Notes receivable, net of credit loss reserve	58,424	62,741 ⁽³⁾	28,337	28,653 ⁽³⁾
Revolving line of credit	151,000	151,000 ⁽⁴⁾	110,900	110,900 ⁽⁴⁾
Term loans, net of debt issue costs	99,474	100,000 ⁽⁴⁾	99,363	100,000 ⁽⁴⁾
Senior unsecured notes, net of debt issue costs	543,287	496,955 ⁽⁵⁾	512,456	540,045 ⁽⁵⁾

- (1) Our investment in financing receivable is classified as Level 3. At September 30, 2022, the fair value of our financing receivable approximated its carrying value since the asset was acquired during the third quarter of 2022.
- (2) 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, 2022 and December 31, 2021 was 9.2% and 9.5%, respectively.
- (3) Our investments in notes receivable are classified as Level 3. 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 flows of the notes receivable at September 30, 2022 and December 31, 2021, were 6.6% and 5.6%, respectively.
- (4) Our revolving line of credit and term loans bear interest at a variable interest rate. The estimated fair value of our revolving line of credit and term loans approximated their carrying values at September 30, 2022 and December 31, 2021 based upon prevailing market interest rates for similar debt arrangements.
- (5) 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, 2022, the discount rate used to value our future cash outflow of our senior unsecured notes was 6.5% for those maturing before year 2030 and 7.0% for those maturing at or beyond year 2030. At December 31, 2021, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.00% for those maturing before year 2030 and 3.25% for those maturing at or beyond year 2030.

12. Subsequent Events

Subsequent to September 30, 2022 the following events occurred:

Rental Income: We received \$300,000 repayment of Anthem's temporary rent reduction. Also, we provided \$240,000 of abated rent in October 2022, and agreed to provide rent abatements of up to \$215,000 for each of November and December 2022 to an operator pursuant to a master lease covering two assisted living communities.

Equity: We declared a monthly cash dividend of \$0.19 per share on our common stock for the months of October, November and December 2022, payable on October 31, November 30, and

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

December 30, 2022, respectively to stockholders of record on October 21, November 22, and December 22, 2022, respectively.

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

Cautionary Statement Regarding Forward-Looking Statements

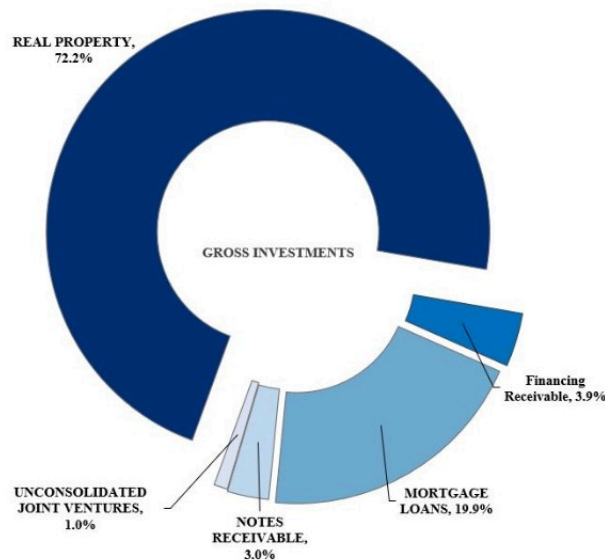
This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not 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, our dependence on our operators for revenue and cash flow; the duration and extent of the effects of the COVID-19 pandemic; government regulation of the health care industry; federal and state health care cost containment measures including reductions in reimbursement from third-party payors such as Medicare and Medicaid; required regulatory approvals for operation of health care facilities; a failure to comply with federal, state, or local regulations for the operation of health care facilities; the adequacy of insurance coverage maintained by our operators; our reliance on a few major operators; our ability to renew leases or enter into favorable terms of renewals or new leases; the impact of inflation, operator financial or legal difficulties; the sufficiency of collateral securing mortgage loans; an impairment of our real estate investments; the relative illiquidity of our real estate investments; our ability to develop and complete construction projects; our ability to invest cash proceeds for health care properties; a failure to qualify as a REIT; our ability to grow if access to capital is limited; and a failure to maintain or increase our dividend. 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, 2021 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 real estate investment trust (“REIT”) that invests in seniors housing and health care properties through sale-leaseback transactions, mortgage financing, joint ventures, construction financing and structured finance solutions including mezzanine lending. 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, 2022:



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. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision-making purposes. For purposes of this quarterly report and other presentations, we generally include ALF, ILF, MC, and combinations thereof in the ALF classification. As of September 30, 2022, seniors housing and health care properties comprised approximately 98.6% of our gross 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 financing receivable, interest earned on outstanding loans receivable and income from investments in unconsolidated joint ventures. Income from 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.

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

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

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") as a pandemic, and on March 13, 2020, the United States declared a national emergency with regard to COVID-19. The COVID-19 pandemic has had repercussions across regional and global economies and financial markets. The outbreak of COVID-19 in many countries, including the United States, has significantly and adversely impacted public health and economic activity, and has contributed to significant volatility, dislocations and liquidity disruptions in financial markets.

The operations and occupancy levels at our properties have been adversely affected by COVID-19 and could be further adversely affected by COVID-19 or another pandemic especially if there are infections on a large scale at our properties. The impact of COVID-19 has included, and another pandemic could include, early resident move-outs, our operators delaying accepting new residents due to quarantines, potential occupants postponing moves to our operators' facilities, and/or hospitals cancelling or significantly reducing elective surgeries thereby there were fewer people in need of skilled nursing care. Additionally, as our operators have responded to the pandemic, operating costs have begun to rise. A decrease in occupancy, ability to collect rents from residents and/or increase in operating costs could have a material adverse effect on the ability of our operators to meet their financial and other contractual obligations to us, including the payment of rent. In recognition of the ongoing pandemic impact affecting our operators, we have agreed to provide assistance in form of rent abatements and rent deferrals and will continue to provide assistance as needed.

During the nine months ended September 30, 2021, we proactively provided additional financial support to the majority of our operators by reducing 2021 rent and interest escalations by 50%. The rent and interest escalation reduction were given in the form of a rent and interest credit in recognition of operators' increased costs due to COVID-19. During nine months ended September 30, 2021, we recognized a Generally Accepted Accounting Principles ("GAAP") revenue decrease of \$0.5 million and a cash revenue decrease of \$1.3 million related to the 50% escalation reduction.

Real Estate Portfolio Overview

The following tables summarize our real estate investment portfolio by owned properties and mortgage loans and by property type, as of September 30, 2022 (*dollar amounts in thousands*):

