LTC PROPERTIES INC
Form 10-Q
November 02, 2016
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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, 2016

OR

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

For the Transition period from ____ to ____

Commission file number 1-11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

2829 Townsgate Road, Suite 350

Westlake Village, California 91361

(Address of principal executive offices, including zip code)

(805) 981-8655

(Registrant's telephone number, including area code)

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

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

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

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

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 28, 2016 was 39,221,681.

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FORM 10-Q

September 30, 2016

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share)

	September 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Investments:		
Land	$ 114,630	$ 106,841
Buildings and improvements	1,177,829	1,091,845
Accumulated depreciation and amortization	(266,581)	(251,265)
Real property investments, net	1,025,878	947,421
Mortgage loans receivable, net of loan loss reserve: 2016—$2,360; 2015—$2,190	234,347	217,529
Real estate investments, net	1,260,225	1,164,950
Investments in unconsolidated joint ventures	23,932	24,042
Investments, net	1,284,157	1,188,992
Other assets:		
Cash and cash equivalents	3,613	12,942
Debt issue costs related to bank borrowings	2,112	2,865
Interest receivable	8,434	4,536
Straight-line rent receivable, net of allowance for doubtful accounts: 2016—$907; 2015—$833	50,092	42,685
Prepaid expenses and other assets	20,779	21,443
Notes receivable	4,199	1,961
Total assets	$ 1,373,386	$ 1,275,424
LIABILITIES		
Bank borrowings	$ 77,000	$ 120,500
Senior unsecured notes, net of debt issue costs: 2016—$1,038; 2015—$1,095	512,262	451,372
Accrued interest	3,616	3,974
Accrued incentives and earn-outs	12,514	12,722
Accrued expenses and other liabilities	27,363	27,654
Total liabilities	632,755	616,222
EQUITY		
Stockholders' equity:		
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2016—39,222; 2015—37,548	392	375
Capital in excess of par value	837,889	758,676
Cumulative net income	992,777	928,328
Accumulated other comprehensive income	8	47
Cumulative distributions	(1,090,435)	(1,028,224)
Total equity	740,631	659,202

Total liabilities and equity	$ 1,373,386	$ 1,275,424

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	$ 33,753	$ 28,531	$ 98,705	$ 82,325
Interest income from mortgage loans	6,958	6,117	20,347	15,777
Interest and other income	131	295	390	708
Total revenues	40,842	34,943	119,442	98,810
Expenses:				
Interest expense	6,836	4,296	19,586	11,916
Depreciation and amortization	9,155	7,365	26,623	21,121
Provision for doubtful accounts	43	31	245	463
Transaction costs	2	570	96	632
General and administrative expenses	4,464	3,708	12,864	11,094
Total expenses	20,500	15,970	59,414	45,226
Operating income	20,342	18,973	60,028	53,584
Income from unconsolidated joint ventures	289	674	839	1,543
Gain on sale of real estate, net	1,780	—	3,582	—
Net income	22,411	19,647	64,449	55,127
Income allocated to participating securities	(90)	(121)	(296)	(370)
Income allocated to preferred stockholders	—	(818)	—	(2,454)
Net income available to common stockholders	$ 22,321	$ 18,708	$ 64,153	$ 52,303
Earnings per common share:				
Basic	$ 0.57	$ 0.53	$ 1.68	$ 1.48
Diluted	$ 0.57	$ 0.52	$ 1.68	$ 1.47
Weighted average shares used to calculate earnings per common share:				
Basic	39,057	35,341	38,161	35,306
Diluted	39,335	37,352	38,455	37,319
Dividends declared and paid per common share	$ 0.54	$ 0.51	$ 1.62	$ 1.53

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 22,411	$ 19,647	$ 64,449	$ 55,127
Reclassification adjustment (Note 6)	(6)	(9)	(39)	(26)
Comprehensive income	$ 22,405	$ 19,638	$ 64,410	$ 55,101

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, unaudited)

	Nine Months Ended September 30, 2016	2015
OPERATING ACTIVITIES:		
Net income	$ 64,449	$ 55,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,623	21,121
Stock-based compensation expense	3,149	3,093
Gain on sale of assets, net	(3,582)	—
Income from unconsolidated joint ventures	(839)	(1,543)
Income distributions from unconsolidated joint ventures	1,409	289
Straight-line rental income	(8,201)	(7,060)
Amortization of lease incentive	1,446	1,163
Provision for doubtful accounts	245	463
Non-cash interest related to contingent liabilities	538	205
Other non-cash items, net	909	670
Increase in interest receivable	(3,898)	(2,787)
Decrease in accrued interest payable	(358)	(1,002)
Net change in other assets and liabilities	(2,245)	795
Net cash provided by operating activities	79,645	70,534
INVESTING ACTIVITIES:		
Investment in real estate properties	(73,449)	(171,185)
Investment in real estate developments	(35,623)	(14,460)
Investment in real estate capital improvements	(5,566)	(6,192)
Capitalized interest	(1,193)	(481)
Proceeds from sale of real estate, net	17,369	—
Investment in real estate mortgage loans receivable	(19,113)	(53,427)
Principal payments received on mortgage loans receivable	2,117	4,281
Investments in unconsolidated joint ventures	(481)	(20,143)
Payment of working capital reserve	(2,325)	—
Advances under notes receivable	(2,328)	(1,464)
Principal payments received on notes receivable	90	—
Net cash used in investing activities	(120,502)	(263,071)
FINANCING ACTIVITIES:		
Bank borrowings	83,500	267,000
Repayment of bank borrowings	(127,000)	(101,500)
Proceeds from issuance of senior unsecured notes	77,500	100,000
Principal payments on senior unsecured notes	(16,667)	(29,167)
Proceeds from common stock issued	78,592	—
Stock option exercises	159	79

Distributions paid to stockholders	(62,211)	(56,842)
Financing costs paid	(130)	(195)
Other	(2,215)	(346)
Net cash provided by financing activities	31,528	179,029
Decrease in cash and cash equivalents	(9,329)	(13,508)
Cash and cash equivalents, beginning of period	12,942	25,237
Cash and cash equivalents, end of period	$ 3,613	$ 11,729
Supplemental disclosure of cash flow information:		
Interest paid	$ 19,004	$ 12,230
Contingent Liabilities related to real estate investments	$ 2,000	$ —
Mortgage loan receivable applied against purchase price to acquire real estate (Note 2)	$ —	$ 10,600
Reclassification of pre-development loans (Note 4)	$ —	$ 716

See accompanying notes.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

1.General

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

We have prepared consolidated financial statements included herein without audit and in the opinion of management have included all adjustments necessary for a fair presentation of the consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (or SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (or GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The accompanying consolidated financial statements include the accounts of our company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results for a full year.

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation, including changes as a result of the application of accounting guidance for properties classified as held-for-sale.

