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LTC PROPERTIES INC
Form 10-K405
February 22, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

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

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.)

300 Esplanade Drive, Suite 1860
Oxnard, California 93030
(Address of principal executive offices)

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

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

Title of Stock	Name of each exchange on which registered
Common stock, \$.01 Par Value	New York Stock Exchange
9.50% Series A Cumulative Preferred Stock, \$.01 Par Value	New York Stock Exchange
9.00% Series B Cumulative Preferred Stock, \$.01 Par Value	New York Stock Exchange
7.75% Convertible Subordinated Debentures due 2002	New York Stock Exchange
8.25% Convertible Subordinated Debentures due 2001	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, if such information is not required to be disclosed.

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to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by non-affiliates of the Company is approximately \$110,076,000 as of January 29, 2001.

26,031,414

(Number of shares of common stock outstanding as of January 29, 2001)

Part III is incorporated by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders.

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STATEMENT REGARDING FORWARD LOOKING DISCLOSURE

CERTAIN INFORMATION CONTAINED IN THIS ANNUAL REPORT INCLUDES STATEMENTS THAT ARE NOT PURELY HISTORICAL AND ARE "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, INCLUDING STATEMENTS REGARDING OUR EXPECTATIONS, BELIEFS, INTENTIONS OR STRATEGIES REGARDING THE FUTURE. ALL STATEMENTS OTHER THAN HISTORICAL FACTS CONTAINED IN THIS ANNUAL REPORT ARE FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. ALL FORWARD LOOKING STATEMENTS INCLUDED IN THIS ANNUAL REPORT ARE BASED ON INFORMATION AVAILABLE TO US ON THE DATE HEREOF, AND WE ASSUME NO OBLIGATION TO UPDATE SUCH FORWARD LOOKING STATEMENTS. ALTHOUGH WE BELIEVE THAT THE ASSUMPTIONS AND EXPECTATIONS REFLECTED IN SUCH FORWARD LOOKING STATEMENTS ARE REASONABLE, NO ASSURANCE CAN BE GIVEN THAT SUCH EXPECTATIONS WILL PROVE TO HAVE BEEN CORRECT. THE ACTUAL RESULTS ACHIEVED BY US MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENTS DUE TO THE RISKS AND UNCERTAINTIES OF SUCH STATEMENTS. EXHIBIT 99 TO THIS ANNUAL REPORT CONTAINS A MORE COMPREHENSIVE DISCUSSION OF RISKS AND UNCERTAINTIES ASSOCIATED WITH OUR BUSINESS.

ITEM 1. BUSINESS

GENERAL

LTC Properties, Inc., a health care real estate investment trust (a "REIT"), was organized 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 facilities through mortgage loans, facility lease transactions and other investments. During 1998, we began making investments in the education industry by investing in private and charter schools from pre-school through eighth grade. 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 facilities and other health care related facilities managed by experienced operators providing quality care. 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 and form of investment.

In accordance with "plain English" guidelines provided by the Securities and Exchange Commission, whenever we refer to "our company" or to "us", or use the terms "we" or "our", we are referring to LTC Properties, Inc. and its subsidiaries.

We were organized to qualify, and intend to continue to qualify, as a REIT. So long as we qualify, with limited exceptions, we may deduct distributions to our stockholders from our taxable income. We have made distributions, and intend to continue to make distributions to our stockholders, in order to eliminate any

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federal tax liability.

At December 31, 2000, we had a gross investment portfolio (adjusted to include mortgage loans to third parties underlying our investment in REMIC certificates) of \$845.5 million. Our investment portfolio consisted of \$551.2 million in 249 skilled nursing facilities with 28,364 beds, \$269.9 million in 94 assisted living facilities with 4,366 units and \$24.4 million in four schools. 71 healthcare providers and two education providers in 36 states operate the properties in our portfolio.

OWNED PROPERTIES. During 2000, we acquired two skilled nursing facilities with a total of 393 beds from a related party for a gross purchase price (based upon independent appraisals) of \$19.2 million and invested approximately

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\$4.3 million in the expansion and improvement of existing properties. Mortgage loans with outstanding principal balances totaling \$12.3 million that were secured by eight long-term care facilities with 771 beds/units were converted into owned properties. As of December 31, 2000, our investment in owned properties consisted of 66 skilled nursing facilities with a total of 7,797 beds, 86 assisted living facilities with a total of 3,997 units and four schools in 26 states, representing a gross investment of approximately \$468.5 million.

During the year ended December 31, 2000, the Company sold 11 skilled nursing facilities, one assisted living facility and two schools. These sales resulted in a net gain of approximately \$9.0 million.

The majority of our long-term care facilities are leased to operators pursuant to long-term operating leases that generally have an initial term of 10 to 20 years and provide for increases in the rent based upon specified rate increases, increases in revenues over defined base periods, or increases based on consumer price indices. Currently we have one-year leases on 21 skilled nursing facilities that expire June 30, 2001 and month-to-month leases on two skilled nursing facilities with a related party. All leases are triple net leases that require the lessee to pay all taxes, insurance, maintenance and other costs of the facilities.

MORTGAGE LOANS. As part of our strategy of making long-term investments in properties used in the provision of long-term health care services, we provide mortgage financing on such properties based on our established investment underwriting criteria. (See "INVESTMENT AND OTHER POLICIES" in this Section.) We also provide construction loans that by their terms convert into purchase/lease transactions or permanent financing mortgage loans upon completion of construction. During 2000, we advanced \$1.0 million for renovation and expansion under a mortgage loan previously provided on a skilled nursing facility. At December 31, 2000, we had 48 mortgage loans secured by first mortgages on 45 skilled nursing facilities with a total of 5,160 beds and eight assisted living residences with 369 units located in 22 states.

We maintain a long-term investment interest in mortgages we originate either through the direct retention of the mortgages or through the retention of REMIC Certificates originated in our securitizations. We are a REIT and, as such, make our investments with the intent to hold them for long-term purposes. However, we may securitize a portion of our mortgage loan portfolio when a securitization provides us with the best available form of capital to fund additional long-term investments. In addition, we believe that the REMIC Certificates we retain from our securitizations provide our stockholders with a more diverse real estate investment while maintaining the returns we desire.