Nine Months Ended September 30, 2022							
	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments	Rental Revenue	Percentage of Total Revenues
Owned Properties							
Assisted Living	99	—	5,497	\$ 797,426	40.9 %	\$ 38,651	34.1 %
Skilled Nursing	52	6,348	236	599,058	30.7 %	39,246	34.6 %
Other ⁽²⁾	1	118	—	11,918	0.6 %	734	0.6 %
Total Owned Properties	152	6,466	5,733	1,408,402	72.2 %	78,631 ⁽⁴⁾	69.3 %
	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments	Interest Income from Mortgage Loans	Percentage of Total Revenues
Mortgage Loans							
Assisted Living	18	—	808	98,308	5.1 %	4,732	4.2 %
Skilled Nursing	23	2,916	—	285,892	14.7 %	25,253	22.3 %
Other ⁽³⁾	—	—	—	2,668	0.1 %	127	0.1 %
Total Mortgage Loans	41	2,916	808	386,868	19.9 %	30,112	26.6 %
	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments	Interest Income from Financing Receivable	Percentage of Total Revenues
Financing Receivable							
Skilled Nursing	3	299	—	76,267	3.9 %	357	0.3 %
Total Notes Receivable	3	299	—	76,267	3.9 %	357	0.3 %
	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments	Interest and other Income	Percentage of Total Revenues
Notes Receivable							
Assisted Living ⁽⁵⁾	7	—	961	43,478	2.2 %	2,607	2.3 %
Skilled Nursing ⁽⁶⁾	—	—	—	15,536	0.8 %	542	0.5 %
Total Notes Receivable	7	—	961	59,014	3.0 %	3,149	2.8 %
	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments	Income from Unconsolidated Joint Ventures	Percentage of Total Revenues
Unconsolidated Joint Ventures							
Assisted Living ⁽⁷⁾	1	—	95	6,340	0.3 %	337	0.3 %
Under Development ⁽⁸⁾	—	—	—	13,000	0.7 %	790	0.7 %
Total Unconsolidated Joint Ventures	1	—	95	19,340	1.0 %	1,127	1.0 %
Total Portfolio	204	9,681	7,597	\$ 1,949,891	100.0 %	\$ 113,376	100.0 %
Summary of Properties by Type	Number of Properties ⁽¹⁾	SNF Beds	ALF Units	Gross Investments	Percentage of Investments		
Skilled Nursing	78	9,563	236	\$ 976,753	50.1 %		
Assisted Living	125	—	7,361	945,552	48.5 %		
Under Development	—	—	—	13,000	0.7 %		
Other ^{(2) (3)}	1	118	—	14,586	0.7 %		
Total Portfolio	204	9,681	7,597	\$ 1,949,891	100.0 %		

- (1) We have investments in owned properties, mortgage loans, notes receivable and unconsolidated joint ventures in 29 states to 32 operators.
- (2) Includes three parcels of land held-for-use and one behavioral health care hospital.
- (3) Includes one parcel of land in Missouri securing a first mortgage held for future development of a post-acute skilled nursing center and one parcel of land in North Carolina securing a first mortgage held for future development of a seniors housing community.

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- (4) Excludes variable rental income from lessee reimbursement of \$12,161 and sold properties of \$2,745.
- (5) Includes a mezzanine loan on a 204-unit combination ILF, ALF, and MC in Georgia, a mezzanine loan on a 136-unit ILF in Oregon, a mezzanine loan on five combination ILF, ALF and MC in Oregon and Montana, and seven working capital loans with interest rates between 5% and 8% and maturities between 2023 and 2031.
- (6) Includes three working capital loans with interest rates between 4% and 8% and maturities between 2024 and 2032.
- (7) Includes a preferred equity investment in an entity that developed and owns a 95-unit ALF and MC in Washington. Our investment represents 15.5% of the total investment. The preferred equity investment earns an initial cash rate of 7% increasing to 9% in year four until the internal rate of return ("IRR") is 8%. After achieving an 8% IRR, the cash rate drops to 8% with an IRR ranging between 12% to 14% depending on the timing of redemption.
- (8) Represents a preferred equity investment in an entity that will develop and own a 267-unit ILF/ALF in Washington. Our investment represents 11.6% of the estimated total investment. The preferred equity investment earns an initial cash rate of 8% with an IRR of 12%.

As of September 30, 2022, we had \$1.5 billion in net carrying value of investments, consisting of \$1.0 billion or 65.7% invested in owned and leased properties, \$0.1 million or 4.8% invested in financing receivable, and \$0.4 billion or 24.5% invested in mortgage loans secured by first mortgages. Our investments in mortgage loans mature between 2023 and 2045 and contain interest rates between 7.3% and 10.4%.

For the nine months ended September 30, 2022, rental income represented 73.5% of total revenues, interest income from financing receivable represented 0.2% of total revenues, interest income from mortgage loans represented 23.7% of total revenues and interest and other income represented 2.6% of total 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. 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.

For the nine months ended September 30, 2022, we recorded \$1.0 million in straight-line rental adjustment and amortization of lease incentive cost of \$0.9 million. Also, during the nine months ended September 30, 2022, we wrote-off a \$0.2 million lease incentive balance related to a property closure and subsequent lease termination. During the nine months ended September 30, 2022, we received \$95.4 million of cash rental income, which includes \$12.2 million of operator reimbursements for real estate taxes. At September 30, 2022, the straight-line rent receivable balance on the consolidated balance sheet was \$22.3 million.

For the nine months ended September 30, 2022, we recorded \$30.1 million in *Interest income from mortgage loans* which includes \$21.8 million of interest received in cash, \$4.3 million of income from interest reserves and \$4.0 million in mortgage loans effective interest. At September 30, 2022, the mortgage loans effective interest receivable which is included in the *Interest receivable* line item in our Consolidated Balance Sheets was \$42.9 million.

Update on Certain Operators and Former Operators

Anthem Memory Care

Anthem Memory Care ("Anthem") operates 11 memory care communities under a master lease and was placed in default in 2017 resulting from Anthem's partial payment of its minimum rent. However, we did not enforce our rights and remedies pertaining to the event of default, under the stipulation that Anthem achieves sufficient performance and pays agreed upon rent. Anthem increased their rent payment every year between 2017 and 2021. Anthem paid us annual cash rent of \$10.8 million in 2021 and \$9.9 million in 2020. During the second and third quarter of 2022, we agreed to certain temporary rent reduction. Our agreed upon rent for 2022 is \$10.8 million of which \$6.6 million was paid

through the end of September 2022. In October 2022, to date, we have received an additional \$1.2 million of rent which represents \$0.9 million of agreed upon October 2022 rent and \$0.3 million of repayment towards the temporary rent reduction. We still expect to receive the total of \$10.8 million by year end conditioned upon Anthem receiving additional money from the Employee Retention Tax Credit stimulus fund and from improving operating results. We receive regular financial performance updates from Anthem and continue to monitor their performance obligations under the master lease agreement.

Brookdale Senior Living Communities, Inc

Brookdale Senior Living Communities, Inc's ("Brookdale") master lease was amended in the first quarter of 2021 to extend the term by one year through December 31, 2022. The renewal options under the amended master lease remained the same during the first quarter of 2022 and provided three renewal options consisting of a three-year renewal option, a five-year renewal option and a 10-year renewal option. The notice period for the first renewal option was January 1, 2022 to April 30, 2022. During the second quarter of 2022, Brookdale's master lease was again amended to extend the maturity to December 31, 2023. The renewal options under the new amended master lease remained unchanged except the term of the first renewal option was reduced from three years to two. Also, the notice period for the first renewal option was changed to November 1, 2022 through February 28, 2023. During 2020, we extended to Brookdale a \$4.0 million capital commitment which was fully funded during 2021, and a \$2.0 million capital commitment which is available between January 1, 2022 through December 31, 2022. Under the new amendment, the \$2.0 million capital commitment was increased to \$4.0 million and the maturity was extended to February 28, 2023. The yield on these capital commitments is 7% with a reduced rate for qualified ESG projects. During the nine months ended September 30, 2022, we funded \$1.5 million under the \$4.0 million capital commitment. Accordingly, we have a remaining commitment of \$2.5 million under this commitment. Brookdale is current on rent payments through October 2022.

Other Operators

During 2020, we consolidated our two master leases with an operator into one combined master lease and agreed to abate \$0.7 million of rent and allow the operator to defer rent as needed through March 31, 2021. The combined master lease covering 12 assisted living communities with a total of 625 units, was amended during 2021 and 2022 to extend the rent deferral period through April 30, 2022. The operator deferred rent of \$2.1 million during the nine months ended September 30, 2022. During the third quarter of 2022, we terminated the master lease and transitioned the communities to an existing operator. In connection with the lease termination, we abated rent for June 2022 and have forgiven the former operator's \$7.1 million outstanding unaccrued deferred rent balance. Additionally, we paid the former operator a \$0.5 million lease termination fee in exchange for cooperation and assistance in facilitating an orderly transition.

