

LTC PROPERTIES INC  
Form 424B2  
August 05, 2009

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FILED PURSUANT TO RULE 424(B)(2)  
REG. STATEMENT NO. 333-143826

PROSPECTUS SUPPLEMENT  
(To Prospectus Dated August 7, 2007)

## LTC PROPERTIES, INC.

**\$75,000,000**  
**Common Stock**

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We have entered into an equity distribution agreement with KeyBanc Capital Markets relating to shares of our common stock, par value \$0.01 per share, offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the equity distribution agreement, we may offer and sell shares of our common stock having an aggregate offering price of up to \$75,000,000 from time to time through KeyBanc Capital Markets as our sales agent.

Sales of the shares of common stock, if any, will be made by means of ordinary brokers' transactions at market prices, in block transactions, or as otherwise agreed with KeyBanc Capital Markets. We will pay KeyBanc Capital Markets an aggregate fee that will not exceed 2.25% of the gross sales price per share of shares sold through it as agent under the equity distribution agreement.

Under the terms of the equity distribution agreement, we also may sell shares of our common stock to KeyBanc Capital Markets as principal for its own account at a price agreed upon at the time of sale. If we sell shares to KeyBanc Capital Markets as principal, we will enter into a separate terms agreement with KeyBanc Capital Markets, and we will describe this agreement in a separate prospectus supplement or pricing supplement.

KeyBanc Capital Markets is not required to sell any specific number or dollar amount of shares of our common stock but will use its reasonable efforts, as our agent and subject to the terms of the equity distribution agreement, to sell the shares offered, as instructed by us. The offering of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the equity distribution agreement and (ii) the termination of the equity distribution agreement by either KeyBanc Capital Markets or us.

Our common stock is traded on the New York Stock Exchange under the symbol "LTC". On August 4, 2009, the last reported sale price of our common stock on the NYSE was \$25.75 per share.

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**Investing in our common shares involves risks. Before investing in our common shares, you should carefully read the discussion of material risks of investing in our common shares on page S-1 of this prospectus supplement under the heading "Risk Factors," as well as the risk factors discussed under the heading "Item 1A Risk Factors" of our most recent Annual Report on Form 10-K and in the other documents we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, and which we incorporate into this prospectus by reference.**

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

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## **KeyBanc Capital Markets**

Prospectus Supplement dated August 5, 2009

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

**This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of our common stock and also adds to and updates information contained in, or incorporated by reference into, the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering.**

**To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in the previously filed documents incorporated by reference, on the other hand, you should rely on the information in this prospectus supplement.**

**You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus relating to this offering that we provide to you. We have not, and KeyBanc Capital Markets Inc. has not, authorized anyone to provide you with additional or different information and, if given, you should not rely on it. We are not, and KeyBanc Capital Markets Inc. is not, making an offer to sell these securities or seeking offers to buy these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference is accurate as of any date other than the date on the front of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**FORWARD-LOOKING STATEMENTS**

This prospectus supplement contains or incorporates by reference 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. You can identify some of the forward-looking statements by their use of forward-looking words, such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy; the status of capital markets (including prevailing interest rates) and our access to capital; the income and returns available from investments in health care related real estate; 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; compliance with and changes to regulations and payment policies within the health care industry; debt that we may incur and changes in financing terms; our ability to continue to qualify as a real estate investment trust; the relative illiquidity of our real estate investments; potential limitations on our remedies when mortgage loans default; and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under "Risk Factors" contained in this prospectus supplement and in other information contained in our publicly available filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2008 and other reports we file under the Exchange Act. We do not undertake any responsibility to update 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.

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**THE COMPANY**

We are a self-administered real estate investment trust that invests primarily in long-term care and other health care related properties through mortgage loans, property lease transactions and other investments. As of June 30, 2009, long-term care properties, which include skilled nursing and assisted living properties, comprised approximately 98% of our investment portfolio. We have been operating since August 1992.

As of June 30, 2009, we had approximately \$440.1 million in carrying value of net real estate investments. At that date, our "direct real estate investment portfolio" (properties that we own or on which we hold promissory notes secured by first mortgages) included 100 skilled nursing properties with a total of 11,587 beds, 101 assisted living properties with a total of 4,598 units and two charter schools. These properties are located in 30 states. We had approximately \$366.5 million (83%) invested in owned and leased properties and approximately \$73.6 million (17%) invested in mortgage loans.

Our principal executive offices are located at 31365 Oak Crest Drive, Suite 200, Westlake Village, California 91361, and our telephone number is (805) 981-8655.