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REMIC CERTIFICATES. We complete a securitization by transferring mortgage loans to a newly created Real Estate Mortgage Investment Conduit ("REMIC") that, in turn, issues mortgage pass-through certificates aggregating approximately the same amount. A portion of the REMIC Certificates are sold to third parties and a portion of the REMIC Certificates are retained by us. The REMIC Certificates we retain are subordinated in right of payment to the REMIC Certificates sold to third parties and a portion of the REMIC Certificates we retain are interest-only certificates which have no principal amount and entitle us to receive cash flows designated as interest. At December 31, 2000, we had investments in REMIC Certificates with a carrying value of \$95.0 million (\$96.3 million, at amortized cost, prior to any adjustment of available for sale certificates to fair market value).

FINANCING AND OTHER TRANSACTIONS. During 2000, we obtained a \$185.0 million Senior Secured Revolving Line of Credit that expires on October 2, 2004, which bears interest between LIBOR plus 2.00% and LIBOR plus 3.00%. The Senior Secured Revolving Line of Credit initially provides for \$185.0 million of total commitments with periodic reductions of these commitments to fully retire the commitments as of October 2, 2004. Specifically, scheduled available commitments as of December 31, 2000, 2001, 2002 and 2003 are \$185.0 million, \$157.5 million, \$95.0 million and \$75.0 million, respectively. As of December 31, 2000 borrowings of \$118.0 million bearing interest at LIBOR plus 2.50% were outstanding under the revolving credit facility.

The two skilled nursing facilities acquired during 2000 were acquired subject to the assumption of existing non-recourse mortgage debt of \$13.7 million that bears interest at a weighted average rate of 9.25%.

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INVESTMENT AND OTHER POLICIES

OBJECTIVES AND POLICIES. We currently invest primarily in income-producing long-term care facilities. Our investments consist of:

- mortgage loans secured by long-term care facilities;
- fee ownership of long-term care facilities which are leased to operators; or
- participation in such investments indirectly through investments in partnerships, joint ventures or other entities that themselves make direct investments in such loans or facilities.

In evaluating potential investments, we consider such factors 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 quality, reputation and solvency of the property's operator;
- the payor mix of private, Medicare and Medicaid patients;

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- the growth, tax and regulatory environments of the communities in which the properties are located;
- the occupancy and demand for similar facilities in the area surrounding the property; and
- the Medicaid reimbursement policies and plans of the state in which the property is located.

We place primary emphasis on investing in long-term care facilities that have low investment per bed/unit ratios and do not have to rely on the provision of ancillary services to cover debt service or lease obligations. In addition, with respect to skilled nursing facilities, we attempt to invest in facilities that do not have to rely on a high percentage of private pay patients. We seek to invest in facilities that are located in suburban and rural areas of states with improving reimbursement climates. Prior to every investment, we conduct a facility site review to assess the general physical condition of the facility, the potential of additional sub-acute services and the quality of care the operator provides. In addition, we review the environmental reports, state survey and financial statements of the facility before the investment is made. We prefer to invest in a facility that has a significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing facilities. We believe that assisted living facilities are an important sector in the long-term care market and our investments in recent years have included direct ownership of assisted living facilities. We believe that assisted living facilities represent a lower cost long-term care alternative for senior adults than skilled nursing facilities. We invest primarily in assisted living facilities that attract the moderate-income private pay patients in smaller communities, preferably in states that have adopted Medicaid waiver programs or are in the process of adopting or reviewing their policies and reimbursement program to provide funding for assisted living residences. We believe that locating residences in a state with a favorable regulatory and reimbursement climate should provide a stable source of residents eligible for Medicaid reimbursement to the extent private-pay residents are not available, and should provide alternative sources of income for residents when their private funds are depleted and they become Medicaid eligible.

The terms of our existing revolving credit facility limit our investments outside of health care real estate to \$20.0 million. There are no other formal restrictions imposed in our investment in any single type of property or joint venture; however, difficult capital market conditions in the health care industry have limited our access to traditional forms of growth capital. As a result of the tight capital markets for the health care industry, we reduced

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our investment activity in 2000 and intend to continue to limit our investment activity in 2001. At December 31, 2000, we had no outstanding commitments to provide mortgage or sale/leaseback financing.

BORROWING POLICIES. We may incur additional indebtedness when, in the opinion of our Board of Directors, it is advisable. We may incur such indebtedness to make investments in additional long-term care facilities or to meet the distribution requirements imposed upon REITs under the Internal Revenue Code of 1986, as amended. For other short-term purposes, we may, from time to time, negotiate lines of credit, or arrange for other short-term borrowings from banks or otherwise. We may also arrange for long-term borrowings through public offerings or from institutional investors. To the extent that we receive net cash proceeds from such borrowings, the terms of our revolving credit facility require us to reduce the outstanding commitment and repay an equal amount of the net cash

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proceeds received from such borrowings on amounts outstanding under the revolver.

In addition, we may incur mortgage indebtedness on real estate which we have acquired through purchase, foreclosure or otherwise. We may also obtain mortgage financing for unleveraged or underleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis. There is no limitation on the number or amount of mortgages that may be placed on any one property, and we have no policy with respect to limitations on borrowing, whether secured or unsecured.

PROHIBITED INVESTMENTS AND ACTIVITIES. Our policies, which are subject to change by our Board of Directors without stockholder approval, impose certain prohibitions and restrictions on various of our investment practices or activities including prohibitions against:

- acquiring any real property unless the consideration paid for such real property is based on the fair market value of the property;
- investing in any junior mortgage loan unless by appraisal or other method, the directors determine that
 - (a) the capital invested in any such loan is adequately secured on the basis of the equity of the borrower in the property underlying such investment and the ability of the borrower to repay the mortgage loan; or
 - (b) such loan is a financing device we enter into to establish the priority of our capital investment over the capital invested by others investing with us in a real estate project;
- investing in commodities or commodity futures contracts (other than interest rate futures, when used solely for hedging purposes);
- investing more than 1% of our total assets in contracts for sale of real estate unless such contracts are recordable in the chain of title;
- holding equity investments in unimproved, non-income producing real property, except such properties as are currently undergoing development or are presently intended to be developed within one year, together with mortgage loans on such property (other than first mortgage development loans), aggregating to more than 10% of our assets.