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

New Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update (or ASU) 2014-09, Revenue from Contracts with Customers, which requires revenue to be based upon the consideration expected from customers for promised goods or services. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We expect to adopt this standard effective on January 1, 2018. We do not believe this standard will have a material impact on our results of operations or financial condition.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements— Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

Concern. The amendments in this update define management's responsibility under GAAP to evaluate when and how substantial doubt about the organization's ability to continue as a going concern should be disclosed in the financial statement footnotes. This ASU expands disclosure requirements about principal conditions or events that raise substantial doubt. It also requires disclosing management's evaluation of the significance of those conditions or events in relationship to the organization's ability to meet its obligations, and management's plans that are intended to either alleviate substantial doubt or to mitigate conditions or events that raise substantial doubt. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's financial statements or disclosures.

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

In February 2016, the FASB issued ASU No. 2016-02 (or ASU 2016-02), Leases (Topic 842). ASU 2016-02 modifies existing guidance for off-balance sheet treatment of a lessees' operating leases by requiring lessees to recognize lease assets and lease liabilities. Under ASU 2016-02, lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

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

In March 2016, FASB issued ASU No. 2016-09 (or ASU 2016-09), Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. ASU 2016-09 is effective for public companies for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

In August 2016, FASB issued authoritative guidance that reduces the diversity in practice of the classification of certain cash receipts and cash payments within the statement of cash flows. This guidance is effective for fiscal periods beginning after December 15, 2017 and allows for early adoption.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

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

2.Real Estate Investments

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

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

Owned Properties. The following table summarizes our investments in owned properties at September 30, 2016 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments		Number of Properties(1)	Number of SNF Beds	Number of ALF Units	Average Investment per Bed/Unit
Assisted Living	$ 681,365	52.7	%	103	—	5,607	$ 121.52
Skilled Nursing	535,460	41.4	%	69	8,611	—	$ 62.18
Range of Care	43,907	3.4	%	7	634	274	$ 48.36
Under Development(2)	21,511	1.7	%	—	—	—	—
Other(3)	10,216	0.8	%	1	118	—	—
Totals	$ 1,292,459	100.0	%	180	9,363	5,881	

(1) We own properties in 28 states that are leased to 27 different operators.

(2) Represents three development projects consisting of a 66-unit memory care community, a 108-unit independent living community and a 143-bed skilled nursing center.

(3) Includes three parcels of land held-for-use, and one behavioral health care hospital. The behavioral health care hospital has two licensed skilled nursing beds and 116 acute care hospital beds which represents an investment

of $78.39 per bed.

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease which requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Many of the leases contain renewal options. The leases provide for fixed minimum base rent during the initial and renewal periods. The majority of our leases contain provisions for specified annual increases over the rents of the prior year that are generally computed in one of four ways depending on specific provisions of each lease:

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

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

Acquisitions and Development: The following table summarizes our acquisitions for the nine months ended September 30, 2016 (dollar amounts in thousands):

Type of Property	Purchase Price	Transaction Costs(1)	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing(2)	$ 16,000	$ 45	$ 16,045	1	126
Assisted Living(3)	53,550	411	53,961	4	250
Land(4)	5,425	63	5,488	—	—
Totals	$ 74,975	$ 519	$ 75,494	5	376

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

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

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

(4) We acquired a parcel of land and improvements and entered into a development commitment of up to $24,325, including the land and bed rights purchase, for the development of a 143-bed skilled nursing center in Kentucky.

Subsequent to September 30, 2016, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals approximately $14,500,000, including the land purchase.

The following table summarizes our acquisitions for the nine months ended September 30, 2015 (dollar amounts in thousands):

Type of Property	Purchase Price	Transaction Costs	Total Acquisition Costs	Number of Properties	Number of Beds/Units

Skilled Nursing(1)	$ 13,946	$ —	$ 13,946	1	106
Assisted Living(2)	156,097	$ 325	156,422	11	951
Land(3)	13,533	97	13,630	—	—
Totals	$ 183,576	$ 422	$ 183,998	12	1,057

(1) We purchased and equipped the property by exercising our purchase option under a $10,600 mortgage and construction loan.

(2) We acquired a newly constructed 60-unit memory care property for $14,250 including a $2,000 working capital reserve. We also acquired a portfolio comprised of 10 independent, assisted living and memory care propertied for $142,000.

(3) We acquired parcels of land and entered into four development commitments in an amount not to exceed $55,529, including the land purchases, for the development of two MC, an ILF and a combination ALF and MC. Additionally, we acquired land and existing improvements on a MC and entered a development commitment up to $12,182 to complete the development of the property.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

The following table summarizes our investment in development and improvement projects for the nine months ended September 30, 2016 and 2015 (in thousands):

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Development	Expansion, Renovation and Improvements	Development	Expansion, Renovation and Improvements
Assisted Living Communities	$ 35,623	$ 2,134	$ 12,630	$ 3,843
Skilled Nursing Centers	—	3,432	1,830	2,349
	$ 35,623	$ 5,566	$ 14,460	$ 6,192

The following table summarizes our completed projects during the nine months ended September 30, 2016 (dollar amounts in thousands):

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	Total Funding
Development	1	ALF	66	Illinois	$ 12,178
Development	1	ALF	56	Texas	11,776
Development	1	ALF	66	Illinois	11,886
Development	1	ALF	66	California	11,405
Development	1	ALF	89	South Carolina	13,974
Improvement	1	SNF	160	Arizona	4,672
	6		503		$ 65,891

During the nine months ended September 30, 2016, we sold a 48-unit assisted living community located in Florida for $1,750,000 which was previously written down to its estimated sale price in the fourth quarter of 2015. Additionally, we sold two skilled nursing centers in Texas and an assisted living community in Florida for an aggregate price of $11,850,000. As a result of these sales, we recognized a net gain on sale of $3,775,000. Also, we sold a school in New Jersey for $3,850,000 and recorded a net loss on sale in the amount of $193,000.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2016 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties(1)	Number of SNF Beds	ALF Units	Investment per Bed/Unit
Skilled Nursing	$ 222,030	93.8 %	12	28	3,644	—	$ 60.93
Assisted Living	13,468	5.7 %	3	8	—	270	$ 49.88
Other(2)	1,209	0.5 %	1	—	—	—	—
Totals	$ 236,707	100.0 %	16	36	3,644	270	

(1) We have investments in properties located in seven states that include mortgages to 10 different operators.

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

At September 30, 2016, the mortgage loans had interest rates ranging from 7.3% to 13.9% and maturities ranging from 2016 to 2045. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 30-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

The following table summarizes our mortgage loan activity for the nine months ended September 30, 2016 and 2015 (in thousands):

	2016	2015
Origination/Funding (1)	$ 19,113	$ 53,427
Pay-offs	$ 746	$ 2,487
Scheduled principal payments received	$ 1,371	$ 1,794

(1) Secured by skilled nursing centers

During the nine months ended September 30, 2015, we purchased and equipped a 106-bed skilled nursing center in Wisconsin for a total of $13,946,000 by exercising our purchase option under a $10,600,000 mortgage and construction loan.