**RISK FACTORS**

An investment in our common shares involves a high degree of risk. You should carefully consider the risks described in "Item 1A Risk Factors" of our most recent Annual Report on Form 10-K that has been filed with the Securities and Exchange Commission, or SEC, and incorporated herein by reference in its entirety, as well as other information in this prospectus and in any other documents incorporated into this prospectus by reference before purchasing any of our common shares. Each of the risks described in these sections and documents could adversely affect our business, financial condition and results of operations, and could result in a complete loss of your investment. This prospectus and the incorporated documents also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks mentioned above.

**USE OF PROCEEDS**

We intend to use the net proceeds from the sale of our common shares pursuant to the equity distribution agreement for working capital and general corporate purposes including, but not limited to: the acquisition of health care properties and the funding of mortgage loans secured by health care properties. Consistent with our investment strategy, we pursue, from time to time, opportunities for potential acquisitions and investments, with due diligence and negotiations often at different stages of development at any particular time.

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

You should refer to "Taxation of Our Company" in our most recent Annual Report on Form 10-K that has been filed with the SEC, and incorporated herein by reference in its entirety, for a summary of the material federal income tax considerations to us of our REIT election. Additionally, you should refer to "Certain U.S. Federal Income Tax Considerations Taxation of Taxable Domestic Stockholders", "Taxation of Tax-Exempt Stockholders", "Taxation of Foreign Stockholders", and "Other Tax Consequences" in the accompanying prospectus for a summary of the federal income tax considerations which are anticipated to be material to purchasers of our common stock. Prospective investors are advised to consult their own tax advisors regarding the specific federal, state, local, foreign and other tax consequences of the purchase, ownership and disposition of the common shares and of potential changes in applicable tax laws. The discussion in this prospectus supplement and the accompanying prospectus does not purport to deal with all aspects of taxation that may be relevant to particular purchasers in light of their personal investment or tax circumstances.

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**PLAN OF DISTRIBUTION**

We have entered into an equity distribution agreement with KeyBanc Capital Markets Inc., under which we may issue and sell an aggregate offering price of up to \$75 million of our common shares from time to time through KeyBanc Capital Markets Inc., as our sales agent. The form of the equity distribution agreement has been filed as an exhibit to a current report on Form 8-K, incorporated by reference in this prospectus supplement. The sales, if any, of common shares made under the equity distribution agreement will be made by means of ordinary brokers' transactions at market prices, in block transactions or as otherwise agreed by KeyBanc Capital Markets Inc. and us. As an agent, KeyBanc Capital Markets Inc. will not engage in any transactions that stabilize the price of our common shares.

Under the terms of the equity distribution agreement, we also may sell shares to KeyBanc Capital Markets Inc. as principal for its own account at a price agreed upon at the time of sale. If we sell shares to KeyBanc Capital Markets Inc. as principal, we will enter into a separate terms agreement with KeyBanc Capital Markets Inc. and we will describe any such agreement in a separate prospectus supplement or pricing supplement.

We will designate the maximum amount of common shares to be sold through KeyBanc Capital Markets Inc. on a daily basis or otherwise as we and KeyBanc Capital Markets Inc. agree. Subject to the terms and conditions of the equity distribution agreement, KeyBanc Capital Markets Inc. will use its reasonable efforts to sell on our behalf all of the designated shares of our common shares. We may instruct KeyBanc Capital Markets Inc. not to sell our common shares if the sales cannot be effected at or above the price designated by us in any such instruction. We or KeyBanc Capital Markets Inc. may suspend the offering of our common shares by notifying the other.

KeyBanc Capital Markets Inc. will provide written confirmation to us following the close of trading on the New York Stock Exchange each day in which our common shares are sold under the equity distribution agreement. Each confirmation will include the number of common shares sold on that day, the sales price and the compensation payable by us to KeyBanc Capital Markets Inc. in connection with the sales.

We will pay KeyBanc Capital Markets Inc. a commission equal to 2.25% of the gross sales price per share of our common shares sold through it as our agent under the equity distribution agreement. The remaining sales proceeds, after deducting any transaction fees imposed by any governmental or self-regulatory organization in connection with the sales, will equal our net proceeds for the sale of the common shares.

Settlement for sales of our common shares will occur on the third business day following the date on which any sales were made in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We estimate that the total expenses of the offering payable by us, excluding discounts and commissions under the equity distribution agreement, will be approximately \$160,000.

KeyBanc Capital Markets Inc. will act as sales agent on a reasonable efforts basis. In connection with the sale of the common shares on our behalf, KeyBanc Capital Markets Inc. may be deemed to be an "underwriter" within the meaning of the Securities Act, and the compensation of KeyBanc Capital Markets Inc. may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to KeyBanc Capital Markets Inc. against certain civil liabilities, including liabilities under the Securities Act.

The offering of our common shares pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common shares subject to the equity distribution agreement, or (ii) termination of the equity distribution agreement upon occurrence of certain events.