COMPETITION

In the healthcare industry, we compete for real property investments with healthcare providers, other healthcare related REITs, real estate partnerships, banks, insurance companies and other investors. Many of our competitors are significantly larger and have greater financial resources and lower cost of capital than we have available to us. Our ability to compete successfully for real property investments will be determined by numerous factors, including our ability to identify suitable acquisition targets, our ability to negotiate acceptable terms for any such acquisition and the availability and cost of capital. Difficult capital market conditions for the health care industry have limited our access to traditional forms of growth capital. As a result of the tight capital markets for the health care industry, we reduced our investment activity in 2000 and intend to continue to limit our investment activity in 2001.

The operators of our healthcare properties compete on a local, regional and, in some instances, national basis with other healthcare operators. The ability of our operators to compete successfully for patients at our facilities depends upon several factors, including the quality of care and services provided at the facilities, the operational reputation of the providers, physician referral patterns, physical appearances of the facilities, family preferences, financial condition of the operator and other competitive systems of healthcare delivery within the community, population and demographics.

DIFFICULTIES EXPERIENCED BY MAJOR OPERATORS

The regulatory and reimbursement environments in which nursing homes operate have experienced significant adverse changes in recent years. See "GOVERNMENTAL REGULATION" below. Given the negative impact of these changes on the financial performance of operators of nursing homes and assisted living facilities, we evaluated our real estate investment portfolio during 2000. As a result of our analysis, we recorded a non-cash impairment charge and costs of foreclosure and lease terminations on certain properties in our real estate investment portfolio totaling approximately \$14.8 million. See "Item 8. FINANCIAL STATEMENTS - NOTE 5. IMPAIRMENT CHARGE".

LTC HEALTHCARE, INC.

During 1998, we completed the spin-off of all LTC Healthcare, Inc. ("LTC Healthcare") voting common stock through a taxable dividend distribution to the holders of our common stock, Cumulative Convertible Series C Preferred Stock and Convertible Subordinated Debentures. Upon completion of the distribution, LTC Healthcare began operating as a separate public company.

As of December 31, 2000, 27 of our skilled nursing facilities with a gross carrying value of \$67.1 million were leased to LTC Healthcare. Also, as of December 31, 2000, LTC Healthcare had mortgage loans secured by six skilled nursing facilities with total outstanding principal balances of \$16.4 million and a weighted average interest rate of 9.25% payable to REMIC pools originated by us. Two of the skilled nursing facilities securing the mortgage loans payable to the REMIC pools are operated by LTC Healthcare and the remaining four skilled nursing facilities are leased to third party operators. Subsequent to December 31, 2000, we agreed with LTC Healthcare to an early termination of four leases with annual rents totaling approximately \$0.7 million. Leases on 23 of the facilities currently operated by LTC Healthcare with annual base rents totaling \$3.4 million will expire on or before June 30, 2001. The terms of these leases will be renegotiated prior to their expiration; however, there can be no assurance that the leases will be renewed or that if renewed, the annual base rents will remain at the current level.

We have provided LTC Healthcare with a \$20.0 million unsecured line of credit that bears interest at 10% and matures in March 2008. As of December 31, 2000, \$16.6 million was outstanding under the line of credit. Under the terms of the new Senior Secured Revolving Line of Credit, we are permitted to loan LTC Healthcare up to \$25.0 million. We have not increased the \$20.0 million unsecured line of credit between the companies. Should any such amendment be proposed, it would need approval of the independent Board members of each company's board.

As of December 31, 2000, we owned 180,000 shares of LTC Healthcare common stock.

EMPLOYEES

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We currently employ 19 people.

GOVERNMENTAL REGULATION

GENERAL. The operators of our healthcare properties derive a substantial portion of their revenue from third party payors, including the Medicare and Medicaid programs. The Medicare program was enacted in 1965 to provide

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a nationwide, federally funded health insurance program for the elderly and certain disabled persons. The Medicaid program is a joint federal-state cooperative arrangement established for the purpose of enabling states to furnish medical assistance on behalf of aged, blind or disabled individuals, and members of families with dependent children, whose income and resources are insufficient to meet the costs of necessary medical services. Within the Medicare and Medicaid statutory framework, there are substantial areas subject to administrative regulations and rulings, interpretation and discretion which may affect payments made to providers under these programs. The amounts of program payments received by our operators can be changed by legislative or regulatory actions and by determinations made by fiscal intermediaries and other payment agents acting on behalf of the programs.

COST BASED REIMBURSEMENT. The Medicare program historically utilized a cost-based retrospective reimbursement system for nursing facilities. These facilities were reimbursed for reasonable direct and indirect allowable costs incurred in providing "routine services" (as defined by the program and subject to certain limits) as well as capital costs and ancillary costs. Pursuant to the Balanced Budget Act of 1997 (the "Balanced Budget Act") discussed below, Medicare is phasing in a prospective payment system ("PPS") for skilled nursing facilities starting with cost reporting periods beginning on or after July 1, 1998.

BALANCED BUDGET ACT - MEDICARE. The Balanced Budget Act, enacted on August 5, 1997, made numerous changes to the Medicare and Medicaid programs that affect operators of our healthcare properties. With respect to the Medicare program, the law required the Secretary of the Department of Health and Human Services ("HHS") to establish a PPS system for Medicare Part A skilled nursing facility services, under which facilities are paid a federal per diem rate for virtually all covered services. Payment is determined by resource utilization groups ("RUGs"). The PPS system is being phased in over three cost reporting periods, and started with cost reporting periods beginning on or after July 1, 1998. Subsequent legislation (see discussion below on the Balanced Budget Refinement Act and the Benefits Improvement and Protection Act of 2000) increased the per diem rate for certain higher-acuity patients. The Balanced Budget Act also instituted a consolidated billing requirement for skilled nursing facilities, under which such facilities must submit Medicare claims to the fiscal intermediary for all the Part A and Part B services that its residents receive, except for certain specifically excluded services. Moreover, the law established: (1) a \$1,500 per beneficiary annual cap for all outpatient physical therapy services and speech language pathology services; and (2) a \$1,500 per beneficiary annual cap for all outpatient occupational therapy services. As of April 2000, these annual caps were removed.