The transition of the communities was pursuant to a new two-year master lease with zero rent for the first four months. Thereafter, cash rent will be based on mutually agreed upon fair market rent. In connection with the new lease, we paid the new operator a \$0.4 million lease incentive payment which will be amortized as a yield adjustment to rental income over the two-year lease term.

Additionally, we agreed to defer \$0.2 million of the \$0.4 million monthly contractual rent for August and September of 2022 from a lessee that operates eight assisted living communities under a master lease. The operator requested rent assistance due to protracted lease-up of their portfolio during COVID. We anticipate they will be able to repay the total \$0.3 million of deferred rent in 2023, upon receipt of additional stimulus funds from the Employee Retention Credit program. This operator paid its full October 2022 rent.

Also, we provided \$0.7 million of abated rent during the third quarter of 2022 to an operator pursuant to a master lease covering two assisted living communities. We are evaluating options for these communities.

Senior Lifestyle Corporation- Former Operator

During 2020, an affiliate of Senior Lifestyle (“Senior Lifestyle”) failed to pay its contractual obligations under its master lease. As a result, we applied their letter of credit and deposits to past due rent and to their outstanding notes receivable. Senior Lifestyle has not paid rent or its other obligations under the master lease since 2021. During 2021, we transitioned 18 assisted living communities previously leased to Senior Lifestyle to six operators. These communities are located in Illinois, Ohio, Wisconsin, Colorado, Pennsylvania and Nebraska. Also, during 2021, we sold three Wisconsin communities and a closed community in Nebraska previously leased to Senior Lifestyle for a combined total of \$35.9 million. We received total proceeds of \$34.8 million and recorded a net gain on sale of \$5.4 million. During 2022, an assisted living community located in Colorado, which transitioned from Senior Lifestyle to a new operator during the first quarter of 2021, was closed and the lease was terminated. We have engaged a broker and intend to sell this assisted living community. Additionally, during 2022, we transitioned the remaining community located in New Jersey under the Senior Lifestyle master lease to an existing operator. Accordingly, as of September 30, 2022, Senior Lifestyle does not operate any properties in our portfolio.

Senior Care Centers, LLC – Former Operator

Senior Care Centers, LLC and affiliates and subsidiaries (“Senior Care”) filed for Chapter 11 bankruptcy in December 2018. During 2019, while in bankruptcy, Senior Care assumed LTC’s master lease and, in March 2020, Senior Care emerged from bankruptcy. Concurrent with their emergence from bankruptcy, in accordance with the order confirming Senior Care’s plan of reorganization, Abri Health Services, LLC (“Abri Health”) was formed as the parent company of reorganized Senior Care and became co-tenant and co-obligor with reorganized Senior Care under our master lease. In March 2021, Senior Care and Abri Health (collectively, “Lessee”) failed to pay rent and additional obligations owed under the master lease. Accordingly, we sent a notice of default and applied proceeds from letters of credit to certain obligations owed under the master lease. Furthermore, we sent the Lessee a notice of termination of the master lease to be effective April 17, 2021. On April 16, 2021, the Lessee filed for Chapter 11 bankruptcy. In August 2021, the United States Bankruptcy Court approved a settlement agreement between Lessee and LTC. The settlement provided for, among other things, a one-time payment of \$3.3 million from LTC to the affiliates of Lessee in exchange for cooperation and assistance in facilitating an orderly transition of the 11 skilled nursing centers from the Lessee and its affiliates to affiliates of HMG Healthcare, LLC (“HMG”) which occurred on October 1, 2021. As of October 1, 2021, Senior Care and Abri Health no longer operate any properties in our portfolio.

2022 Activities Overview

The following tables summarize our transactions during the nine months ended September 30, 2022 (*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
Texas ⁽¹⁾	4	SNF	339	8.0 %	\$ 51,534	\$ 281	\$ 51,815

(1) The properties are leased to an affiliate of an existing operator under a 10-year lease with two 5-year renewal options. Additionally, the lease provides the operator to elect for either an earn-out payment or purchase option. If neither option is elected within the timeframe defined in the lease, both elections are terminated. The earn-out payment is available, contingent on achieving certain thresholds per the lease, beginning at the end of the second lease year through the end of the fifth lease year. The purchase option is available beginning in the sixth lease year through the end of the seventh lease year. The initial cash yield is 8% for the first year, increasing to 8.25% for the second year, then increases annually by 2.0% to 4.0% based on the change in the Medicare Market Basket Rate. In connection with the transition, we provided the lease a 10-year working capital loan for up to \$2,000 of which \$1,867 has been funded at 8% for the first year, increasing to 8.25% for the second year, the increasing annually with the lease rate.

Investment in Improvement projects

	Developments	Improvements
Assisted Living Communities	\$ 105	\$ 3,015
Skilled Nursing Centers	—	981
Other	—	559
Total	\$ 105	\$ 4,555

Properties Sold

State	Type of Properties	Number of Properties	Number of Beds/Units	Sales Price	Carrying Value	Net Gain (loss) ⁽¹⁾
California	ALF	2	232	\$ 43,715	\$ 17,832	\$ 25,867
California	SNF	1	121	13,250	1,846	10,846
Texas	SNF	1	—	485	697	(434)
Virginia	ALF	1	74	16,895	15,549	1,344 ⁽²⁾
n/a	n/a	—	—	—	—	186 ⁽³⁾
		5	427	\$ 74,345	\$ 35,924	\$ 37,809

(1) Calculation of net gain includes cost of sales.

(2) In connection with this sale, the former operator paid us a lease termination fee of \$1,181 which is not included in the gain on sale.

(3) We recognized additional gain due to the reassessment adjustment of the holdbacks related to properties sold during 2019 and 2020, under the expected value model per Accounting Standard Codification ("ASC") Topic 606, *Contracts with Customers* ("ASC 606").

Financing Receivable

During the third quarter of 2022, we entered into a joint venture and contributed \$61.7 million into the JV that purchased three skilled nursing centers located in Florida for \$75.8 million. The JV leased the centers back to an affiliate of the seller under a 10-year master lease, with two five-year renewal options and provided the seller-lessee with a purchase option, exercisable at the beginning of the fourth year through the end of the fifth year. In accordance with ASC 842, the purchased assets are required to be presented as *Financing receivable* on our *Consolidated Balance Sheets*. Furthermore, the revenue from this transaction is recorded as *Interest Income from financing receivable* on our *Consolidated Statements of Income*. See Note 2. *Real Estate Investments* for more information on the accounting guidance for

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Financing receivable. During the third quarter of 2022, we recognized \$0.4 million of *Interest income from financing receivable* on our *Consolidated Statements of Income*.

Investment in Mortgage Loans

Originations and funding under mortgage loans receivable	\$	35,234 ⁽¹⁾
Application of interest reserve		4,348
Scheduled principal payments received		(625)
Mortgage loan premium amortization		(4)
Provision for loan loss reserve		(389)
Net increase in mortgage loans receivable	\$	38,564

- (1) We originated two senior mortgage loans, secured by four ALFs operated by an existing operator, as well as a land parcel in North Carolina. The communities have a combined total of 217 units, with an average age of less than four years. The land parcel is approximately 7.6 acres adjacent to one of the ALFs and is being held for the future development of a seniors housing community. The mortgage loans have a four-year term, an interest rate of 7.25% and an IRR of 8%.