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KeyBanc Capital Markets Inc. and its affiliates may, from time to time, engage in transactions with, and perform services for, us in the ordinary course of business for which they will receive customary fees and expenses. An affiliate of KeyBanc Capital Markets Inc. is the co-lead arranger, syndication agent and a lender under our unsecured revolving credit facility.

**LEGAL MATTERS**

Certain legal matters relating to the common shares will be passed upon for us by Reed Smith LLP, New York, New York, and for the sales agent by Goodwin Procter LLP, Boston, Massachusetts. Reed Smith LLP and Goodwin Procter LLP will rely on the opinion of Ballard Spahr Andrews & Ingersoll, LLP as to certain matters of Maryland law. Certain tax matters, including our qualification as a real estate investment trust, will be passed upon for us by Reed Smith LLP.

**EXPERTS**

The consolidated financial statements and schedules of LTC Properties, Inc. appearing in LTC Properties, Inc.'s Annual Report (Form 10-K) at December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, as amended by Current Report on Form 8-K dated June 30, 2009, and the effectiveness of LTC Properties, Inc.'s internal control over financial reporting as of December 31, 2008 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in its reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Exchange Act and, in accordance therewith, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference room located at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>. We maintain a website at [www.ltcproperties.com](http://www.ltcproperties.com). The information on our website is not, and you must not consider the information to be, a part of this prospectus supplement. Our securities are listed on the NYSE and all such material filed by us with the NYSE also can be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10055.

We have filed with the SEC a registration statement on Form S-3, of which this prospectus supplement is a part, under the Securities Act with respect to the securities. This prospectus supplement does not contain all of the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information concerning us and the securities, reference is made to the registration statement. Statements contained in this prospectus supplement as to the contents of any contract or other documents may not contain all the information important to you, and in each instance, reference is made to the copy of such contract or documents filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference in this prospectus supplement or the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made and were qualified by certain schedules of exceptions that were not filed. Accordingly,

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such representation, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

**INFORMATION INCORPORATED BY REFERENCE**

The SEC allows us to "incorporate by reference" information into this prospectus supplement, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference herein is deemed to be part of this prospectus supplement, except for any information superseded by information in this prospectus supplement. This prospectus supplement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us, our business and our finances.

our Annual Report on Form 10-K for the fiscal year ended December 31, 2008;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2009 and June 30, 2009;

our Current Reports on Form 8-K filed on June 30, 2009, July 31, 2009 and August 5, 2009; and

our definitive proxy statement dated April 9, 2009 in connection with our Annual Meeting of Stockholders held on May 15, 2009.

All documents that we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement but before the end of any offering of securities made under this prospectus supplement will also be considered to be incorporated by reference.

If you request, either orally or in writing, we will provide you with a copy of any or all documents that are incorporated by reference. Such documents will be provided to you free of charge, but will not contain any exhibits, unless those exhibits are incorporated by reference into the document. Requests should be addressed to: Attn: Chief Financial Officer, 31365 Oak Crest Drive, Suite 200, Westlake Village, CA 91361, telephone number: 805-981-8655.



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**PROSPECTUS**

**\$300,000,000**

**LTC PROPERTIES, INC.  
DEBT SECURITIES, PREFERRED STOCK  
AND COMMON STOCK**

LTC Properties, Inc. may from time to time offer (i) our debt securities in one or more series, (ii) shares of our Preferred Stock, \$0.01 par value per share in one or more series and (iii) shares of our Common Stock, \$0.01 par value per share, with an aggregate public offering price of up to \$300,000,000 on terms to be determined at the time of the offering. Our debt securities, our Preferred Stock and our Common Stock (collectively referred to as our securities), may be offered, separately or together, in separate series, in amounts, at prices and on terms that will be set forth in one or more prospectus supplements to this prospectus.

The specific terms of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement and will include, where applicable:

in the case of our debt securities, the specific title, aggregate principal amount, currency, form (which may be registered, bearer, certificated or global), authorized denominations, maturity, rate (or manner of calculating the rate) and time of payment of interest, terms for redemption at our option or repayment at the holder's option, terms for sinking fund payments, terms for conversion into or exchange for shares of our debt securities, Preferred Stock or Common Stock, or other securities or property, covenants and any initial public offering price;

in the case of our Preferred Stock, the specific designation, preferences, conversion and other rights, voting powers, restrictions, limitations as to transferability, dividends and other distributions and terms and conditions of redemption and any initial public offering price; and

in the case of our Common Stock, any initial public offering price.

In addition, the specific terms may include limitations on actual, beneficial or constructive ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve our status as a real estate investment trust, or REIT, for federal income tax purposes. The applicable prospectus supplement will also contain information, where applicable, about United States federal income tax considerations, and any exchange listing of the securities covered by the prospectus supplement.