All of our operators of skilled nursing facilities that participate in the Medicare program are operating under PPS. PPS has resulted in more intense price competition and lower margins for operators. There can be no assurance that operators will be successful in reducing costs of services below the PPS reimbursement rates, or that the failure of operators to do so will not have a material adverse effect on their liquidity, financial condition and results of operations which in turn could affect adversely their ability to make rental

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payments or mortgage payments to us.

BALANCED BUDGET REFINEMENT ACT - MEDICARE. In the Balanced Budget Refinement Act, enacted November 29, 1999, Congress sought to mitigate some of the effects of the Balanced Budget Act. With respect to skilled nursing facilities, the law temporarily increases the PPS per diem rates by 20 percent for 15 patient categories (based on acuity). This payment increase is intended to compensate skilled nursing facilities for the provision of care to medically complex patients, pending appropriate refinements to the PPS system. Facilities providing care to patients falling within every non-rehabilitation patient category above the presumptive (rebuttable) Medicare eligibility line will benefit from this increase. Three patient categories falling within the "high" and "medium" rehabilitation category also are subject to the increase. The increased payments began on April 1, 2000, and will end when the Health Care Financing Administration ("HCFA") implements a refined RUG system that better accounts for medically-complex patients. The law also provides for a four percent increase in the federal per diem payment rates for all patient acuity categories in both fiscal years 2001 and 2002. This increase is calculated exclusive of the 20 percent rate increase for the 15 acuity categories subject to direct adjustments. The 20 percent rate increase for medical complexity will not be built into the base payment

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rates, however, and therefore future updates to the federal payment rates will be calculated from the initial base rate. The law also provides for a one-time waiver for skilled nursing facilities which elect to immediately transition to the full federal rate (rather than a blend of the federal rate and a facility-specific rate during the three year transition period) on or after December 15, 1999, for cost reporting periods beginning on or after January 1, 2000. In addition to the per diem rate increases for certain patient categories, the Balanced Budget Refinement Act temporarily suspended for years 2000 and 2001 the reimbursement caps on Part B therapy services imposed by the Balanced Budget Act. The law also excluded certain additional items and services from the Part A skilled nursing facility consolidated billing requirement.

BENEFITS IMPROVEMENT AND PROTECTION ACT - MEDICARE. The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, signed into law December 21, 2000, includes provisions designed to further mitigate the effects of reimbursement cuts contained in the Balanced Budget Act. Among other things, the Benefits Improvement and Protection Act eliminates the scheduled reduction in the skilled nursing facility market basket update in fiscal year 2001, implemented in two phases. Specifically, the update rate for October 1, 2000 through March 31, 2001 is the market basket index ("MBI") increase minus one percentage point; the update for the period April 1, 2001 through September 30, 2001 is the MBI increase plus one percentage point. This increase will not be included when determining payment rates for the subsequent period. In fiscal years 2002 and 2003, payment updates will equal the MBI increase minus 0.5 percentage points. Temporary increases in the federal per diem rates under the Balanced Budget Refinement Act will be in addition to these payment increases. The Benefits Improvement and Protection Act also increases payment for the nursing component of each RUG by 16.66 percent for services furnished after April 1, 2001 and before October 1, 2002. Moreover, the Benefits Improvement and Protection Act further refines the consolidated billing requirements. Specifically, effective January 1, 2001, the law limits consolidated billing requirements to items and services furnished to skilled nursing facility residents in a Medicare Part A covered stay and therapy services covered under Part B. In other words, for residents not covered under a Part A stay, SNFs may choose to bill for non-therapy Part B services and supplies, or they may elect

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to have suppliers continue to bill Medicare directly for these services. The Benefits Improvement and Protection Act also modifies the treatment of the rehabilitation patient categories to ensure that Medicare payments for skilled nursing facility residents with "ultra high" and "high" rehabilitation therapy needs are appropriate in relation to payments for residents needing "medium" or "low" levels of therapy. Specifically, effective for services furnished on or after April 1, 2002 and before implementation of the refined RUG system (discussed above), the law increases by 6.7 percent the federal per diem payments for 14 rehabilitation categories. The 20 percent additional payment under the Balanced Budget Refinement Act for the three rehabilitation categories is removed to make this provision budget neutral. The Benefits Improvement and Protection Act also permits the Secretary of HHS to establish a process for geographic reclassification of skilled nursing facilities based upon the method used for inpatient hospitals. In addition, the law extends the moratorium on the physical therapy and occupational therapy payment caps for one year, through 2002.

BALANCED BUDGET ACT - MEDICAID. The Balanced Budget Act also contains a number of changes affecting the Medicaid program. Among other things, the law repealed the Boren Amendment, which required state Medicaid programs to reimburse nursing facilities for the costs that are incurred by efficiently and economically operated nursing homes. It is unclear at this time whether state Medicaid programs will adopt changes in their Medicaid reimbursement systems, or, if adopted and implemented, what effect such initiatives would have on operators. In any event, there can be no assurance that future changes in Medicaid reimbursement rates to nursing facilities will not have an adverse effect on the operators, and thus, us. Further, the Balanced Budget Act allows states to mandate enrollment in managed care systems without seeking approval from the Secretary of HHS for waivers from certain Medicaid requirements as long as certain standards are met. These managed care programs have historically exempted institutional care although some states have instituted pilot programs to provide such care under managed care programs. Effective for Medicaid services provided on or after October 1, 1997, states have considerable flexibility in establishing payment rates. We are not able to predict whether any states' waiver provisions will change the Medicaid reimbursement systems for long-term care facilities from cost-based or fee-for-service to managed care negotiated or capitated rates or otherwise affect the level of payments to operators.