Preferred Equity Investment in Unconsolidated Joint Ventures

State	Type of Properties	Total Preferred Return	Contractual Cash Portion	Number of Beds/ Units	Carrying Value	Income Recognized	Cash Interest Received	Application of Interest Reserve
Washington ⁽¹⁾	ALF/MC	12 %	7 %	95	\$ 6,340	\$ 337	\$ —	\$ 337
Washington ⁽²⁾	UDP	12 %	8 %	—	13,000	790	351	439
				95	\$ 19,340	\$ 1,127	\$ 351	\$ 776

- (1) Represents a preferred equity in an entity that developed and owns a 95-unit ALF and MC in Washington. Our investment represents 15.5% of the total investment. The preferred equity investment earns an initial cash rate of 7% increasing to 9% in year four until the internal rate of return (“IRR”) is 8%. After achieving an 8% IRR, the cash rate drops to 8% until achieving an IRR ranging between 12% to 14%, depending upon timing of redemption. During the fourth quarter of 2021, the entity completed the development project and received its certificate of occupancy. We have the option to require the JV partner to purchase our preferred equity interest at any time between August 17, 2031 and December 31, 2036.
- (2) Represents a preferred equity in an entity that will develop and own a 267-unit ILF and ALF in Washington. Our investment represents 11.6% of the estimated total investment. The preferred equity investment earns an initial cash rate of 8% with an IRR of 12%. The JV partner has the option to buy out our investment at any time after August 31, 2023 at the IRR rate. Also, we have the option to require the JV partner to purchase our preferred equity interest at any time between August 31, 2027 and, upon project completion and leasing the property, prior to the end of the first renewal term of the lease.

Notes Receivable

Advances under notes receivable	\$	37,008 ⁽¹⁾
Principal payments received under notes receivable		(6,618)
Provision for credit losses		(303)
Net increase in notes receivable	\$	30,087

- (1) Includes the origination of a \$25,000 mezzanine loan for the recapitalization of five assisted living communities located in Oregon and Montana with a total of 621 units. The mezzanine loan has a term of approximately five years with two one-year extension options. It bears interest at 8% with IRR of 11%. Also includes origination of a working capital loan for a commitment of up to \$2,000, of which \$1,867 has been funded and \$9,761 of funding under a working capital loan to HMG.

Health Care Regulatory Climate

The Centers for Medicare & Medicaid Services (“CMS”) annually updates Medicare skilled nursing facility (“SNF”) 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 projected aggregate payments to SNFs would increase by \$851 million, or 2.4%, for fiscal year 2020 compared with fiscal year 2019. The final rule also addressed implementation of the 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 SNF Value-Based Purchasing

and quality reporting program policies. On April 10, 2020, CMS issued a proposed rule to update SNF rates and policies for fiscal year 2021, which started October 1, 2020, and issued the final rule on July 31, 2020. CMS estimated that payments to SNFs would increase by \$750 million, or 2.2%, for fiscal year 2021 compared to fiscal year 2020. CMS also adopted revised geographic delineations to identify a provider's status as an urban or rural facility and to calculate the wage index, applying a 5% cap on any decreases in a provider's wage index from fiscal year 2020 to fiscal year 2021. Finally, CMS also finalized updates to the SNF value-based purchasing program to reflect previously finalized policies, updated the 30-day phase one review and correction deadline for the baseline period quality measure quarterly report, and announced performance periods and performance standards for the fiscal year 2023 program year. On April 8, 2021, CMS issued a proposed rule to update SNF rates and policies for fiscal year 2022, which started October 1, 2021, and issued the final rule on July 29, 2021. CMS estimated that the aggregate impact of the payment policies in the final rule would result in an increase of approximately \$410 million in Medicare Part A payments to SNFs in fiscal year 2022. The final rule also includes several policies that update the SNF Quality Reporting Program and the SNF Value-Based Program for fiscal year 2022. On April 11, 2022, CMS issued a proposed rule to update SNF rates and policies for fiscal year 2023. CMS estimated that the aggregate impact of the payment policies in the proposed rule would result in a decrease of approximately \$320 million in Medicare Part A payments to SNFs in fiscal year 2023 compared to fiscal year 2022. CMS also sought input on the effects of direct care staffing requirements to improve long-term care requirements for participation and promote thoughtful, informed staffing plans and decisions within facilities to meet residents' needs, including maintaining or improving resident function and quality of life. Specifically, CMS sought input on establishing minimum staffing requirements for long-term care facilities. On June 29, 2022, CMS issued updates to guidance on minimum health and safety standards that long-term care facilities must meet to participate in Medicare and Medicaid, and updated and developed new guidance in the State Operations Manual to address issues that significantly affect residents of long-term care facilities. On July 29, 2022, CMS issued a final rule to update SNF rates and policies for fiscal year 2023. CMS estimated that the aggregate impact of the payment policies in the final rule would result in an increase of 2.7%, or approximately \$904 million, in Medicare Part A payments to SNFs in fiscal year 2023 compared to fiscal year 2022. CMS also finalized a permanent 5% cap on annual wage index decreases to smooth year-to-year changes in providers' wage index payments. In addition, CMS indicated that it would continue to review the comments it received in response to its request for information on establishing minimum staffing requirements for long-term care facilities, and that it intends to issue proposed rules on a minimum staffing level measure within one year.

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.

Since the announcement of the COVID-19 pandemic and beginning as of March 13, 2020, CMS has issued numerous temporary regulatory waivers and new rules to assist health care providers, including SNFs, respond to the COVID-19 pandemic. These include waiving the SNF 3-day qualifying inpatient hospital stay requirement, flexibility in calculating a new Medicare benefit period, waiving timing for completing functional assessments, waiving requirements for health care professional licensure, survey and certification, provider enrollment, and reimbursement for services performed by telehealth, among many others. CMS also announced a temporary expansion of its Accelerated and Advance Payment Program to allow SNFs and certain other Medicare providers to request accelerated or advance payments in an amount up to 100% of the Medicare Part A payments they received from October–December 2019; this expansion was suspended April 26, 2020 in light of other CARES Act funding relief. The Continuing Appropriations Acts, 2021 and Other Extensions Act, enacted on October 1, 2020, amended the repayment terms for all providers and suppliers that requested and received accelerated and advance payments during the COVID-19 public health emergency. Specifically, Congress gave providers and

suppliers that received Medicare accelerated and advance payment(s) one year from when the first loan payment was made to begin making repayments. In addition, CMS enhanced requirements for nursing facilities to report COVID-19 infections to local, state and federal authorities. On October 13, 2022, HHS Secretary Becerra announced that he had renewed, effective October 13, 2022, the declared public health emergency for an additional 90-day period.