3.Investment in Unconsolidated Joint Ventures

We have made a preferred equity investment in an entity (or the JV) that owns four Arizona properties providing independent, assisted living and memory care services. At closing, we provided an initial preferred capital contribution of $20,143,000 and have committed to provide an additional preferred capital contribution of $5,507,000 for a total preferred capital contribution of $25,650,000. As the preferred member of the JV, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. The unpaid accrued preferred return is accrued up to the common member's capital account balance in the underlying JV (as determined in accordance with GAAP). We did not accrue the deferred portion of the preferred return during the nine months ended September 30, 2016. We continue to evaluate our claim on the estimated net assets of the underlying joint venture quarterly. Any unpaid accrued preferred return, whether recorded or unrecorded by us, is due and payable upon redemption.

The JV is intended to be self-financing and other than our preferred capital contributions, we are not required to provide any direct support and we are not entitled to share in the JV's earnings or losses. As a result, we believe our maximum exposure to loss related to our investment in the JV would be limited to our preferred capital contributions plus any unpaid accrued preferred return. We have concluded that the JV meets the accounting criteria to be considered a variable interest entity (or VIE). However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the JV. Therefore, we account for our JV investment using the equity method. During the nine months ended September 30, 2016, we provided an additional preferred capital contribution of $481,000. Accordingly, we have a remaining preferred capital contribution commitment of $5,026,000. During the nine months ended September 30, 2016, we recognized $839,000 in income and received $1,409,000 of cash from our preferred equity investment in the JV.

During 2015, we originated a $2,900,000 mezzanine loan to develop a 99-unit combination ALF, MC and ILF community. The loan matures on November 1, 2020 and bears interest at 10% for the first two years escalating to 12% until November 1, 2018 and, 15% thereafter. Interest is deferred for a period ending on the earlier of February 1, 2017 or the effective date of the certificate of occupancy. During this period, the borrower is not required to pay any interest; however, the unpaid deferred interest accrues to the loan principal balance. In addition to the interest payments, the borrower is required to make cash flow participation payments. We have evaluated this acquisition, development and construction (or ADC)

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

arrangement and determined that the characteristics are similar to a jointly-owned investment or partnership, and accordingly, the investment is accounted for as an unconsolidated joint venture under the equity method of accounting instead of loan accounting.

4.Notes Receivable

Notes receivable consists of various loans and line of credit agreements. The following table summarizes our notes receivable activities for the nine months ended September 30, 2016 and 2015 (dollar amounts in thousands):

	2016	2015
Advances under notes receivable	$ 2,328	$ 1,464
Principal payments received under notes receivable	(90)	—
Reclassed to real estate under development	—	(716)
Net increase in notes receivable	$ 2,238	$ 748

During the three months ended September 30, 2016, we originated a $1,400,000 mezzanine loan funding $1,200,000 at closing with a commitment to fund an additional $200,000 upon achieving certain coverage ratios. The mezzanine loan is secured by a second mortgage on two skilled nursing centers located in Oregon totaling 146 beds. The mezzanine loan has a five year term and a rate of 15%. We have evaluated this ADC arrangement and determined that the characteristics are similar to a loan, and accordingly, the investment is recorded as a loan.

At September 30, 2016, we had six loans and line of credit agreements with on-going commitments totaling $3,525,000. As of September 30, 2016, we have remaining commitments of $1,714,000 under these agreements.

5.Debt Obligations

The following table sets forth information regarding debt obligations by component as of September 30, 2016 and December 31, 2015 (dollar amounts in thousands):

		At September 30, 2016		At December 31, 2015	
Debt Obligations	Applicable Interest Rate(1)	Outstanding Balance	Available for Borrowing	Outstanding Balance	Available for Borrowing

Bank borrowings	2.20%	$ 77,000	$ 523,000	$ 120,500	$ 479,500
Senior unsecured notes, net of debt issue costs	4.49%	512,262	12,500	451,372	33,333
Total	4.19%	$ 589,262		$ 571,872	

(1) Represents weighted average of interest rate as of September 30, 2016.

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600,000,000. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at September 30, 2016, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. During the nine months ended September 30, 2016 and 2015 we borrowed $83,500,000 and $267,000,000, respectively, under our Unsecured Credit Agreement.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

Additionally, we repaid $127,000,000 and $101,500,000, respectively, under our unsecured revolving line of credit. At September 30, 2016, we were in compliance with all covenants.

Senior Unsecured Notes. During the nine months ended September 30, 2016, we sold $37,500,000 senior unsecured term notes to affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) with an annual fixed rate of 4.15%. The notes have an average 10-year life, scheduled principal payments and will mature in 2028. During the nine months ended September 30, 2016, we paid $16,667,000 in regular scheduled principal payments to Prudential. Accordingly, we have $12,500,000 available under our shelf agreement with Prudential. Additionally, we amended our agreement with AIG Asset Management (U.S.) LLC (or AIG) which provides for the possible issuance of up to an additional $40,000,000 unsecured notes. During the three months ended September 30, 2016, we sold $40,000,000 senior unsecured term notes under our amended agreement with AIG to affiliated insurance company investment advisory clients of AIG with a coupon of 3.99%. The notes have an average 10-year life, fixed interest rate and will mature in 2031.

6.Equity

Equity activity was as follows (in thousands):

	Total Equity
Balance at December 31, 2015	$ 659,202
Net income	64,449
Proceeds from common stock issued, net of issuance costs	78,137
Stock-based compensation expense	3,149
Performance based stock units	(41)
Stock option exercise	159
Reclassification adjustment	(39)
Common stock dividends	(62,211)
Other	(2,174)
Balance at September 30, 2016	$ 740,631

Preferred Stock. We had 2,000,000 shares of our 8.5% Series C Cumulative Convertible Preferred Stock (or Series C preferred stock) outstanding. Our Series C preferred stock was convertible into 2,000,000 shares of our common stock at $19.25 per share and dividends were payable quarterly. During 2015, the sole holder of our Series C Preferred stock elected to convert all of its preferred shares into 2,000,000 shares of common stock. Accordingly, we had no preferred stock outstanding as of September 30, 2016.

Common Stock. During 2015, we entered into equity distribution agreements (or Original Agreements) to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers’ transactions, which may include block trades, or transactions that are deemed to be “at the market” offerings. During the nine months ended September 30, 2016, we sold 1,643,017 shares of common stock for $78,600,000 in net proceeds under the Original Agreements. In conjunction with the sale of common stock, we reclassified $463,000 of accumulated costs associated with the Original Agreements to additional paid in capital. On August 1, 2016, we terminated the Original Agreements and entered into new equity distribution agreements (or Equity Distribution Agreements) to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our company common share. As of September 30, 2016, no shares were issued under these agreements. Accordingly, at September 30, 2016, we had $200,000,000 available under our Equity Distribution Agreements.

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(Unaudited)

Also, during the nine months ended September 30, 2016 and 2015, we acquired 49,094 shares and 4,609 shares respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

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

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

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Declared	Paid	Declared	Paid
Preferred Stock Series C	$ —	$ —	$ 2,454	$ 2,454
Common Stock	62,211 (1)	62,211 (1)	54,388 (2)	54,388 (2)
Total	$ 62,211	$ 62,211	$ 56,842	$ 56,842

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

(2) Represents $0.17 per share per month for the nine months ended September 30, 2015.