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Significant limits on the scope of services reimbursed and on rates of reimbursement under the Medicaid program could have a material adverse effect on the operators' liquidity, financial condition and results of operations, which in turn could affect adversely their ability to make rental payments or mortgage payments to us.

On January 12, 2001, the Secretary of HHS issued final regulations to implement changes to the Medicaid "upper payment limit" requirements. The purpose of the rule is to stop states from using certain accounting techniques to inappropriately obtain extra federal Medicaid matching funds that are not necessarily spent on health care services for Medicaid beneficiaries. Although the rule will be phased in over eight years to reduce the adverse impact on certain states, the rule eventually could result in decreased federal funding to state Medicaid programs, which, in turn, could prompt certain states to reduce Medicaid reimbursements to providers, including nursing facilities.

FUTURE LEGISLATIVE CHANGES. We expect Congress to continue to consider measures to reduce the growth in Medicare and Medicaid expenditures. Both the Medicare and Medicaid programs are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, intermediary determinations

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and governmental funding restrictions, all of which may materially increase or decrease the rate of program reimbursement to healthcare facilities. We cannot predict at this time whether any additional measures will be adopted or if adopted and implemented, what effect such proposals would have on operators of our healthcare properties. There can be no assurance that payments under state and federal governmental programs will remain at levels comparable to present levels or will be sufficient to cover the costs of patients eligible for reimbursement pursuant to the programs.

Certain states are currently evaluating various proposals to restructure healthcare delivery within their respective jurisdictions. It is uncertain at this time what legislation of this type will ultimately be enacted and implemented or whether other changes in the administration or interpretation of governmental healthcare programs will occur. We anticipate that state legislatures will continue to review and assess various healthcare reform proposals and alternative healthcare systems and payment methodologies. We are unable to predict the ultimate impact of any future state restructuring of the healthcare delivery system, but such changes could have a material adverse effect on the operators' liquidity, financial condition and results of operations, which in turn could affect adversely their ability to make rental payments or mortgage payments to us.

LICENSURE. Our healthcare properties are subject to extensive state and local laws and regulations relating to licensure, conduct of operations, ownership of facilities, and services provided within the facilities. The nursing facilities of our operators are subject to regulation and licensing by state and local health and social services agencies and other regulatory authorities. In order to maintain their operating licenses, healthcare facilities must comply with standards concerning medical care, equipment and hygiene. Although regulatory requirements vary from state to state, these requirements generally address among other things: personnel education and training; staffing levels; patient records; facility services; quality of care provided; physical residence specifications; food and housekeeping services; and residents' rights and responsibilities. These facilities are subject to periodic survey and inspection by governmental authorities. Our facilities are also subject to various state and local building codes and other ordinances, including zoning and safety codes.

CERTIFICATE OF NEED. Certificate of Need ("CON") statutes and regulations control the development and expansion of healthcare services and facilities in certain states. The CON process is intended to promote quality healthcare and to avoid the unnecessary duplication of services, equipment and facilities. CON or similar laws generally require that approval be obtained from the designated state health planning agency for certain acquisitions and capital expenditures, and that such agency determine that a need exists prior to the expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major items of equipment or introduction of new services. Additionally, several states have instituted moratoria on new CONs or the approval of new beds. CONs or other similar approvals may be required in connection with our future

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acquisitions and/or expansions. There can be no assurance that our operators or we will be able to obtain the CONs or other approvals necessary for any or all such projects.

SURVEY AND CERTIFICATION. Long-term care facilities must comply with certain requirements to participate either as a skilled nursing facility under Medicare or a nursing facility under Medicaid. Regulations promulgated pursuant to the Omnibus Budget Reconciliation Act of 1987 obligate facilities to demonstrate

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compliance with requirements relating to resident rights, resident assessment, quality of care, quality of life, physician services, nursing services, pharmacy services, dietary services, rehabilitation services, infection control, physical environment and administration. Regulations governing survey, certification, and enforcement procedures to be used by state and federal survey agencies to determine facilities' level of compliance with the participation requirements for Medicare and Medicaid were adopted by HCFA effective July 1, 1995. These regulations require that surveys focus on resident outcomes. They also state that all deviations from participation requirements will be considered deficiencies, but a facility may have certain minor deficiencies and be in substantial compliance with the regulations. The regulations identify various remedies that may be imposed against facilities and specify the categories of deficiencies for which they will be applied. These remedies include, but are not limited to: civil money penalties of up to \$10,000 per day or "per instance"; facility closure and/or transfer of residents in emergencies; denial of payment for new or all admissions; directed plans of correction; and directed in-service training. Failure to comply with applicable requirements for participation may also result in termination of the provider's Medicare and Medicaid provider agreements. Termination of an operator's Medicare or Medicaid provider agreement could have a material adverse effect on the operator's liquidity, financial condition and results of operations, which, in turn, could affect adversely its ability to make rental payments or mortgage payments to us.

The Clinton administration implemented several initiatives designed to improve the quality of care in nursing homes and to reduce fraud in the Medicare program. These initiatives include tougher enforcement measures by state surveying authorities, empowering specialized contractors to track down Medicare scams and program waste, and the creation of a Medicare financial management team made up of 100 "fraud fighters" to be located in the offices of every Medicare contractor nationwide.

REFERRAL RESTRICTIONS AND FRAUD AND ABUSE. The Medicare and Medicaid anti-kickback statute, 42 U.S.C. Section 1320a-7b(b), prohibits the knowing and willful solicitation or receipt of any remuneration "in return for" referring an individual, or for recommending or arranging for the purchase, lease, or ordering, of any item or service for which payment may be made under Medicare or a state healthcare program. In addition, the statute prohibits the offer or payment of remuneration "to induce" a person to refer an individual, or to recommend or arrange for the purchase, lease, or ordering of any item or service for which payment may be made under the Medicare or state healthcare programs. The statute and the so-called safe harbor regulations establish numerous exceptions by defining conduct, which are not subject to prosecution or other enforcement remedies. Violation of the anti-kickback statute could result in criminal conviction, as well as civil money penalties and exclusions.