On March 26, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), sweeping legislation intended to bolster the nation’s response to the COVID-19 pandemic. In addition to offering economic relief to individuals and impacted businesses, the law expands coverage of COVID-19 testing and preventative services, addresses health care workforce needs, eases restrictions on telehealth services during the crisis, and increases Medicare regulatory flexibility, among many other provisions. Notably, the CARES Act temporarily suspended the 2% across-the-board “sequestration” reduction during the period May 1, 2020 through December 31, 2020, and extended the current Medicare sequester requirement through fiscal year 2030. In addition, the law provides \$100 billion in grants to eligible health care providers for health care related expenses or lost revenues that are attributable to COVID-19. On April 10, 2020, CMS announced the distribution of \$30 billion in funds to Medicare providers based upon their 2019 Medicare fee for service revenues. Eligible providers were required to agree to certain terms and conditions in receiving these grants. In addition, the Department of Health and Human Services (“HHS”) authorized \$20 billion of additional funding for providers that have already received funds from the initial distribution of \$30 billion. Unlike the first round of funds, which came automatically, providers were required to apply for these additional funds and submit the required supporting documentation, using the online portal provided by HHS. Providers were required to attest to and agree to specific terms and conditions for the use of such funds. HHS expressed a goal of allocating the whole \$50 billion proportionally across all providers based on those providers’ proportional share of 2018 net Medicare fee-for-service revenue, so that some providers would not be eligible for additional funds. On May 22, 2020, HHS announced that it had begun distributing \$4.9 billion in additional relief funds to SNFs to offset revenue losses and assist nursing homes with additional costs related to responding to the COVID-19 public health emergency and the shipments of personal protective equipment provided to nursing homes by the Federal Emergency Management Agency. On June 9, 2020, HHS announced that it expected to distribute approximately \$15 billion to eligible providers that participate in state Medicaid and Children’s Health Insurance Program (“CHIP”) programs and have not received a payment from the Provider Relief Fund General Allocation. On July 22, 2020, President Trump announced that HHS would devote \$5 billion in Provider Relief Funds to Medicare-certified long-term care facilities and state veterans’ homes to build nursing home skills and enhance nursing homes’ response to COVID-19, including enhanced infection control. Nursing homes were required to participate in the Nursing Home COVID-19 training to qualify for this funding. On August 27, 2020, HHS announced that it had distributed almost \$2.5 billion to nursing homes to support increased testing, staffing, and personal protective equipment needs. On September 3, 2020, HHS announced a \$2 billion performance-based incentive payment distribution to nursing homes and SNFs. Finally, on October 1, 2020, HHS announced \$20 billion in additional funding for several types of providers, including those who previously received, rejected, or accepted a general distribution provider relief fund payment. The application deadline for these Phase 3 funds was November 6, 2020.

On December 27, 2020, President Trump signed the Consolidated Appropriations Act, 2021 (H.R. 133). The \$1.4 trillion omnibus appropriations legislation funds the government through September 30, 2021 and was attached to a \$900 billion COVID-19 relief package. Of the \$900 billion in COVID-19 relief, \$73 billion was allocated to HHS. Notably, the bill adds an additional \$3 billion to the Provider Relief Fund, includes language specific to reporting requirements, and allows providers to use any reasonable method to calculate lost revenue, including the difference between such provider’s budgeted and actual revenue budget if such budget had been established and approved prior to March 27, 2020, to demonstrate entitlement for these funds. This change reverts to HHS’ previous guidance from June 2020

on how to calculate lost revenues. The Consolidated Appropriations Act, 2021 also extended the CARES Act's sequestration suspension to March 31, 2021. On January 15, 2021, HHS announced that it would be amending the reporting timeline for Provider Relief Funds and indicated that it was working to update the Provider Relief Fund requirements to be consistent with the passage of the Consolidated Appropriations Act, 2021.

On April 14, 2021, President Biden signed an Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes (H.R. 1868), which extended the sequestration suspension period to December 31, 2021. On June 11, 2021, HHS issued revised reporting requirements for recipients of Provider Relief Fund payments. The announcement included expanding the amount of time providers would have to report information, aimed to reduce burdens on smaller providers, and extended key deadlines for expending Provider Relief Fund payments for recipients who received payments after June 30, 2020. The revised reporting requirements are applicable to providers who received one or more payments exceeding, in the aggregate, \$10,000 during a single Payment Received Period from the PRF General Distributions, Targeted Distributions, and/or Skilled Nursing Facility and Nursing Home Infection Control Distributions. On July 1, 2021, HHS, through the Health Resources and Services Administration ("HRSA"), notified recipients of Provider Relief Fund payments by e-mail that the Provider Relief Fund Reporting Portal was open for recipients who were required to report on the use of funds in Reporting Period 1, as described by HHS's June 11, 2021 update to the reporting requirements. On September 10, 2021, HHS announced a final 60-day grace period of the September 30, 2021 reporting deadline for Provider Relief Funds exceeding \$10,000 in aggregate payments received from April 10, 2020 to June 30, 2020. Although the September 30, 2021 reporting deadline remained in place, HHS explained that recoupment or other enforcement actions would not be initiated during the 60-day grace period, which began on October 1, 2021 and ended on November 30, 2021. Reporting Period 2, for providers who received one or more payments exceeding \$10,000, in the aggregate, from July 1, 2020 to December 31, 2020, was from January 1, 2022 to March 31, 2022. Reporting Period 3, for providers who received one or more payments exceeding \$10,000, in the aggregate, from January 1, 2021 to June 30, 2021, was from July 1, 2022 to September 30, 2022. Reporting Period 4, for providers who received one or more payments exceeding \$10,000, in the aggregate, from July 1, 2021 to December 31, 2021, opens on January 1, 2023.

On September 10, 2021, the Biden Administration announced \$25.5 billion in new funding for health care providers affected by the COVID-19 pandemic, including \$8.5 billion in American Rescue Plan ("ARP") resources for providers who serve rural Medicaid, CHIP, or Medicare patients, and an additional \$17 billion for Phase 4 Provider Relief Funds for a broad range of providers who can document revenue loss and expenses associated with the pandemic, including assisted living facilities that were state-licensed/certified on or before December 31, 2020. Approximately 25% of the Phase 4 allocation was for bonus payments based on the amount and type of services provided to Medicaid, CHIP, and Medicare beneficiaries from January 1, 2019 through September 30, 2020. The deadline for submitting applications for Phase 4 funds was October 26, 2021.

On December 10, 2021, President Biden signed the Protecting Medicare and American Farmers from Sequester Cuts Act, which suspended the Medicare 2% sequestration reduction through March 31, 2022, and then reduced the sequestration cuts to 1% from April through June 2022.

On December 14, 2021, HHS announced the distribution of approximately \$9 billion in Provider Relief Fund Phase 4 payments to health care providers who have experienced revenue losses and expenses related to the COVID-19 pandemic. Further, on January 25, 2022, HHS announced that it would be making more than \$2 billion in Provider Relief Fund Phase 4 General Distribution payments to more than 7,600 providers across the country that same week. On March 22, 2022, HHS announced more than \$413 million in Provider Relief Fund Phase 4 payments to more than 3,600 providers across the country.

On April 13, 2022, HRSA announced the disbursement of more than \$1.75 billion in Provider Relief Fund payments to 3,680 providers across the country.

Congress periodically considers legislation revising Medicare and Medicaid policies, including legislation that could have the impact of reducing Medicare reimbursement for SNFs 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. Congress continues to consider further legislative action in response to the COVID-19 pandemic. 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. State Medicaid budgets may experience shortfalls due to increased costs in addressing the COVID-19 pandemic. 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*):

	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Asset mix:					
Real property	\$ 1,408,402	\$ 1,409,937	\$ 1,409,625	\$ 1,408,557	\$ 1,407,098
Financing receivable	76,267	—	—	—	—
Loans receivable	386,868	383,647	350,037	347,915	261,437
Notes receivable	59,014	58,794	62,127	28,623	18,864
Unconsolidated joint ventures	19,340	19,340	19,340	19,340	19,340
Real estate investment mix:					
Assisted living communities	\$ 945,552	\$ 942,581	\$ 956,642	\$ 929,113	\$ 868,081
Skilled nursing centers	976,753	901,911	858,150	849,182	812,518
Under development	13,000	13,000	13,000	13,000	13,000
Other ⁽¹⁾	14,586	14,226	13,337	13,140	13,140
Operator mix:					
Prestige Healthcare ⁽¹⁾	\$ 271,851	\$ 271,853	\$ 272,326	\$ 272,453	\$ 272,789
ALG Senior	189,533	110,075	76,715	74,888	26,881
HMG Healthcare	174,107	175,532	180,662	171,920	23,705
Anthem Memory Care	139,176	139,176	139,176	139,176	139,176
Brookdale Senior Living	104,461	103,831	103,136	102,921	102,261
Remaining operators	1,070,763	1,071,251	1,069,114	1,043,077	1,141,927
Geographic mix:					
Texas	\$ 325,380	\$ 326,983	\$ 274,803	\$ 274,626	\$ 274,204
Michigan	280,932	280,934	281,407	281,512	282,022
Florida ⁽²⁾	158,175	81,525	80,815	80,540	68,634
Wisconsin	114,838	114,729	114,729	114,538	114,288
Colorado	104,760	104,651	104,514	104,514	104,445
Remaining states ⁽²⁾	965,806	962,896	984,861	948,705	863,146

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

(2) During the three months ended September 30, 2022, as a result of recent transactions, North Carolina is no longer a top five state under our geographic mix and is replaced by Florida. Accordingly, our “Florida” properties were reclassified from “Remaining states” and our “North Carolina” properties were reclassified back to “Remaining States” for all periods presented.