In October 2016, we increased our common stock monthly cash dividend approximately 5.6% from $0.18 per share to $0.19 per share and declared monthly cash dividends on our common stock for the months of October, November and December, payable on October 31, November 30, and December 30, 2016, respectively, to stockholders of record on October 21, November 22, and December 22, 2016, respectively.

Accumulated Other Comprehensive Income. At September 30, 2016 and December 31, 2015, accumulated comprehensive income of $8,000 and $47,000, respectively, represents the net unrealized holding gains on available-for-sale REMIC Certificates recorded in 2005 when we repurchased the loans in the underlying loan pool. This amount is being amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC Pool.

Stock-Based Compensation. During 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaces the 2008 Equity Participation Plan (or the 2008 Plan). Under the 2015 Plan, 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion. During the nine months ended September 30, 2016 and 2015, no stock options were granted.

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(Unaudited)

The stock options exercised during the nine months ended September 30, 2016 and 2015 were as follows:

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

(1) As of the exercise date.

At September 30, 2016, we had 33,334 stock options outstanding of which 28,334 stock options are exercisable. Compensation expense related to the vesting of stock options was $11,000 for each of the nine months ended September 30, 2016 and 2015. At September 30, 2016, we had 5,000 unvested stock options. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2016 and 2017 is $4,000 and $3,000, respectively.

During the nine months ended September 30, 2015, we cancelled 640 shares of restricted stock under the 2008 Plan. During the nine months ended September 30, 2016 and 2015, we granted restricted stock and performance-based stock units under the 2015 Plan and 2008 Plan as follows:

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

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

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(Unaudited)

Compensation expense recognized related to the vesting of restricted common stock for the nine months ended September 30, 2016 was $3,138,000, compared to $3,082,000 for the same period in 2015. At September 30, 2016, the total number of restricted common shares that are scheduled to vest and remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock and performance-based stock units are as follows:

Vesting Date	Number of Awards		Remaining Compensation Expense
2016	980		$ 1,127,000
2017	85,343		3,428,000
2018	49,352		2,071,000
2019	75,878	(1)	236,000
	211,553		$ 6,862,000

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

7.Commitments and Contingencies

At September 30, 2016, we had commitments as follows (in thousands):

September 30, 2016, we had commitments as follows (in thousands):

	Investment Commitment		2016 Funding	Total Commitment Funded	Remaining Commitment
Real estate properties (See Note 2)	$ 67,924	(1)	$ 20,884	$ 28,103	$ 39,821
Accrued incentives and earn-out liabilities (2)	16,600		1,130	1,130	15,470

Lease incentives	5,652		1,591	2,046	3,606
Mortgage loans (See Note 2)	51,490	(1)	2,833	4,126	47,364
Joint venture investments (See Note 3)	25,650		481	20,624	5,026
Notes receivable (See Note 4)	2,325		436	611	1,714
Totals	$ 169,641		$ 27,355	$ 56,640	$ 113,001

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

(2) During the nine months ended September 30, 2016, we recorded non cash interest expense of $538 related to these contingent liabilities and the fair value of our contingent payments was $12,514 at September 30, 2016.

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

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

8.Major Operators

We have four operators from each of which we derive approximately 10% or more of our combined rental revenue and interest income from mortgage loans. The following table sets forth information regarding our major operators as of September 30, 2016:

	Number of			Number of		Percentage of	
				SNF	ALF	Total	Total
Operator	SNF	ALF	ROC	Beds	Units	Revenue(1)	Assets
Prestige Healthcare	20	—	2	2,822	93	21.2 %	16.1 %
Senior Lifestyle Corporation	—	27	—	—	1,632	12.4 %	12.9 %
Brookdale Senior Living	—	37	—	—	1,704	10.0 %	5.6 %
Senior Care Centers	11	—	—	1,444	—	9.9 %	8.6 %
Totals	31	64	2	4,266	3,429	53.5 %	43.2 %

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

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

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

9.Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 22,411	$ 19,647	$ 64,449	$ 55,127
Less net income allocated to participating securities:				
Non-forfeitable dividends on participating securities	(85)	(117)	(284)	(366)
Income allocated to participating securities	(5)	(4)	(12)	(4)
Total net income allocated to participating securities	(90)	(121)	(296)	(370)
Less net income allocated to preferred stockholders:				
Preferred stock dividends	—	(818)	—	(2,454)
Total net income allocated to preferred stockholders	—	(818)	—	(2,454)
Net income available to common stockholders	22,321	18,708	64,153	52,303
Effect of dilutive securities:				
Participating securities	90	—	296	—
Convertible preferred securities	—	818	—	2,454
Total effect of dilutive securities	90	818	296	2,454
Net income for diluted net income per share	$ 22,411	$ 19,526	$ 64,449	$ 54,757
Shares for basic net income per share	39,057	35,341	38,161	35,306
Effect of dilutive securities:				
Stock options	13	11	13	13
Performance-based stock units	108	—	108	—
Participating securities	157	—	173	—
Convertible preferred securities	—	2,000	—	2,000
Total effect of dilutive securities	278	2,011	294	2,013
Shares for diluted net income per share	39,335	37,352	38,455	37,319
Basic net income per share	$ 0.57	$ 0.53	$ 1.68	$ 1.48
Diluted net income per share (1)	$ 0.57	$ 0.52	$ 1.68	$ 1.47

(1)

For the three and nine months ended September 30, 2015, the participating securities have been excluded from the computation of diluted net income per share as such inclusion would be anti-dilutive.

10.Fair Value Measurements

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

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments. We do not invest our cash in auction rate securities. The carrying value and fair value of our financial instruments as of September 30, 2016 and December 31, 2015 assuming election of fair value for our financial assets and financial liabilities were as follows (in thousands):

	At September 30, 2016		At December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans receivable	$ 234,347	$ 277,300 (1)	$ 217,529	$ 257,335 (1)
Bank borrowings	77,000	77,000 (2)	120,500	120,500 (2)
Senior unsecured notes, net of debt issue costs	512,262	529,809 (3)	451,372	451,420 (3)
Accrued incentives and earn-outs	12,514	12,514 (4)	12,722	12,722 (4)

(1) Our investment in mortgage loans receivable is classified as Level 3. The fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is determined using our assumption on market conditions adjusted for market and credit risk and current returns on our investments. The discount rate used to value our future cash inflows of the mortgage loans receivable at September 30, 2016 and December 31, 2015 was 9.1% and 8.9%, respectively.

(2) Our bank borrowings bear interest at a variable interest rate. The estimated fair value of our bank borrowings approximated their carrying values at September 30, 2016 and December 31, 2015 based upon prevailing market interest rates for similar debt arrangements.