The Ethics in Patient Referrals Act ("Stark I"), effective January 1, 1992, generally prohibits physicians from referring Medicare patients to clinical laboratories for testing if the referring physician (or a member of the physician's immediate family) has a "financial relationship," through ownership or compensation, with the laboratory. The Omnibus Budget Reconciliation Act of 1993 contains provisions commonly known as "Stark II" ("Stark II") expanding Stark I by prohibiting physicians from referring Medicare and Medicaid patients to an entity with which a physician has a "financial relationship" for the furnishing of certain items set forth in a list of "designated health services," including physical therapy, occupational therapy, home health services, and other services. Subject to certain exceptions, if such a financial relationship exists, the entity is generally prohibited from claiming payment for such services under the Medicare or Medicaid programs, and civil monetary penalties may be assessed for each prohibited claim submitted. On January 4, 2001, HCFA released the first part of the long-awaited Stark II final rule. This final rule will be divided into two phases. Phase I focuses on the provisions related to

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prohibited referrals, the general exception to ownership and compensation arrangement prohibitions and the related definitions. Most of Phase I of the rulemaking will become effective

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January 4, 2002, one year after the date of its publication in the FEDERAL REGISTER. Phase II of the final rule is expected to be released in early 2001. Phase II will cover the remaining portions of the statute, including those pertaining to Medicaid. Phase I of the final rule eases certain of the restrictions in the proposed rule, including the criteria for qualifying as a group practice. The final rule also, among other things: conforms the supervision requirements to HCFA coverage and payment policies for the specific services; clarifies the definitions of designated health services and indirect financial relationships; and creates new exceptions for indirect compensation arrangements and compensation of faculties in academic medical centers.

Other provisions in the Social Security Act and in other federal and state laws authorize the imposition of penalties, including criminal and civil fines and exclusions from participation in Medicare and Medicaid, for false claims, improper billing and other offenses.

We are unable to predict the effect of future administrative or judicial interpretations of the laws discussed above, or whether other legislation or regulations on the federal or state level in any of these areas will be adopted, what form such legislation or regulations may take, or their impact on operators of our healthcare properties. We endeavor to structure our arrangements with our facilities' operators and others to comply with applicable regulatory requirements, but there can be no assurance that statutory or regulatory changes, or subsequent administrative rulings or interpretations, will not require us to modify or restructure certain arrangements, or that we will not be required to expend significant amounts to maintain compliance.

HEALTH INFORMATION PRACTICES. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") mandates, among other things, the adoption of standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the healthcare industry. Among the standards that HHS will adopt pursuant to the Health Insurance Portability and Accountability Act are standards for the following:

- *electronic transactions and code sets;
- *unique identifiers for providers, employers, health plans and individuals;
- *security and electronic signatures;
- *privacy; and
- *enforcement.

Although HIPAA was intended ultimately to reduce administrative expenses and burdens faced within the healthcare industry, we believe the law will initially bring about significant and, in some cases, costly changes. HHS has released two rules to date mandating the use of new standards with respect to certain healthcare transactions and health information. The first rule requires the use of uniform standards for common healthcare transactions, including healthcare claims information, plan eligibility, referral certification and authorization, claims status, plan enrollment and disenrollment, payment and remittance advice, plan premium payments and coordination of benefits, and it establishes standards for the use of electronic signatures.

Second, HHS has released new standards relating to the privacy of individually

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identifiable health information. These standards not only require our operators' compliance with rules governing the use and disclosure of protected health information, but they also require entities to impose those rules, by contract, on any business associate to whom such information is disclosed. Rules governing the security of health information have been proposed but have not yet been issued in final form.

HHS finalized the new transaction standards on August 17, 2000, and covered entities, such as our operators, will be required to comply with them by October 16, 2002. The privacy standards were issued on December 28, 2000, and become effective on February 26, 2001 with a compliance date of February 26, 2003. On January 20, 2001, the Bush Administration issued a memorandum directing federal executive departments and agencies to delay by 60 days the effective date of regulations that have been issued, but which have not yet taken effect. The memorandum contains an exception for congressionally mandated regulations that appears to exempt these

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privacy standards from the directive. Even if the directive is determined to be applicable to these standards, it may not result in changes to the regulations or in a delay in the compliance date. The Bush Administration and Congress are taking a careful look at the existing regulations, but it is uncertain whether there will be changes to the privacy standards or their compliance date. With respect to the security regulation, once they are issued in final form, affected parties will have approximately two years to be fully compliant. Sanctions for failing to comply with HIPAA include criminal penalties and civil sanctions.

We believe the operators of our healthcare properties are aware of and should be evaluating the effect of HIPAA. We believe our operators cannot at this time estimate the cost of such compliance, nor estimate the cost of compliance with standards that have not yet been finalized. The new and proposed health information standards are likely to have a significant effect on the manner in which the operators of our healthcare properties handle health data and communicate with payors. However, based on our current knowledge, we cannot currently estimate the cost of compliance or if there will be a material adverse effect on our business, financial condition or results of operations as a result of our operators experiencing increased costs for compliance.

COMPLIANCE PROGRAM. On March 16, 2000, the Office of Inspector General of HHS ("OIG") issued guidance to help nursing facilities design effective voluntary compliance programs to prevent fraud, waste, and abuse in health care programs, including Medicare and Medicaid. The guidance, COMPLIANCE PROGRAM GUIDANCE FOR NURSING FACILITIES, was published as a notice in the FEDERAL REGISTER.

TAXATION OF OUR COMPANY

GENERAL. Our management believes that we have been organized and have operated in such a manner as to qualify for taxation as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 1992, and we intend to continue to operate in such a manner. No assurance can be given that we have operated or will be able to continue to operate in a manner so as to qualify or to remain so qualified. This summary is qualified in its entirety by the applicable Internal Revenue Code provisions, rules and regulations, and administrative and judicial interpretations.

If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income taxes as long as we distribute all of our taxable income as dividends. This treatment substantially eliminates the "double

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taxation" (I.E., at the corporate and stockholder levels) that generally results from investment in a corporation. However, we will continue to be subject to federal income tax under certain circumstances.