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 Sheets* 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				
	9/30/22	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Debt to gross asset value	38.9 %	38.9 % ⁽¹⁾	37.6 % ⁽³⁾	39.6 % ⁽¹⁾	38.4 % ⁽¹⁾	36.3 %
Debt to market capitalization ratio	34.4 %	34.4 % ⁽²⁾	32.2 % ⁽⁴⁾	33.4 % ⁽⁵⁾	35.0 % ⁽²⁾	34.7 %
Interest coverage ratio ⁽⁶⁾	4.3 x	4.2 x	4.3 x	4.4 x	4.3 x	4.3 x
Fixed charge coverage ratio ⁽⁶⁾	4.3 x	4.2 x	4.3 x	4.4 x	4.3 x	4.3 x

- (1) Increased due to increase in outstanding debt partially offset by increase in gross asset value.
- (2) Increased due to decrease in market capitalization and increase in outstanding debt primarily related to investments.
- (3) Decreased due to decrease in outstanding debt and increase in gross asset value.
- (4) Decreased due to decrease in outstanding debt and increase in market capitalization.
- (5) Decreased due to increase in market capitalization partially offset by increase in outstanding debt.
- (6) In calculating our interest coverage and fixed charge coverage ratios above, we use EBITDAre, which is a financial measure not derived in accordance with GAAP (non-GAAP financial measure). EBITDAre 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 EBITDAre 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 EBITDAre.

	Year to Date	Quarter Ended				
	9/30/22	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Net income	\$ 82,386	\$ 13,389	\$ 54,490	\$ 14,507	\$ 12,930	\$ 11,114
Less/Add: (Gain)/loss on sale	(37,809)	387	(38,094)	(102)	(70)	(2,702)
Add: Impairment loss	1,286	1,286	—	—	—	—
Add: Interest expense	22,607	7,941	7,523	7,143	6,933	6,610
Add: Depreciation and amortization	28,202	9,385	9,379	9,438	9,449	9,462
EBITDAre	\$ 96,672	\$ 32,388	\$ 33,298	\$ 30,986	\$ 29,242	\$ 24,484
Add (less): Non-recurring one-time items	824 ^{(1) (2) (3)}	1,260 ⁽¹⁾	(859) ⁽²⁾	423 ⁽³⁾	869 ⁽⁴⁾	3,895 ⁽⁵⁾
Adjusted EBITDAre	\$ 97,496	\$ 33,648	\$ 32,439	\$ 31,409	\$ 30,111	\$ 28,379
Interest expense	\$ 22,607	\$ 7,941	\$ 7,523	\$ 7,143	\$ 6,933	\$ 6,610
Interest incurred	\$ 22,607	\$ 7,941	\$ 7,523	\$ 7,143	\$ 6,933	\$ 6,610
Interest coverage ratio	4.3 x	4.2 x	4.3 x	4.4 x	4.3 x	4.3 x
Interest incurred	\$ 22,607	\$ 7,941	\$ 7,523	\$ 7,143	\$ 6,933	\$ 6,610
Total fixed charges	\$ 22,607	\$ 7,941	\$ 7,523	\$ 7,143	\$ 6,933	\$ 6,610
Fixed charge coverage ratio	4.3 x	4.2 x	4.3 x	4.4 x	4.3 x	4.3 x

- (1) Represents \$500 lease termination fee paid to a former operator in exchange for cooperation in facilitating an orderly transition and \$760 provision for credit losses related to the origination of financing receivable during the third quarter of 2022.
- (2) Represents the \$1,181 lease termination fee received in connection with the sale of a 74-unit assisted living community partially offset by the \$322 provision for credit losses related to the origination of two mortgage loans during the second quarter of 2022.
- (3) Represents the provision for credit losses related to the origination of a \$25,000 mezzanine loan and a lease incentive balance write-off related to a closed property and subsequent lease termination.
- (4) Represents the provision for credit losses related to the origination of \$86,900 of mortgage loans.
- (5) Represents a settlement payment to Senior Care (See our Annual Report on Form 10-K).

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.

Additionally, as described in the Executive Overview above, COVID-19 is adversely affecting and is expected to continue to adversely affect our business, results of operations, cash flows and financial condition. Depending on the future developments regarding COVID-19, the duration, spread and severity of the outbreak, historical trends reflected in our balance sheet metrics may not be achieved in the future.

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,		
	2022	2021	Difference
Revenues:			
Rental income	\$ 31,585	\$ 29,320	\$ 2,265 ⁽¹⁾
Interest income from financing receivable	357	—	357 ⁽²⁾
Interest income from mortgage loans	10,379	7,924	2,455 ⁽³⁾
Interest and other income	1,182	228	954 ⁽⁴⁾
Total revenues	43,503	37,472	6,031
Expenses:			
Interest expense	7,941	6,610	(1,331) ⁽⁵⁾
Depreciation and amortization	9,385	9,462	77
Impairment loss from real estate investments	1,286	—	(1,286) ⁽⁶⁾
Provision for credit losses	795	68	(727) ⁽⁷⁾
Transaction costs	629	4,046	3,417 ⁽⁸⁾
Property tax expense	4,179	3,932	(247)
General and administrative expenses	5,888	5,318	(570) ⁽⁹⁾
Total expenses	30,103	29,436	(667)
Other operating income:			
(Loss) gain on sale of real estate, net	(387) ⁽¹⁰⁾	2,702 ⁽¹¹⁾	(3,089)
Operating income	13,013	10,738	2,275
Income from unconsolidated joint ventures	376	376	—
Net income	13,389	11,114	2,275
Income allocated to non-controlling interests	(99)	(92)	(7)
Net income attributable to LTC Properties, Inc.	13,290	11,022	2,268
Income allocated to participating securities	(131)	(113)	(18)
Net income available to common stockholders	\$ 13,159	\$ 10,909	\$ 2,250

- (1) Increased primarily due to rent received from properties transitioned from the former Senior Care and Senior Lifestyle portfolios and rental income from acquisitions, completed development projects and annual rent escalations partially offset by sold properties.
- (2) Represents the revenue from the acquisition of three skilled nursing centers located in Florida for \$75,825. In accordance with ASC 842, this transaction is presented as *Financing Receivable* on our *Consolidated Statements of Balance Sheet*. See *Note 2. Real Estate Investments* within our consolidated financial statements for more information.
- (3) Increased primarily due to mortgage loan originations during the fourth quarter of 2021 and second quarter of 2022.
- (4) Increased primarily due to a mezzanine loan origination during the first quarter of 2022 and additional funding under working capital loans partially offset by loan payoffs.
- (5) Increased primarily due to the origination of two \$50,000 term loans in the fourth quarter of 2021, issuance of \$75,000 senior unsecured notes during the second quarter of 2022 and higher interest rates in 2022.
- (6) Represents the impairment loss related to an assisted living community in Kentucky. See *Note 2. Real Estate Investments* within our consolidated financial statements for more information.
- (7) Increased primarily due to the financing receivable origination, as discussed in (2) above, mortgage and mezzanine loan originations and capital improvement funding offset by scheduled principal paydowns.
- (8) Decreased primarily due to the Senior Care and Abri Health settlement and related fees paid during the third quarter of 2021.
- (9) Increased costs related to property maintenance expense for closed properties, as well as higher non-cash compensation charges, and increases in overall costs due to inflationary pressures.
- (10) Represents the net loss on sale of \$434 related to a closed skilled nursing center in Texas offset by additional gain due to quarterly reassessment of prior years' sale holdbacks.
- (11) Represents the net gain on sale of \$2,562 related to a SNF in Washington and additional gain due to quarterly reassessment of prior years' sale holdbacks.