(3) Our obligation under our senior unsecured notes is classified as Level 3 and thus the fair value is determined using a widely accepted valuation technique, discounted cash flow analysis on the expected cash flows. The discount rate is measured based upon management's estimates of rates currently prevailing for comparable loans available to us, and instruments of comparable maturities. At September 30, 2016, the discount rate used to value our future cash outflow of our senior unsecured notes was 3.75% for those maturing before year 2026 and 3.90% for those maturing at or beyond year 2026. At December 31, 2015, the discount rate used to value our future cash outflow of our senior unsecured notes was 4.35% for those maturing before year 2026 and 4.65% for those maturing at or beyond year 2026.

(4) Our accrued incentives and earn-outs are classified as Level 3. We estimated the fair value of the contingent earn out payments using a discounted cash flow analysis. The discount rate that we use consists of a risk free U.S. Treasury rate plus a company specific credit spread which we believe is acceptable by willing market participants.

At September 30, 2016 and December 31, 2015, the discount rate used to value our accrued incentives and earn-outs was 5.4% and 6.1%, respectively.

11.Subsequent Events

Subsequent to September 30, 2016 the following events occurred:

Real Estate Investments: We purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals approximately $14,500,000, including the land purchase.

Equity: We increased our monthly cash dividend approximately 5.6% from $0.18 per share to $0.19 per share and declared monthly cash dividends on our common stock for the months of October, November and December, payable on October 31, November 30, and December 30, 2016, respectively to stockholders of record on October 21, November 22, and December 22, 2016, respectively.

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

Statement Regarding Forward Looking Disclosure

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify some of the forward-looking statements by their use of forward-looking words, such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative words or similar words. Forward- looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy; the status of capital markets (including prevailing interest rates) and our access to capital; the income and returns available from investments in health care related real estate (including our ability to re-lease properties upon expiration of a lease term); the ability of our borrowers and lessees to meet their obligations to us; our reliance on a few major operators; competition faced by our borrowers and lessees within the health care industry; regulation of the health care industry by federal, state and local governments; changes in Medicare and Medicaid reimbursement amounts (including due to federal and state budget constraints); compliance with and changes to regulations and payment policies within the health care industry; debt that we may incur and changes in financing terms; our ability to continue to qualify as a real estate investment trust; the relative illiquidity of our real estate investments; potential limitations on our remedies when mortgage loans default; and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and in our publicly available filings with the Securities and Exchange Commission. We do not undertake any responsibility to update or revise any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Business and Investment Strategy

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in seniors housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in seniors housing and health care properties managed by experienced operators. Our primary seniors housing and health care property classifications include skilled nursing centers (or SNF), assisted living communities (or ALF), independent living communities (or ILF), memory care communities (or MC) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property classification. Range of care communities (or ROC) property classification consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. As of September 30, 2016, seniors housing and long-term health care properties comprised approximately 99% of our real estate investment portfolio. We have been operating since August 1992.

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

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

Portfolio Overview

The following table summarizes our real estate investment portfolio as of September 30, 2016 (dollar amounts in thousands):

				Nine Months Ended September 30, 2016						
Type of Property	Gross Investments	Percentage of Investments		Rental Income (1)	Interest Income(2)	Percentage of Revenues		Number of Properties(3)	Number of SNF Beds(4)	ALF Units(4)
Skilled Nursing	$ 757,490	49.5	%	$ 45,723	$ 19,346	55.2	%	97	12,255	—
Assisted Living	694,833	45.5	%	46,850	882	40.5	%	111	—	5,877
Range of Care	43,907	2.9	%	4,404	—	3.7	%	7	634	274
Under Development(5)	21,511	1.4	%	—	—	—	%	—	—	—
Other(6)	11,425	0.7	%	649	83	0.6	%	1	118	—
Totals	$ 1,529,166	100.0	%	$ 97,626	$ 20,311	100.0	%	216	13,007	6,151

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

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

(3) We have investments in 30 states leased or mortgaged to 32 different operators.

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

(5) Represents three development projects consisting of one 66-unit memory care community, a 108-unit independent living community and a 143-bed skilled nursing center.

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

As of September 30, 2016 we had $1.3 billion in carrying value of net real estate investments, consisting of $1.0 billion or 81.4% invested in owned and leased properties and $0.3 billion or 18.6% invested in mortgage loans secured by first mortgages.

For the nine months ended September 30, 2016, rental income and interest income from mortgage loans represented 82.6% and 17.0%, respectively, of total gross revenues. In most instances, our lease structure contains fixed annual rental escalations, which are generally recognized on a straight-line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. For those certain leases, the revenue is not recognized until the appropriate contingencies have been resolved. For the nine months ended September 30, 2016, we recorded $8.2 million in straight-line rental income

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and $75,000 of straight-line rent receivable reserve. During the nine months ended September 30, 2016, we received $91.9 million of cash rental revenue and recorded amortization of lease incentive cost of $1.4 million. During the nine months ended September 30, 2016, there were no lease renewals. At September 30, 2016, the straight-line rent receivable balance, net of reserves, on the balance sheet was $50.1 million.

During the nine months ended September 30, 2016, we sold a 48-unit assisted living community located in Florida for $1.8 million which was previously written down to its estimated sale price in the fourth quarter of 2015. Additionally, we sold two skilled nursing centers in Texas and an assisted living community in Florida for an aggregate price of $11.9 million. As a result of these sales, we recognized a net gain on sale of $3.8 million. Also, we sold a school in New Jersey for $3.9 million and recorded a net loss on sale in the amount of $0.2 million.

2016 Transaction Overview

Investment in Owned Properties

The following table summarizes our acquisitions during the nine months ended September 30, 2016 (dollar amounts in thousands):

Type of Property	Purchase Price	Transaction Costs(1)	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing(2)	$ 16,000	$ 45	$ 16,045	1	126
Assisted Living(3)	53,550	411	53,961	4	270
Land(4)	5,425	63	5,488	—	—
Totals	$ 74,975	$ 519	$ 75,494	5	396

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

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

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

(4) We acquired a parcel of land and improvements and entered into a development commitment of up to $24,325 including the land and bed rights purchase for the development of a 143-bed skilled nursing center in Kentucky.

Development Projects

The following table summarizes our investment in development and improvement projects during the nine months ended September 30, 2016(in thousands):

	Development	Expansion, Renovation and Improvements
Assisted Living Communities	$ 35,623	$ 2,134
Skilled Nursing Centers	—	3,432
	$ 35,623	$ 5,566

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Completed Developments

The following table summarizes our completed projects during the nine months ended September 30, 2016 (dollar amounts in thousands):

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	Total Funding
Development	1	ALF	66	Illinois	$ 12,178
Development	1	ALF	56	Texas	11,776
Development	1	ALF	66	Illinois	11,886
Development	1	ALF	66	California	11,405
Development	1	ALF	89	South Carolina	13,974
Improvement	1	SNF	160	Arizona	4,672
	6		503		$ 65,891

Investment in Mortgage Loans

A summary of our mortgage loan origination and funding for the nine months ended September 30, 2016, is as follows (in thousands):

	2016
Origination/Funding (1)	$ 19,113
Pay-offs	$ 746
Scheduled principal payments received	$ 1,371

(1) Secured by skilled nursing centers

Investment in Unconsolidated Joint Ventures

We have a preferred equity investment in an entity (the JV) that owns four properties located in Arizona providing independent, assisted living and memory care services. We provided an initial preferred capital contribution of $20.1 million and have a commitment to provide an additional preferred capital contribution of $5.5 million for a total preferred capital contribution of $25.6 million. As the preferred member of the JV, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be paid upon redemption. During the nine months ended September 30, 2016, we provided an additional preferred capital contribution of $0.5 million. Accordingly, we have a remaining preferred capital contribution commitment of $5.0 million. During the nine months ended September 30, 2016, we recognized $0.8 million in income and received $1.4 million of cash from our preferred equity investment.