REQUIREMENTS FOR QUALIFICATION. The Internal Revenue Code defines a REIT as a corporation, trust or association:

- (1) which is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) which would be taxable, but for Sections 856 through 860 of the Internal Revenue Code, as a domestic corporation;
- (4) which is neither a financial institution; nor, an insurance company subject to certain provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (including specified entities); and
- (7) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets.

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The Internal Revenue Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

INCOME TESTS. There presently are two gross income requirements that we must satisfy to qualify as a REIT:

- First, at least 75% of our gross income (excluding gross income from "prohibited transactions," as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property, or from certain types of temporary investment income.
- Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from income that qualifies under the 75% test and all other dividends, interest and gain from the sale or other disposition of stock or securities.

Cancellation of indebtedness income generated by us is not taken into account in applying the 75% and 95% income tests discussed above. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business. Any gain realized from a prohibited transaction is subject to a 100% penalty tax.

ASSET TESTS. We, at the close of each quarter of our taxable year, must also

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satisfy four tests relating to the nature of our assets.

- First, at least 75% of the value of our total assets must be represented by real estate assets (including stock or debt instruments held for not more than one year purchased with the proceeds of a stock offering or long-term (at least five years) public debt offering of our company), cash, cash items and government securities.
- Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class.
- Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of any one issuer's outstanding voting securities.
- Fourth, the recently enacted Tax Relief Extension Act of 1999 ("99 Act"), provides that, subject to certain exceptions, for taxable years commencing after December 31, 2000, we may not own more than 10 percent of the total value of the securities of any corporation. See the 99 Act description contained at page 15.

OWNERSHIP OF A PARTNERSHIP INTEREST OR STOCK IN A CORPORATION. We own interests in various partnerships. In the case of a REIT that is a partner in a partnership, Treasury regulations provide that for purposes of the REIT income and asset tests the REIT will be deemed to own its proportionate share of the assets of the partnership, and will be deemed to be entitled to the income of the partnership attributable to such share. The ownership of an interest in a partnership by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service of the allocations of income and expense items of the partnership, which would affect the computation of taxable income of the REIT, and the status of the partnership as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes.

We also own interests in a number of subsidiaries which are intended to be treated as qualified real estate investment trust subsidiaries. The Internal Revenue Code provides that such subsidiaries will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as assets, liabilities and such items of our company.

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If any partnership or qualified real estate investment trust subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership or qualified real estate investment trust subsidiary) for federal income tax purposes, we would likely fail to satisfy the REIT asset test prohibiting a REIT from owning greater than 10% of the voting power of the stock of any issuer, as described above, and would therefore fail to qualify as a REIT. We believe that each of the partnerships and subsidiaries in which we own an interest will be treated for tax purposes as a partnership or qualified real estate investment trust subsidiary, respectively, although no assurance can be given that the Internal Revenue Service will not successfully challenge the status of any such organization.

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REMIC. A regular or residual interest in a REMIC will be treated as a real estate asset for purposes of the REIT asset tests, and income derived with respect to such interest will be treated as interest on an obligation secured by a mortgage on real property, assuming that at least 95% of the assets of the REMIC are real estate assets. If less than 95% of the assets of the REMIC are real estate assets, only a proportionate share of the assets of and income derived from the REMIC will be treated as qualifying under the REIT asset and income tests. We believe that our REMIC interests fully qualify for purposes of the REIT income and asset tests.

ANNUAL DISTRIBUTION REQUIREMENTS. In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders annually in an amount at least equal to

(1) the sum of:

(A) 95% (90% for taxable years beginning after December 31, 2000) of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and our net capital gain); and

(B) 95% (90% for taxable years beginning after December 31, 2000) of the net income, if any (after tax), from foreclosure property; minus

(2) the excess of certain items of non-cash income over 5% of our real estate investment trust taxable income.

These annual distributions must be paid in the taxable year to which they relate. Alternatively, they must be declared and payable to shareholders of record in either October, November, or December and paid during January of the following year. In addition, if we elect, the dividends may be declared before the due date of the tax return (including extensions) and paid on or before the first regular dividend payment date after such declaration, and we must specify the dollar amount in our tax returns.

Amounts distributed must not be preferential; that is, every stockholder of the class of stock with respect to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class.

To the extent that we do not distribute all of our net long-term capital gain or distribute at least 95% (90% for taxable years beginning after December 31, 2000), but less than 100%, of our "real estate investment trust taxable income," as adjusted, it will be subject to tax on such amounts at regular corporate tax rates. Furthermore, if we should fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates in the last three months of the calendar year, by the end of the following January) at least the sum of:

(1) 85% of our real estate investment trust ordinary income for such year;

(2) 95% (90% for taxable years beginning after December 31, 2000) of our real estate investment trust capital gain income for such year; and

(3) any undistributed taxable income from prior periods;

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we would be subject to a 4% excise tax on the excess of such required distributions over the amounts actually distributed. Any real estate investment trust taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

FAILURE TO QUALIFY. If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, nor will any distributions be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

99 ACT. The 99 Act has made a number of substantial changes to the qualification and tax treatment of REITs. The REIT changes are generally effective for taxable years commencing after December 31, 2000. The following is a brief summary of certain of the significant REIT provisions contained in the 99 Act.

1) INVESTMENT LIMITATIONS AND TAXABLE REIT SUBSIDIARIES

The 99 Act modifies the REIT asset test by adding a requirement that except for (I) "Safe Harbor Debt" and (II) the ownership of stock in "taxable REIT subsidiaries", a REIT can not own more than 10 percent of the total value of the securities of any corporation ("10% Rule"). The 10% Rule becomes effective for taxable years commencing after December 31, 2000. "Safe Harbor debt" is non-contingent, non-convertible debt ("straight-debt") which satisfies one of the following three requirements: (a) the straight-debt is issued by an individual, or (b) all of the securities of the issuer owned by the REIT is "straight debt" or (c) the issuer is a partnership in which the REIT owns at least 20 percent of its profits.