Our stock Common Stock is traded on the New York Stock Exchange (or NYSE) under the symbol "LTC." Our executive offices are located at 31365 Oak Crest Drive, Suite 200, Westlake Village, CA 91361, telephone number: 805-981-8655, facsimile: 805-981-8663 and web site: [www.ltcproperties.com](http://www.ltcproperties.com). The information set forth on our web site is not part of this prospectus.

Our securities may be offered directly, through agents designated from time to time by us, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them and us, will be set forth in the applicable prospectus supplement. None of our securities may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of those securities.

Investing in our securities involves certain risks. See "Risk Factors" beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 7, 2007

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In this prospectus, unless otherwise indicated, the "company," "we," "us" and "our" refer to LTC Properties, Inc. and our consolidated subsidiaries.

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (or SEC) utilizing a "shelf" registration process. Under this shelf registration process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$300,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find Additional Information."

You should rely only on the information contained and incorporated by reference in this prospectus. We have not authorized any other person to provide you with different or inconsistent information from that contained in this prospectus and the applicable prospectus supplement. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information in this prospectus and the applicable prospectus supplement, as well as the information we previously filed with the SEC and incorporated by reference,

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is accurate only as of the date on the front cover of this prospectus and the applicable prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since those dates.

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**FORWARD-LOOKING STATEMENTS**

This prospectus contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (or Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (or Exchange Act). You can identify some of the forward-looking statements by their use of forward-looking words, such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy, the status of capital markets including prevailing interest rates, compliance with and changes to regulations and payment policies within the health care industry, changes in financing terms, competition within the health care and senior housing industries, and changes in federal, state and local legislation. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under "Risk Factors" contained in this prospectus and in other information contained in our publicly available filings with the SEC, including our annual report on Form 10-K for the year ended December 31, 2006. We do not undertake any responsibility to update 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.

**PROSPECTUS SUMMARY**

*This summary highlights selected information from this prospectus and does not contain all of the information that you need to consider in making your investment decision. You should carefully read the entire prospectus, including the risks of investing discussed under "Risk Factors" beginning on page 8, the information incorporated by reference, including our financial statements, and the exhibits to the registration statement of which this prospectus is a part.*

**About Our Company**

We are a health care real estate investment trust (or REIT) incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in long-term care and other health care related properties through mortgage loans, property lease transactions and other investments. As of March 31, 2007, long-term care properties, which include skilled nursing and assisted living properties, comprised approximately 98% of our investment portfolio.

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

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

The schools in our real estate investment portfolio are Charter schools. Charter schools provide an alternative to the traditional public school. Charter schools are generally autonomous entities authorized by the state or locality to conduct operations independent from the surrounding public school district. Laws vary by state, but generally Charters are granted by state boards of education

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either directly or in conjunction with local school districts or public universities. Operators are granted Charters to establish and operate schools based on the goals and objectives set forth in the Charter. Upon receipt of a Charter, schools receive an annuity from the state for each student enrolled.

Our senior management team is comprised of four individuals with a combined 54 years of experience in health care and real estate finance.

As of March 31, 2007, we had approximately \$499 million in carrying value of net real estate investments. At that date, our portfolio included 94 assisted living properties, 119 skilled nursing properties and two Charter schools in 32 states. We had approximately \$384 million (77%) invested in owned and leased properties and approximately \$115 million (23%) invested in mortgage loans.

**Our Strategy**

Our primary objectives are to sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term care properties and other health care related properties managed by experienced operators. To meet these objectives, we attempt to invest in properties or in mortgages that provide opportunity for additional value and current returns to our stockholders and to diversify our investment portfolio by geographic location, operator and form of investment.

Historically our investments have consisted of:

mortgage loans secured by long-term care properties;

fee ownership of long-term care properties which are leased to providers; or

participation in such investments indirectly through investments in real estate partnerships or other entities that themselves make direct investments in such loans or properties.

In evaluating potential investments, we consider factors such as:

type of property;

the location;

construction quality, condition and design of the property;

the property's current and anticipated cash flow and its adequacy to meet operational needs and lease obligations or debt service obligations;

the experience, reputation and solvency of the licensee providing services;

the payor mix of private, Medicare and Medicaid patients;

the growth, tax and regulatory environments of the communities in which the properties are located;

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

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

For investments in skilled nursing properties, we favor low cost per bed opportunities, whether in fee simple properties or in mortgages. In addition, with respect to skilled nursing properties, we attempt to invest in properties that do not have to rely on a high percentage of private-pay patients. We seek to invest in properties that are located in suburban and rural areas of states. Prior to every investment, we conduct a property site review to assess the general physical condition of the property and the potential of additional sub-acute services. In addition, we review the environmental reports, state survey and financial statements of the property before the investment is made. We prefer to invest

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in a property that has a significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.