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Notes Receivable

The following table summarizes our notes receivable activities for the nine months ended September 30, 2016 (dollar amounts in thousands):

	2016
Advances under notes receivable	$ 2,328
Principal payments received under notes receivable	(90)
Net increase in notes receivable	$ 2,238

At September 30, 2016, we had six loans and line of credit agreements with commitments totaling $3.5 million. As of September 30, 2016, we have remaining commitments of $1.7 million under these agreements.

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Health Care Regulatory Climate

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 30, 2015, CMS released its final skilled nursing facility prospective payment system update for fiscal year 2016, which began October 1, 2015. CMS projected that aggregate Medicare payments to skilled nursing facilities would increase by $430 million, or 1.2%, under the final rule. This increase reflected a 2.3% market basket increase, reduced by both a 0.6 percentage point forecast error adjustment and a 0.5 percentage point multifactor productivity adjustment. On July 29, 2016, CMS released a final rule updating fiscal year 2017 Medicare payment rates and quality programs for skilled nursing facilities. The final rule provides for a net market basket increase of 2.4 %, beginning October 1, 2016. This reflects a 2.7% market basket increase, reduced by a 0.3 percentage point multifactor productivity adjustment. CMS estimates that aggregate payments to skilled nursing facilities under the final rule will increase by approximately $920 million. CMS also adopted new measures and policies for the Skilled Nursing Facility Quality Reporting Program and the Value-Based Purchasing Program. On September 28, 2016, CMS released a final rule revising the requirements that long-term care facilities must meet to participate in the Medicare and Medicaid programs. This major rule addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, infection control, residents' rights and compliance and ethics programs, and bans pre-dispute arbitration agreements, among several key positions. CMS estimates that the rule, will impose an average cost of $62,900 per facility in the first year and $55,000 per facility per year in subsequent years. There can be no assurance that this rule or future regulations modifying Medicare skilled nursing facility payment rates or other requirements for Medicare and/or Medicaid participation will not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

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

Additional reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Increasingly state Medicaid programs are providing coverage through managed care programs under contracts with private health plans, which is intended to decrease state Medicaid costs. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

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Key Transactions During the Quarter

During the third quarter, we acquired a parcel of land and improvements in Kentucky for $5.4 million and entered into a development commitment to construct a 143-bed skilled nursing center. The commitment totals $24.3 million, including the land and improvements purchases. The property was added to an existing master lease agreement. Rent on the property will commence upon completion of construction at an initial lease rate of 8.5%. Subsequent to September 30, 2016, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals $14.5 million, including the land purchase.

During the third quarter, we completed a 66-unit assisted living community in California, a 66-unit memory care community in Illinois and an 89-unit combination assisted living and memory care community in South Carolina.

During the third quarter, we received $5.1 million for the sale of a 126-unit assisted living community located in Florida. We recorded a net gain on sale of $2.0 million as a result of this transaction. Also, we sold a school in New Jersey for $3.9 million and recorded a loss on sale of $0.2 million.

During the third quarter, we originated a $1.4 million mezzanine loan, funding $1.2 million at closing, with a commitment to fund an additional $0.2 million upon achieving certain coverage ratios. The mezzanine loan is secured by a second mortgage on two skilled nursing centers located in Oregon totaling 146 beds. The mezzanine loan has a five-year term and a rate of 15%.

During the third quarter, we sold $40.0 million senior unsecured term notes to affiliated insurance company investment advisory clients of AIG Asset Management (U.S.) LLC (or AIG) with a coupon of 3.99%. The notes have scheduled principal payments, an average 10-year life, fixed interest rate and will mature in 2031.

During the third quarter, we sold 152,623 shares of common stock for $7.7 million in net proceeds under our equity distribution agreements (or Original Agreements). In conjunction with the sale of common stock, we reclassified $0.1 million of accumulated costs associated with the Original Agreements to additional paid in capital. On August 1, 2016, we terminated our Original Agreements and entered into new equity distribution agreements (or Equity Distribution Agreements) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our company common share. As of September 30, 2016, no shares were issued under these agreements. Accordingly, at September 30, 2016, we had $200.0 million available under our Equity Distribution Agreements.

Subsequent to September 30, 2016, we increased our common stock monthly cash dividend approximately 5.6% from $0.18 per share to $0.19 per share and declared monthly cash dividends on our common stock for the months of October, November and December, payable on October 31, November 30, and December 30, 2016, respectively, to stockholders of record on October 21, November 22, and December 22, 2016, respectively.

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.

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

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

	9/30/16	6/30/16	3/31/16	12/31/15	9/30/15
Asset mix:					
Real property	$ 1,292,459	$ 1,291,386	$ 1,229,756	$ 1,198,686	$ 1,154,649
Loans receivable	236,707	235,243	225,299	219,719	206,541
Investment mix:					
Skilled nursing centers	$ 757,490	$ 755,287	$ 750,663	$ 726,865	$ 692,971
Assisted living communities (1)	694,833	694,504	631,639	621,225	612,640
Range of care communities	43,907	43,907	43,907	43,907	43,907
Under development(1)	21,511	12,236	8,151	5,713	1,459
Other(2)	11,425	20,695	20,695	20,695	10,213
Operator mix:					
Prestige Healthcare(2)	$ 226,204	$ 224,220	$ 213,690	$ 207,092	$ 194,725
Senior Lifestyle Corporation	201,227	200,515	200,357	199,349	199,349
Senior Care Centers	138,109	138,109	138,109	138,109	115,039
Brookdale Senior Living	126,991	126,991	126,991	126,991	126,991
Anthem Memory Care	106,637	102,714	71,655	62,821	52,074
Remaining operators	729,998	734,080	704,253	684,043	673,012
Geographic mix:					
Texas	$ 280,486	$ 281,795	$ 287,187	$ 270,759	$ 248,186
Michigan	214,014	212,029	201,501	194,902	182,535
Wisconsin	125,990	125,680	125,680	125,680	125,680
Colorado	114,924	114,924	114,924	114,924	114,924
Ohio	99,133	98,997	98,957	98,647	98,647
Remaining states	694,619	693,204	626,806	613,493	591,218

(1) During the three months ended September 30, 2016, we completed the construction of three assisted living communities totaling 221 units. Accordingly, these properties were reclassified from “Under development” to “Assisted living communities” for all periods presented.

(2) We have four parcels of land as of September 30, 2016. Three parcels of land are located adjacent to properties securing the Prestige mortgage loan and are managed by Prestige.