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	Nine Months Ended September 30,		
	2022	2021	Difference
Revenues:			
Rental income	\$ 93,537	\$ 91,097	\$ 2,440 ⁽¹⁾
Interest income from financing receivable	357	—	357 ⁽²⁾
Interest income from mortgage loans	30,112	23,779	6,333 ⁽³⁾
Interest and other income	3,308	1,005	2,303 ⁽⁴⁾
Total revenues	127,314	115,881	11,433
Expenses:			
Interest expense	22,607	20,442	(2,165) ⁽⁵⁾
Depreciation and amortization	28,202	28,847	645 ⁽⁶⁾
Impairment loss from real estate investments	1,286	—	(1,286) ⁽⁷⁾
Provision for credit losses	1,454	59	(1,395) ⁽⁸⁾
Transaction costs	728	4,271	3,543 ⁽⁹⁾
Property tax expense	12,180	11,713	(467)
General and administrative expenses	17,407	15,688	(1,719) ⁽¹⁰⁾
Total expenses	83,864	81,020	(2,844)
Other operating income:			
Gain on sale of real estate, net	37,809 ⁽¹¹⁾	7,392 ⁽¹²⁾	30,417
Operating income	81,259	42,253	39,006
Income from unconsolidated joint ventures	1,127	1,041	86
Net income	82,386	43,294	39,092
Income allocated to non-controlling interests	(301)	(271)	(30)
Net income attributable to LTC Properties, Inc.	82,085	43,023	39,062
Income allocated to participating securities	(481)	(346)	(135)
Net income available to common stockholders	\$ 81,604	\$ 42,677	\$ 38,927

- (1) Increased primarily due to a \$1,181 lease termination fee received in connection with the sale of a 74-unit ALF, rent received from properties transitioned from the former Senior Lifestyle portfolios and rental income from completed development projects and annual rent escalations partially offset by reduction of rental income from sold properties and \$1,500 temporary rent reduction from Anthem.
- (2) Represents the revenue from the acquisition of three skilled nursing centers located in Florida for \$75,825. In accordance with ASC 842, this transaction is presented as Financing Receivable on our Consolidated Statements of Balance Sheet. See *Note 2. Real Estate Investments* within our consolidated financial statements for more information.
- (3) Increased primarily due to mortgage loan originations during the fourth quarter of 2021 and second quarter of 2022.
- (4) Increased due to a mezzanine loan origination during the first quarter of 2022 and additional funding under working capital loans partially offset by loan payoffs.
- (5) Increased primarily due to the origination of two \$50,000 term loans in the fourth quarter of 2021, issuance of \$75,000 senior unsecured notes during the second quarter of 2022 and higher interest rates in 2022.
- (6) Decreased due to property sales.
- (7) Represents the impairment loss related to an assisted living community in Kentucky. See *Note 2. Real Estate Investments* within our consolidated financial statements for more information.
- (8) Increased primarily due to the financing receivable origination, as discussed in (2) above, mortgage and mezzanine loan originations and capital improvement funding offset by scheduled principal paydowns.
- (9) Decreased primarily due to the Senior Care and Abri Health settlement and related fees paid during the third quarter of 2021.
- (10) Increased costs related to conference sponsorships and travel, property maintenance expense for closed properties, higher incentive compensation charges and increase in overall costs due to inflationary pressures.
- (11) Represents the net gain on sale of \$38,052 related to a SNF located in California and three ALFs located in Virginia and California during the second quarter of 2022 and quarterly reassessment of prior years' sale holdbacks partially offset by the net loss on sale of \$434 related to a closed skilled nursing center in Texas.
- (12) Represents the net gain on sale of \$2,562 related to a SNF in Washington, \$5,594 related to three ALFs in Wisconsin and \$292 of quarterly reassessment of the prior years' sale holdbacks partially offset by the net loss on sale of \$198 related to a closed ALF in Nebraska and the net loss on sale of \$858 related to a closed property in Florida.

Funds From Operations Available to Common Stockholders

Funds from Operations (“FFO”) attributable to common stockholders, basic FFO attributable to common stockholders per share and diluted FFO attributable to common stockholders per share are supplemental measures of a REIT’s financial performance that are not defined by 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,	
	2022	2021	2022	2021
GAAP net income available to common stockholders	\$ 13,159	\$ 10,909	\$ 81,604	\$ 42,677
Add: Depreciation and amortization	9,385	9,462	28,202	28,847
Add: Impairment loss from investments	1,286	—	1,286	—
Add/Less: Loss (gain) on sale of real estate, net	387	(2,702)	(37,809)	(7,392)
NAREIT FFO attributable to common stockholders	\$ 24,217	\$ 17,669	\$ 73,283	\$ 64,132
NAREIT FFO attributable to common stockholders per share:				
Basic	\$ 0.60	\$ 0.45	\$ 1.85	\$ 1.64
Diluted	\$ 0.60	\$ 0.45	\$ 1.83	\$ 1.64
Weighted average shares used to calculate NAREIT FFO per share:				
Basic	40,270	39,177	39,658	39,149
Diluted	40,781 ⁽¹⁾	39,177	39,939 ⁽²⁾	39,149

(1) Includes the effect of stock option equivalents, performance-based stock units and participating securities.

(2) Includes the effect of performance-based stock units.

Liquidity and Capital Resources

Sources and Uses of Cash

As of September 30, 2022, we had a total of \$6.5 million of cash and cash equivalents, \$249.0 million available under our unsecured revolving line of credit and the potential ability to access the capital markets through the issuance of \$160.3 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. In addition, as described in the Executive Overview above, COVID-19 has adversely affected and is expected to continue to adversely affect our operators' business, results of operations, cash flows and financial condition which could, in turn, adversely affect our financial position.

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 health of the economy, inflation pressures, employee availability and cost, changes in supply of or demand for competing seniors housing and health care facilities, ability to control other rising operating costs, the potential for significant reforms in the health care industry, and the ongoing impact of COVID-19. 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, and the continuing impact of COVID-19. 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.

Depending on the duration, spread and severity of a future COVID-19 outbreak, our borrowing capacity, compliance with financial covenants, ability to access the capital markets, and the payment of dividends may be negatively impacted. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for corporate expenses and additional capital investments in 2022 and 2023.