For assisted living investments we have attempted to diversify our portfolio both geographically and across product levels. Thus, we believe that although the majority of our investments are in affordably priced units, our portfolio also includes a significant number of upscale units in appropriate markets with certain operators.

We believe that this competitive market has created an environment of very highly priced properties and low yielding mortgages. Because our historical strategy has been to invest in low cost per bed properties, we believe there is an opportunity for us to invest additional funds in our owned properties where the lessees have high occupancies and expansion ability. This market is captive to us since we own the properties. We are actively reviewing all of our owned properties and discussing additional investments with such likely lessees. We would make these investments at rates that would approximate our historical lease rates.

**Owned Properties**

At March 31, 2007, we owned 62 skilled nursing properties with a total of 7,214 beds, 84 assisted living properties with 3,744 units and one school located in 23 states. Here and throughout this prospectus wherever we provide details of our properties' bed/unit count the number of beds/units applies to skilled nursing properties and assisted living residences only. This number is based upon unit/bed counts shown on operating licenses provided to us by lessees/borrowers or units/beds as stipulated by lease/mortgage documents. We have found during the years that these numbers often differ, usually not materially, from units/beds in operation at any point in time. The differences are caused by such things as operators converting a patient/resident room for alternative uses, such as offices or storage, or converting a multi-patient room/unit into a single patient room/unit. We monitor our properties on a routine basis through site visits and reviews of current licenses. In an instance where such change would cause a de-licensing of beds or in our opinion impact the value of the property, we would take action against the lessee/borrower to preserve the value of the property/collateral.

The properties are leased pursuant to non-cancelable leases generally with an initial term of 10 to 30 years. The leases provide for a fixed minimum base rent during the initial and renewal periods. Most of the leases provide for annual fixed rent increases or increases based on consumer price indices over the term of the lease. In addition, certain of our leases provide for additional rent through revenue participation (as defined in the lease agreement) in incremental revenues generated by the facilities over a defined base period, effective at various times during the term of the lease. Each lease is a triple net lease which requires the lessee to pay additional charges including all taxes, insurance, assessments, maintenance and repair (capital and non-capital expenditures), and other costs necessary in the operation of the facility. Most of the leases contain renewal options and two contain limited period options that permit the operators to purchase the properties.

**Mortgage Loans**

At March 31, 2007, we had 68 mortgage loans secured by first mortgages on 57 skilled nursing properties with a total of 6,586 beds, 10 assisted living properties with a total of 705 units and one school located in 19 states. At March 31, 2007, these mortgage loans had interest rates ranging from 6.6% to 13.1% and maturities ranging from 2007 to 2019. In addition, the loans may contain guarantees, provide for facility fees and generally have 25-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.

Subsequent to March 31, 2007, we received \$23.5 million in principal payoffs from six mortgage loan secured by first mortgages on nine skilled nursing properties with a total of 873 beds.

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



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**RISK FACTORS**

You should carefully consider the risks described below and in the applicable prospectus supplement before making an investment decision in our company. The risks and uncertainties described below and therein are not the only ones facing our company and there may be additional risks that we do not presently know of or that we currently consider immaterial. Other important factors are identified in our annual report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference into this prospectus, including factors identified under the headings "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in the other documents incorporated by reference into this prospectus. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. As a result, our ability to pay dividends on, and the market price of, our equity securities may be adversely affected if any of such risks are realized.

*Our expected results may not be achieved, and actual results may differ materially from our expectations.*

Our failure to achieve expected results may be a result of various factors, including, but not limited to:

the status of the economy;

the status of capital markets, including prevailing interest rates;

compliance with and changes to regulations and payment policies within the health care industry;

changes in financing terms;

competition within the health care and senior housing industries; and

changes in federal, state and local legislation.

*A failure to maintain or increase our dividend could reduce the market price of our stock.*

In April 2007, we declared a \$0.125 per share monthly dividend for the second quarter of calendar 2007. During the first quarter of 2007 we paid a \$0.125 per share monthly dividend. During calendar 2006, we paid a \$0.12 monthly dividend on our common stock. During calendar 2005, we paid a \$0.30 dividend in the first quarter and a \$0.11 monthly dividend in each of the second, third and fourth quarters on our common stock. The ability to maintain or raise our common dividend is dependent, to a large part, on growth of funds from operations. This growth in turn depends upon increased revenues from additional investments and loans, rental increases and mortgage rate increases.

*At times, we may have limited access to capital which will slow our growth.*

A REIT is required to make dividend distributions and retains little capital for growth. As a result, growth for a REIT is generally through the steady investment of new capital in real estate assets. Presently, we believe capital is readily available to us. However, there will be times when we will have limited access to capital from the equity and/or debt markets. During such periods, virtually all of our available capital will be required to meet existing commitments and to reduce existing debt. We may not be able to obtain additional equity or debt capital or dispose of assets on favorable terms, if at all, at the time we require additional capital to acquire health care properties on a competitive basis or meet our obligations.