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

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Balance Sheet Metrics

	Quarter Ended														
	9/30/16			6/30/16			3/31/16			12/31/15			9/30/15		
Debt to gross asset value	35.9	%	(1)	36.8	%	(4)	38.5	%	(5)	37.4	%	(5)	35.3	%	
Debt & preferred stock to gross asset value	35.9	%	(1)	36.8	%	(4)	38.5	%	(5)	37.4	%	(8)	38.0	%	
Debt to market capitalization ratio	22.4	%	(2)	23.1	%	(2)	26.2	%	(6)	26.1	%	(9)	24.9	%	
Debt & preferred stock to market capitalization ratio	22.4	%	(2)	23.1	%	(2)	26.2	%	(6)	26.1	%	(10)	26.8	%	
Interest coverage ratio(12)	5.2	x	(3)	5.1	x		5.1	x	(7)	5.7	x	(11)	7.0	x	
Fixed charge coverage ratio(12)	5.2	x	(3)	5.1	x		5.1	x	(7)	5.7	x	(11)	5.9	x	

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

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

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

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

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

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

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

(8) Decreased primarily due to conversion of Series C Convertible Preferred Stock to common stock and increase in gross asset value from acquisitions, additional development and capital improvement funding partially offset by increase in outstanding debt.

(9) Increased primarily due to the increase in outstanding debt partially offset by increase in market capitalization.

(10) Decreased primarily due to increase in market capitalization resulting from conversion of Series C Convertible Preferred Stock to common stock and increase in stock price partially offset by increase in outstanding debt.

(11) Decreased primarily due to increase in interest expense resulting from the sale of senior unsecured notes.

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

	Quarter Ended				
	9/30/16	6/30/16	3/31/16	12/31/15	9/30/15
Net income	$ 22,411	$ 22,180	$ 19,858	$ 17,954	$ 19,647
Less: Gain on sale	(1,780)	(1,802)	—	(586)	—
Add: Impairment on real estate for sale	—	—	—	2,250	—
Add: Interest expense	6,836	6,750	6,000	5,581	4,296
Add: Depreciation and amortization	9,155	8,907	8,561	8,310	7,365
Total adjusted EBITDA	$ 36,622	$ 36,035	$ 34,419	$ 33,509	$ 31,308
Interest expense	$ 6,836	$ 6,750	$ 6,000	$ 5,581	$ 4,296
Add: Capitalized interest	251	256	686	346	184
Interest incurred	$ 7,087	$ 7,006	$ 6,686	$ 5,927	$ 4,480
Interest coverage ratio	5.2 x	5.1 x	5.1 x	5.7 x	7.0 x
Interest incurred	$ 7,087	$ 7,006	$ 6,686	$ 5,927	$ 4,480
Preferred stock dividends	—	—	—	—	818
Total fixed charges	$ 7,087	$ 7,006	$ 6,686	$ 5,927	$ 5,298
Fixed charge coverage ratio	5.2 x	5.1 x	5.1 x	5.7 x	5.9 x

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

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

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

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Operating Results (unaudited, in thousands)

	Three Months Ended September 30,			
	2016	2015	Difference	
Revenues:				
Rental income	$ 33,753	$ 28,531	$ 5,222	(1)
Interest income from mortgage loans	6,958	6,117	841	(2)
Interest and other income	131	295	(164)	(3)
Total revenues	40,842	34,943	5,899	
Expenses:				
Interest expense	6,836	4,296	(2,540)	(4)
Depreciation and amortization	9,155	7,365	(1,790)	(1)
Provision for doubtful accounts	43	31	(12)	
Transaction costs	2	570	568	(5)
General and administrative expenses	4,464	3,708	(756)	(6)
Total expenses	20,500	15,970	(4,530)	
Operating income	20,342	18,973	1,369	
Income from unconsolidated joint ventures	289	674	(385)	(7)
Gain on sale of real estate, net	1,780	—	1,780	(8)
Net income	22,411	19,647	2,764	
Income allocated to participating securities	(90)	(121)	31	
Income allocated to preferred stockholders	—	(818)	818	(9)
Net income available to common stockholders	$ 22,321	$ 18,708	$ 3,613	

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

(2) Increased primarily due to mortgage originations, capital improvement funding and increase in effective interest income on certain mortgage loans partially offset by payoffs and normal amortization of mortgage loans.

(3) Decreased due to non-accrual of interest under certain notes receivable partially offset by the $1,400 mezzanine loan origination.

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

(5) Decreased primarily due to costs associated with the acquisition of the 10-property senior housing portfolio during the third quarter of 2015.

(6) Increased primarily due to impact of additional expenditures related to the increased investment activity during 2015 and 2016 and restricted stock vesting.

(7) Decreased due to non-accrual of the deferred portion of the preferred return.

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

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

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	Nine Months Ended September 30, 2016	2015	Difference	
Revenues:				
Rental income	$ 98,705	$ 82,325	$ 16,380	(1)
Interest income from mortgage loans	20,347	15,777	4,570	(2)
Interest and other income	390	708	(318)	(3)
Total revenues	119,442	98,810	20,632	
Expenses:				
Interest expense	19,586	11,916	(7,670)	(4)
Depreciation and amortization	26,623	21,121	(5,502)	(1)
Provision for doubtful accounts	245	463	218	
Transaction costs	96	632	536	(5)
General and administrative expenses	12,864	11,094	(1,770)	(6)
Total expenses	59,414	45,226	(14,188)	
Operating income	60,028	53,584	6,444	
Income from unconsolidated joint ventures	839	1,543	(704)	(7)
Gain on sale of real estate, net	3,582	—	3,582	(8)
Net income	64,449	55,127	9,322	
Income allocated to participating securities	(296)	(370)	74	
Income allocated to preferred stockholders	—	(2,454)	2,454	(9)
Net income available to common stockholders	$ 64,153	$ 52,303	$ 11,850	

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

(2) Increased primarily due to mortgage originations, capital improvement funding, related increases in effective interest income partially offset by payoffs and normal amortization of mortgage loans.

(3) Decreased due to non-accrual of interest under certain notes receivable partially offset by the $1,400 mezzanine loan origination.

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

(5) Decreased primarily due to costs associated with the acquisition of the 10-property senior housing portfolio during the third quarter of 2015.

(6) Increased primarily due to impact of additional expenditures related to the increased investment activity during 2015 and 2016 and increased staffing levels.

(7) Decreased due to non-accrual of the deferred portion of the preferred return.

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

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

Funds From Operations Available to Common Stockholders

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

We use FFO as a supplemental performance measurement of our cash flow generated by operations. FFO does not represent cash generated from operating activities in accordance with GAAP,

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and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income available to common stockholders.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
GAAP net income available to common stockholders	$ 22,321	$ 18,708	$ 64,153	$ 52,303
Add: Depreciation and amortization	9,155	7,365	26,623	21,121
Less: Gain on sale of real estate, net	(1,780)	—	(3,582)	—
NAREIT FFO attributable to common stockholders	$ 29,696	$ 26,073	$ 87,194	$ 73,424
NAREIT FFO attributable to common stockholders per share:				
Basic	$ 0.76	$ 0.74	$ 2.28	$ 2.08
Diluted	$ 0.76 (1)	$ 0.72 (2)	$ 2.28 (1)	$ 2.03 (2)
Weighted average shares used to calculate NAREIT FFO per share:				
Basic	39,057	35,341	38,161	35,306
Diluted	39,335 (3)	37,581 (4)	38,455 (3)	37,558 (4)

(1) Includes the effect of the participating securities.