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

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(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
	2022	2021	\$
Cash provided by (used in):			
Operating activities	\$ 72,772	\$ 69,581	\$ 3,191
Investing activities	(110,507)	27,757	(138,264)
Financing activities	39,052	(59,651)	98,703
Increase in cash and cash equivalents	1,317	37,687	(36,370)
Cash and cash equivalents, beginning of period	5,161	7,772	(2,611)
Cash and cash equivalents, end of period	\$ 6,478	\$ 45,459	\$ (38,981)

Debt Obligations

Unsecured Credit Facility. We have an unsecured credit agreement (the “Credit Agreement”) that provides for an aggregate commitment of the lenders of up to \$500.0 million comprising of a \$400.0 million revolving credit facility (the “Revolving Line of Credit”) and two \$50.0 million term loans (the “Term Loans”). The Credit Agreement permits us to request increases to the Revolving Line of Credit and Term Loans commitments up to a total of \$1.0 billion. The Revolving Line of Credit matures November 19, 2025 and provides for a one-year extension option at our discretion, subject to customary conditions. The Term Loans mature on November 19, 2025 and November 19, 2026.

Based on our leverage at September 30, 2022, the facility provides for interest annually at LIBOR plus 115 basis points and a facility fee of 20 basis points.

Interest Rate Swap Agreements. In connection with entering into the Term Loans as described above, we entered into two receive variable/pay fixed interest rate swap agreements (the “Interest Rate Swaps”) with maturities of November 19, 2025 and November 19, 2026, respectively, that serves to lock-in the forecasted interest payments on the borrowings under the Term Loans over their four and five year terms. The Interest Rate Swaps are considered cash flow hedges and are recorded on our *Consolidated Balance Sheets* at fair value, with changes in the fair value of these instruments recognized in *Accumulated other comprehensive income (loss)* on our *Consolidated Balance Sheets*. During the nine months ended September 30, 2022, we recorded a \$9.6 million increase in fair value of Interest Rate Swaps.

As of September 30, 2022, the terms of the Interest Rate Swaps are as follows (*dollar amounts in thousands*):

Date Entered	Maturity Date	Swap Rate	Rate Index	Notional Amount	Fair Value at September 30, 2022
November 2021	November 19, 2025	2.56 %	1-month LIBOR	\$ 50,000	\$ 4,300
November 2021	November 19, 2026	2.69 %	1-month LIBOR	50,000	5,145
				\$ 100,000	\$ 9,445

Senior Unsecured Notes. We have senior unsecured notes held by institutional investors with interest rates ranging from 3.66% to 5.03%. The senior unsecured notes mature between 2024 and 2033. During the nine months ended September 30, 2022, we sold \$75 million aggregate principal amount of 3.66% senior unsecured notes. The notes have an average 10-year life, scheduled principal payments and mature in May 2033.

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The senior unsecured notes and the Credit Agreement, including the Revolving Line of Credit and the Terms Loans, contain financial covenants, which are measured quarterly, that require us to maintain, among other things:

- a ratio of total indebtedness to total asset value not greater than 0.6 to 1.0;
- a ratio of secured debt to total asset value not greater than 0.35 to 1.0;
- a ratio of unsecured debt to the value of the unencumbered asset value not greater than 0.6 to 1.0; and
- a ratio of EBITDA, as calculated in the debt obligation, to fixed charges not less than 1.50 to 1.0.

At September 30, 2022, we were in compliance with all applicable financial covenants. These debt obligations also contain additional customary covenants and events of default that are subject to a number of important and significant limitations, qualifications and exceptions.

The debt obligations by component as of September 30, 2022 are as follows (*dollar amounts in thousands*):

Debt Obligations	Applicable Interest Rate ⁽¹⁾	Outstanding Balance	Available for Borrowing
Revolving line of credit	4.21%	\$ 151,000	\$ 249,000
Term loans, net of debt issue costs	2.63%	99,474	—
Senior unsecured notes, net of debt issue costs	4.25%	543,287	—
Total	4.04%	<u>\$ 793,761</u>	<u>\$ 249,000</u>

(1) Represents weighted average of interest rate as of September 30, 2022.

Our debt borrowings and repayments during the nine months ended September 30, 2022 are as follows (*in thousands*):

Debt Obligations	Borrowings	Repayments
Revolving line of credit	\$ 194,000	\$ (153,900)
Senior unsecured notes	75,000	(43,160)
Total	<u>\$ 269,000</u>	<u>\$ (197,060)</u>

Equity

At September 30, 2022, we had 40,504,791 shares of common stock outstanding, equity on our balance sheet totaled \$825.2 million and our equity securities had a market value of \$1.5 billion. During the nine months ended September 30, 2022, we declared and paid \$68.2 million of cash dividends.

During the nine months ended September 30, 2022, we acquired 39,463 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Subsequent to September 30, 2022, we declared a monthly cash dividend of \$0.19 per share on our common stock for the months of October, November and December 2022, payable on October 31, November 30, and December 30, 2022, respectively, to stockholders of record on October 21, November 22, and December 22, 2022, respectively.

At-The-Market Program. We have separate equity distribution agreements (collectively, “Equity Distribution Agreements”) to offer and sell, from time to time, up to \$200.0 million in aggregate offering price of shares of our common stock. During the nine months ended September 30, 2022, we sold 1,035,000 shares of common stock for \$39.0 million in net proceeds under our Equity Distribution

Agreements. In conjunction with the sale of common stock, we paid \$0.6 million as compensation to our sales agents and we incurred \$0.5 million of costs associated with this agreement which have been recorded in additional paid in capital as a reduction of proceeds received.

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 17, 2025.

Stock-Based Compensation. During the second quarter of 2021, we adopted and our shareholders approved the 2021 Equity Participation Plan (“the 2021 Plan”) which replaces the 2015 Equity Participation Plan (“the 2015 Plan”). Under the 2021 Plan, 1,900,000 shares of common stock have been authorized and reserved for awards, less one share for every one share that was subject to an award granted under the 2015 Plan after December 31, 2020 and prior to adoption. In addition, any shares that are not issued under outstanding awards under the 2015 Plan because the shares were forfeited or cancelled after December 31, 2020 will be added to and again be available for awards under the 2021 Plan. Under the 2021 Plan, the shares were authorized and reserved for awards to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2021 Plan and the 2015 Plan are set by our compensation committee at its discretion.

During the nine months ended September 30, 2022, we granted restricted stock and performance-based stock units as follows:

No. of Shares	Price per Share	Award Type	Vesting Period
122,865	\$ 33.94	Restricted stock	ratably over 3 years
86,332	\$ 33.94	Performance-based stock units	TSR targets (1)
12,345	\$ 38.48	Restricted stock	May 25, 2023
221,542			

(1) Vesting is based on achieving certain total shareholder return (“TSR”) targets in 4 years with an 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 the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes to our critical accounting policies or estimates since December 31, 2021.

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, 2022. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2021.

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, 2021.

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

None

Item 6. EXHIBITS

- 3.1 [LTC Properties, Inc. Articles of Restatement \(incorporated by reference to Exhibit 3.1.2 to the registrant's Current Report on Form 8-K filed June 6, 2016\).](#)
- 3.2 [Bylaws of LTC Properties, Inc. \(incorporated by reference to Exhibit 3.2.2 to the registrant's Annual Report on Form 10-K filed February 18, 2021\).](#)
- 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 Inline 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 Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 27, 2022

By: /s/ Caroline Chikhale
Caroline Chikhale
Executive Vice President, Chief Accounting
Officer and Treasurer
(Principal Accounting Officer)

**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 and Chief Executive Officer
(Principal Executive Officer)
October 27, 2022

**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
Co-President, Chief Financial Officer
and Corporate Secretary
(Principal Financial Officer)
October 27, 2022

**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, 2022 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 27, 2022

/s/ WENDY L. SIMPSON

Wendy L. Simpson
Chairman and Chief Executive Officer

Date: October 27, 2022

/s/ PAM KESSLER

Pam Kessler
Co-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.