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*Income and returns from health care facilities can be volatile.*

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

*We depend on lease income and mortgage payments from real property.*

Since a substantial portion of our income is derived from mortgage payments and lease income from real property, our income would be adversely affected if a significant number of our borrowers or lessees were unable to meet their obligations to us or if we were unable to lease our properties or make mortgage loans on economically favorable terms. There can be no assurance that any lessee will exercise its option to renew its lease upon the expiration of the initial term or that if such failure to renew were to occur, we could lease the property to others on favorable terms.

*We rely on a few major operators.*

We have three operators, based on properties subject to lease agreements and secured by mortgage loans, that represent between 10% and 20% of our total assets and three operators from each of which we derive over 10% of our combined rental revenue and interest income.

Beginning in the fourth quarter of 2006, Extencicare Services, Inc. (or EHSI), one of our major operators, effected a reorganization whereby it completed a spin-off of Assisted Living Concepts, Inc (or ALC). ALC is now a NYSE traded public company operating assisted living centers. The remaining EHSI assets and operations were converted into a Canadian REIT (Extencicare REIT) listed on the Toronto Stock Exchange (or TSX). Both Extencicare REIT and ALC continue to be parties to the leases with us. Extencicare REIT and ALC, collectively lease 37 assisted living properties with a total of 1,427 units owned by us representing approximately 11.6%, or \$65.5 million, of our total assets at March 31, 2007 and 15.4% of combined rental revenue and interest income (excluding the effects of straight-line rent) for the quarter ended March 31, 2007.

Alterra Healthcare Corporation (or Alterra) is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. Alterra leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 11.5%, or \$64.8 million, of our total assets at March 31, 2007 and 14.6% of combined rental revenue and interest income (excluding the effects of straight-line rent) for the quarter ended March 31, 2007.

Preferred Care, Inc. (or Preferred Care) is privately owned. Preferred Care, through various wholly-owned subsidiaries, operates 32 skilled health care properties with a total of 3,871 beds that we own or on which we hold mortgages secured by first trust deeds. This represents approximately 11.0% or \$61.9 million of our total assets at March 31, 2007 and 14.0% of combined rental revenue and interest income (excluding the effects of straight-line rent) for the quarter ended March 31, 2007. Subsequent to March 31, 2007, a wholly owned subsidiary of Preferred Care assumed a \$3.7 million mortgage loan payable to us secured by a first trust deed on a 191-bed skilled nursing property.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by any of our other lessees and borrowers, including bankruptcies, inability to

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emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

*Our borrowers and lessees face competition in the health care industry.*

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

*The health care industry is heavily regulated by the government.*

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

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

*Our borrowers and lessees rely on government and third party reimbursement.*

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

A significant portion of the revenue of our skilled nursing facility borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant health care costs paid by such government programs, both federal and state governments have adopted and continue to consider various health care reform proposals to control health care costs. There have been fundamental changes in the Medicare program that resulted in reduced levels of payment for a substantial portion of health care services. In many instances, revenues from Medicaid

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programs are already insufficient to cover the actual costs incurred in providing care to those patients. According to a report issued by the Kaiser Commission on Medicaid and the Uninsured in October 2006, while many states continued to freeze provider rates in fiscal year 2006, more states implemented provider rate increases in fiscal year 2006 or plan to do so in fiscal year 2007. In fiscal year 2006, 46 states froze or cut rates for at least one provider type, but the same number of states also increased rates for at least one group of providers. Similarly in fiscal year 2007, 47 states intend to increase rates for at least one group of providers and 43 states plan rate freezes or cuts, but no state currently plans to cut Medicaid payments for skilled nursing facilities for fiscal year 2007. Skilled nursing facilities also were the major provider group most likely to see payment increases for fiscal year 2006 and fiscal year 2007, although some skilled nursing facility rate increases are tied to increased provider taxes. Nevertheless, future reduction in state Medicaid payments for skilled nursing facility services could have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us. Moreover, health care facilities continue to experience pressures from private payors attempting to control health care costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors.

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

On August 4, 2005, the Centers for Medicare & Medicaid Services, commonly known as CMS, published a final rule updating skilled nursing facility prospective payment rates for fiscal year 2006, which began October 1, 2005. This update implemented refinements to the patient classification system and triggered the expiration of a temporary payment add-on for certain high-acuity patients, effective January 1, 2006. The final rule also adopted a 3.1 percent market basket increase for fiscal year 2006. On July 31, 2006, CMS published a notice updating Medicare skilled nursing facility prospective payment system rates for fiscal year 2007, which began October 1, 2006. Under the notice, skilled nursing facilities receive the full 3.1 percent market basket increase to rates, increasing Medicare payments to skilled nursing facilities by approximately \$560.0 million for fiscal year 2007. On May 4, 2007, CMS published its proposed skilled nursing facility prospective payment system update for fiscal year 2008. CMS is proposing a 3.3 percent market basket increase, which would increase Medicare payments to nursing homes by approximately \$690 million in fiscal year 2008. CMS has not yet finalized the Medicare rates for fiscal year 2008.