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

(3) Diluted weighted average shares used to calculate FFO per share for the three and nine months ended September 30, 2016 includes the effect of stock option equivalents, participating securities and performance based stock units.

(4) Diluted weighted average shares used to calculate FFO per share for the three and nine months ended September 30, 2015 includes the effect of stock option equivalents, participating securities and convertible preferred securities.

Liquidity and Capital Resources

Sources and Uses of Cash

As of September 30, 2016, we had a total of $3.6 million of cash and cash equivalents, $523.0 million available under our unsecured revolving line of credit, $12.5 million available under our senior unsecured note shelf agreement and the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our equity distribution agreements. Furthermore, we have the ability to access the capital markets through the issuance of debt and/ or equity securities under our effective shelf registration.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets are sufficient to provide for payment of our current operating costs, meet debt obligations and pay common dividends at least sufficient to maintain our REIT status and repay borrowings at, or prior to, their maturity. The timing, source and amount of cash flows provided by financing activities and used in investing activities

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are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for additional capital investments in 2016 and 2017.

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

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

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

	Nine months ended September 30,		Change	
Cash provided by (used in):	2016	2015	$	%
Operating activities	$ 79,645	$ 70,534	$ 9,111	12.9 %
Investing activities	(120,502)	(263,071)	142,569	(54.2)%
Financing activities	31,528	179,029	(147,501)	(82.4)%
Increase (decrease) in cash and cash equivalents	(9,329)	(13,508)	4,179	30.9 %
Cash and cash equivalents, beginning of period	12,942	25,237	(12,295)	(48.7)%
Cash and cash equivalents, end of period	$ 3,613	$ 11,729	$ (8,116)	(69.2)%

Operating Activities. Cash provided by operating activities for the nine months ended September 30, 2016, increased to $79.6 million compared to $70.5 million for the nine months ended September 30, 2015 due to increased operating cash flow from our acquisitions and completed developments and capital improvement projects in 2015 and 2016.

Investing Activities. Cash used in investing activities decreased from $263.1 million for the nine months ended September 30, 2015 compared to $120.5 million for the nine months ended September 30, 2016 primarily due to decreased acquisitions and loan originations partially offset by increased real estate development and capital improvement projects in 2016.

Financing Activities. Cash provided by financing activities decreased to $31.5 million for the nine months ended September 30, 2016, from $179.0 million for the comparable 2015 period. The decrease in cash provided by financing activities is primarily attributable to decrease in bank borrowings partially offset by proceeds from common stock offerings during the nine months ended September 30, 2016, and an increase in distributions paid to stockholders.

Debt Obligations

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600.0 million. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at September 30, 2016, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. During the nine months ended September 30, 2016, we borrowed $83.5 million and repaid $127.0 million under our Unsecured Credit Agreement. At September 30, 2016, we were in compliance with all covenants.

Senior Unsecured Notes. During the nine months ended September 30, 2016, we sold $37.5 million senior unsecured term notes to affiliates and managed accounts of Prudential with an annual fixed rate of 4.15%. The notes have an average 10-year life, scheduled principal payments and will mature in 2028. Additionally, we amended our agreement with AIG which provides for the possible issuance of up to an additional of $40.0 million of senior unsecured notes and sold $40.0 million senior unsecured term notes to affiliated insurance company investment advisory clients of AIG with a coupon of 3.99%. The notes have an average 10-year life, fixed interest rate and will mature in 2031.

The following table summarizes information regarding debt obligations by component as of September 30, 2016 (dollar amounts in thousands):

Debt Obligations	Applicable Interest Rate(1)	Outstanding Balance	Available for Borrowing
Bank borrowings	2.20%	$ 77,000	$ 523,000
Senior unsecured notes, net of debt issue costs	4.49%	512,262	12,500
Total	4.19%	$ 589,262	$ 535,500

(1) Represents weighted average of interest rate as of September 30, 2016

Equity

At September 30, 2016, we had 39,221,681 shares of common stock outstanding, equity on our balance sheet totaled $740.6 million and our equity securities had a market value of $2.0 billion.

At-The-Market Program. During 2015, we entered into equity distribution agreements (or Original Agreements) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions, which may include block trades, or transactions that are deemed to be "at the market" offerings. During the nine months ended September 30, 2016, we sold 1,643,017 shares of common stock for $78.6 million in net proceeds under the Original Agreements. On August 1, 2016, we terminated the Original Agreements and entered into new equity distribution agreements (or Equity Distribution Agreements) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our company

common share. As of September 30, 2016, no shares were issued under these agreements. Accordingly, at September 30, 2016, we had $200.0 million available under our Equity Distribution Agreements.

At September 30, 2016, we had $200.0 million available under our Equity Distribution Agreements.

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

Critical Accounting Policies

There have been no material changes from the critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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, 2016. For additional information, refer to Item 7A as presented in our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

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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, 2015.

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Item 6. Exhibits

3.1 LTC Properties, Inc. Articles of Restatement (incorporated by reference to Exhibit 3.1.2 to LTC Properties Inc.'s Current Report on Form 8-K filed June 6, 2016)

3.2 Bylaws of LTC Properties, Inc., as restated June 2, 2015 (incorporated by reference to Exhibit 3.2 to LTC Properties Inc.'s Current Report on Form 8-K filed on June 5, 2015)

10.1 Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and JMP Securities LLC. (incorporated by reference to Exhibit 1.1 to LTC Properties Inc.'s Current Report on Form 8-K filed August 1, 2016)

10.2 Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Canaccord Genuity Inc. (incorporated by reference to Exhibit 1.2 to LTC Properties Inc.'s Current Report on Form 8-K filed August 1, 2016)

10.3 Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Mizuho Securities USA Inc. (incorporated by reference to Exhibit 1.3 to LTC Properties Inc.'s Current Report on Form 8-K filed August 1, 2016)

10.4 Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Credit Agricole Securities (USA) Inc. (incorporated by reference to Exhibit 1.4 to LTC Properties Inc.'s Current Report on Form 8-K filed August 1, 2016)

10.5 Equity Distribution Agreement, dated August 1, 2016, by and between LTC Properties, Inc. and Cantor Fitzgerald & Co. (incorporated by reference to Exhibit 1.5 to LTC Properties Inc.'s Current Report on Form 8-K filed August 1, 2016)

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015; and (iv) Notes to Consolidated Financial Statements

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SIGNATURES

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

LTC PROPERTIES, INC.
Registrant

Dated: November 2, 2016 By: /s/ Pam Kessler
Pam Kessler
Executive Vice President, Chief Financial
Officer and Corporate Secretary
(Principal Financial and Accounting Officer)