On February 5, 2007, the Bush Administration released its fiscal year 2008 budget proposal, which includes legislative and administrative proposals that would reduce Medicare spending by approximately \$5.3 billion in fiscal 2008 and \$75.8 billion over 5 years. Among other things, the budget would provide no update for skilled nursing facilities in 2008 and a -0.65% adjustment to the update annually thereafter (although legislation would be necessary to implement this proposal rather than the full market basket adjustment called for in the May 4, 2007 CMS fiscal year 2008 skilled nursing facility prospective payment system proposed rule). The proposed Bush Administration budget also would move toward site-neutral post-hospital payments to limit inappropriate incentives for five conditions commonly treated in both skilled nursing properties and inpatient rehabilitation facilities. The budget proposal also would eliminate all bad debt reimbursements for unpaid beneficiary cost-sharing over four years. In addition, the budget proposal includes a series of proposals impacting Medicaid,

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including legislative and administrative changes that would reduce Medicaid payments by almost \$26.0 billion over five years. Many of the proposed policy changes would require Congressional approval to implement. Thus, while Medicare rates provided for under current law will not decrease payments to skilled nursing facilities, the loss of revenues associated with potential future changes in skilled nursing facility payment rates could, in the future, 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.

The federal physician self-referral law, commonly known as Stark II (or Stark Law), prohibits physicians and certain other types of practitioners from making referrals for certain designated health services paid in whole or in part by Medicare and Medicaid to entities with which the practitioner or a member of the practitioner's immediate family has a financial relationship, unless the financial relationship fits within an applicable exception to the Stark Law. The Stark Law also prohibits the entity receiving the referral from seeking payment under the Medicare and Medicaid programs for services rendered pursuant to a prohibited referral. If an entity is paid for services rendered pursuant to a prohibited referral, it may incur civil penalties of up to \$15,000 per prohibited claim and may be excluded from participating in the Medicare and Medicaid programs.

*Congress and the states have enacted health care reform measures.*

The health care industry continues to face various challenges, including increased government and private payor pressure on health care providers to control costs. For instance, the Balanced Budget Act of 1997 enacted significant changes to the Medicare and Medicaid programs designed to modernize payment and health care delivery systems while achieving substantial budgetary savings. In seeking to limit Medicare reimbursement for long-term care services, Congress established the prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system. Skilled nursing facilities needed to restructure their operations to accommodate the new Medicare prospective payment system reimbursement. Since the skilled nursing facility prospective payment system was enacted, several then publicly held operators of long-term care facilities and at least two then publicly held operators of assisted living facilities filed for reorganization under Chapter 11 of the federal bankruptcy laws. During their reorganizations and in some instances subsequent thereto, long-term care operators and assisted living operators reduced their operations by rejecting leases and/or defaulting on loans resulting in properties being returned to lessors or lenders. There can be no assurances given that there will not be additional bankruptcies of skilled nursing and assisted living operators in the future.

In recent years, Congress has adopted legislation to somewhat mitigate the impact of the Balanced Budget Act on providers, including skilled nursing facilities. For instance, on December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-173). In addition to providing expanded Medicare prescription drug coverage, the act modified Medicare payments to a variety of health care providers. With respect to skilled nursing facilities, the act provides a temporary 128% increase in the Medicare payment for skilled nursing facility residents with acquired immune deficiency syndrome, applicable to services furnished on or after October 1, 2004. This temporary increase is still in effect through September 30, 2007, and CMS has proposed extending the additional payment through fiscal year 2008.

On the other hand, in February 2006 Congress gave final approval to the Deficit Reduction Act (or DRA), which will reduce net Medicare and Medicaid spending by approximately \$11.0 billion over five years. Among other things, the legislation reduces Medicare skilled nursing facility bad debt payments by 30 percent for those individuals who are not dually eligible for Medicare and Medicaid, and strengthens Medicaid asset transfer restrictions for persons seeking to qualify for Medicaid long-term care coverage.

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In addition, on December 20, 2006, President Bush signed into law the Tax Relief and Health Care Act of 2006 (P.L. 109-432), which also modifies a number of Medicare and Medicaid policies. Among other things, the law reduces the limit on Medicaid provider taxes from 6 percent (set forth in regulations) to 5.5 percent from January 1, 2008 through September 30, 2011. The Bush Administration had been expected to issue regulations calling for deeper cuts in funding, which is used by many states to finance state health programs. President Bush's proposed 2008 fiscal year budget if adopted also would reduce Medicare and Medicaid payments to providers. Most recently, on May 29, 2007, CMS published a rule that would limit certain state Medicaid financing arrangements. The agency estimates that the rule would reduce Medicaid spending by \$3.87 billion over five years. However, on May 25, 2007, President Bush signed into law an emergency supplemental appropriations bill that includes a provision prohibiting CMS from implementing the Medicaid funding rule for one year. Nevertheless, such funding restrictions could be imposed after the one-year period. Congress may also consider legislation in the future that would further restrict Medicare and Medicaid funding. No assurances can be given that any additional Medicare or Medicaid legislation enacted by Congress or regulations promulgated by CMS would not reduce Medicare or Medicaid reimbursement to skilled nursing facilities or result in additional costs for operators of skilled nursing facilities.

In addition, comprehensive reforms affecting the payment for and availability of health care services have been proposed at the federal and state levels and major reform proposals have been adopted by certain states. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodology 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. The DRA also gives states greater flexibility to expand access to home and community based services by allowing states to provide these services as an optional benefit without undergoing the waiver approval process. Moreover, the DRA includes a new demonstration to encourage states to provide long-term care services in a community setting to individuals who currently receive Medicaid services in nursing homes. Together the provisions could increase state funding for home and community based services, while prompting states to cut funding for nursing facilities and homes for persons with disabilities. In light of continuing state Medicaid program reforms, budget cuts, and regulatory initiatives, no assurance can be given that the implementation of such regulations and reforms will not have a material adverse effect on the financial condition or results of operations of our lessees and/or borrowers which, in turn, could effect their ability to meet their contractual obligations to us.

*Our properties are subject to licensing, certification and accreditation.*

In addition to the requirements to be met by skilled nursing facilities for participation in the Medicare and Medicaid programs, skilled nursing facilities are subject to regulatory and licensing requirements of federal, state and local authorities. We have no direct control over our borrowers' or tenants' ability to meet the numerous state and federal regulatory requirements. If a borrower or tenant does not continue to meet all regulatory requirements, such borrower or tenant may lose its ability to provide or bill for health care services. If we cannot attract another health care provider on a timely basis or on acceptable terms, our revenues would be adversely impacted. In addition, our properties are special purpose properties that may not be easily adaptable to uses unrelated to health care. Transfers of operations of health care facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

*We could incur more debt.*

We operate with a policy of incurring debt when, in the opinion of our directors, it is advisable. We may incur additional debt by issuing debt securities in a public offering or in a private transaction.

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Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders, including affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

*We could fail to collect amounts due under our straight-line rent receivable asset.*

Straight-line accounting requires us to calculate the total rent we will receive as a fixed amount over the life of the lease and recognize that revenue evenly over that life. In a situation where a lease calls for fixed rental increases during the life of the lease rental income recorded in the early years of a lease is higher than the actual cash rent received, which creates an asset on the balance sheet called deferred rent receivable. At some point during the lease, depending on the rent levels and terms, this reverses and the cash rent payments received during the later years of the lease are higher than the rental income recognized, which reduces the deferred rent receivable balance to zero by the end of the lease. We periodically assess the collectibility of the deferred rent receivable. If during our assessment we determined that we were unlikely to collect a portion or all of the deferred rent receivable balance, we may record an impairment charge in current period earnings for the portion, up to its full value, that we estimate will not be recovered.

*Our assets may be subject to impairment charges.*

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

*A failure to reinvest cash available to us could adversely affect our future revenues and our ability to increase dividends to stockholders; there is considerable competition in our market for attractive investments.*

From time to time, we will have cash available from (1) proceeds of sales of shares of securities, (2) proceeds from new debt issuances, (3) principal payments on our mortgages and other investments, (4) sale of properties, and (5) funds from operations. We may reinvest this cash in health care investments in accordance with our investment policies, repay outstanding debt or invest in qualified short-term investments. We compete for real estate investments with a broad variety of potential investors. The competition for attractive investments negatively affects our ability to make timely investments on acceptable terms. Delays in acquiring properties or making loans will negatively impact revenues and perhaps our ability to increase distributions to our stockholders.

*Our failure to qualify as a REIT would have serious adverse consequences to our stockholders.*

We intend to operate so as to qualify as a REIT under the Internal Revenue Code (the Code). We believe that we have been organized and have operated in a manner which would allow us to qualify as a REIT under the Code beginning with our taxable year ended December 31, 1992. However, it is possible that we have been organized or have operated in a manner which would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify. Qualification as a REIT requires us to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must pay

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dividends to stockholders aggregating annually at least 90% (95% for taxable years ending prior to January 1, 2001) of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding capital gains). Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or