For a corporation to qualify as a taxable REIT subsidiary the following requirements must be satisfied.

- (1) The REIT must own stock in the subsidiary corporation.
- (2) Both the REIT and the subsidiary corporation must join in an election that the subsidiary corporation be treated as a "taxable REIT subsidiary" of the REIT.
- (3) The subsidiary corporation can not directly or indirectly operate or manage a healthcare facility.
- (4) The subsidiary corporation generally cannot provide to any person rights to any brand name under which hotels or healthcare facilities are operated.

A taxable REIT subsidiary can provide a limited amount of services to tenants of REIT property (even if such services were not considered customarily furnished in connection with the rental of real property) and can manage or operate properties, generally for third parties, without causing the rents received by the REIT from such parties not to be treated as rent from real properties. The rule that rents paid to a REIT do not qualify as rental from real property if the REIT owns more than 10 percent of the corporation paying the rent is modified by excepting rents paid by taxable REIT subsidiaries provided that 90

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percent of the space is leased to third parties at comparable rents for comparable space.

Interest paid by a taxable REIT subsidiary to the related REIT is subject to the earnings stripping rules contained in Section 163(j) of the Code and therefore the taxable REIT subsidiary cannot deduct interest in any year that would exceed 50 percent of the subsidiary's adjusted gross income. If any amount of interest, rent, or other deductions of the taxable REIT subsidiary to be paid to the REIT is determined not to be at arm's length, an excise tax of 100 percent is imposed on the portion that is determined to be excessive. However, rent received by

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a REIT shall not fail to qualify as rents from real property by reason of the fact that all or any portion of such rent is redetermined for purposes of the excise tax.

The Act permits a REIT to own up to 100 percent of the stock of a "taxable REIT subsidiary". However, the value of all of the securities of taxable REIT subsidiaries owned by the REIT cannot exceed 20 percent of the value of the REIT's assets.

The 10% Rule generally will not apply to securities owned by a REIT on July 12, 1999 ("Transition Rule"). However, the Transition Rule would cease to apply to securities of a corporation if, after July 12, 1999, the REIT acquires additional securities of such corporation or if such corporation engages in a substantial new line of business, or acquires any substantial assets, other than in a reorganization or in a transaction qualifying under Section 1031 or 1033 of the Code.

- 2) OWNERSHIP OF HEALTHCARE FACILITIES. The 99 Act permits a REIT to own and operate a healthcare facility for at least two years, and treat it as permitted "foreclosure" property, if the facility is acquired by the termination or expiration of a lease of the property.
- 3) REIT DISTRIBUTION REQUIREMENTS. The 99 Act reduces the requirement that a REIT must distribute at least 95 percent of its income as deductible dividends to 90 percent of its income.
- 4) RENTS FROM PERSONAL PROPERTY. A REIT may treat rent from personal property as rent from real property so long as the rent from personal property does not exceed 15 percent of the total rent from both real and personal property for the taxable year. This rule is currently determined by comparing the basis of the personal property to the total basis of the real and personal property. The Act provides that this determination will be made by comparing the fair market value of the personal property to the fair market value of the real and personal property.

STATE AND LOCAL TAXATION. We may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or reside. The state and local tax treatment of our company may not conform to the federal income tax consequences discussed above.

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ITEM 2. PROPERTIES

INVESTMENT PORTFOLIO

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At December 31, 2000, our real estate investment portfolio consisted of investments in 249 skilled nursing facilities with 28,364 beds, 94 assisted living facilities with 4,366 units and four schools in 36 states. We had approximately \$468.5 million (before accumulated depreciation of \$47.2 million) invested in facilities we own and lease to operators, approximately \$107.4 million invested in mortgage loans (before allowance for doubtful accounts of \$1.3 million), and investments in REMIC certificates with a carrying value of approximately \$95.0 million (\$96.3 million at amortized cost, prior to any adjustment of available for sale certificates to fair market value).

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 and private 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 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. Unlike public or charter schools, private schools receive a majority of their revenues from the students' parents.

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OWNED PROPERTIES. At December 31, 2000, we owned 66 skilled nursing facilities with a total of 7,797 beds, 86 assisted living facilities with a total of 3,997 units and four schools in 26 states, representing a gross investment of approximately \$468.5 million. With the exception of certain properties leased to LTC Healthcare under one year or month-to-month leases, the properties are leased pursuant to non-cancelable leases generally with an initial term of 10 to 20 years. Many of the leases contain renewal options and some contain options that permit the operators to purchase the facilities.

The following table sets forth certain information regarding our owned properties as of December 31, 2000 (DOLLAR AMOUNTS IN THOUSANDS) :

Location	No. of SNFs	No. of ALFs	No. of Schools	No. of Beds /Units(1)	Encumbrances (2)	Lease Term (3)
Alabama	8	1		912	\$ 14,121	150
Arizona	4	3	2	1,026	20,927	86
California	1	2		254		144

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Colorado	1	6		325	6,881	117
Florida	6	6		1,385	1,632	68
Georgia	6	1		654	13,901	23
Idaho		4		148		102
Illinois	3			283	968	30
Indiana		2		78		114
Iowa	7	1		645	8,813	27
Kansas	6	4		571	4,901	64
Minnesota			1	-		151
Nebraska		4		156		103
New Jersey		1	1	39		153
New Mexico		1		109		146
N. Carolina		5		210		96
Ohio		7		301		121
Oklahoma		6		221	4,894	80
Oregon	1	4		324	4,126	92
Pennsylvania		1		69		208
South Carolina		3		128		96
Tennessee	3			201		22
Texas	15	13		2,632	28,653	65
Virginia	3			443		20
Washington	2	8		497	10,101	146
Wyoming		3		183		146
TOTAL	66	86	4	11,794	\$119,918 (4)	

- (1) Number of beds/units applies to skilled nursing facilities and assisted living residences only.
- (2) In addition to these encumbrances, 11 skilled nursing facilities with 1,124 beds and 49 assisted living facilities with 2,328 units with a gross investment value of \$188,475,000 are pledged as collateral for our Senior Secured Revolving Line of Credit.
- (3) Weighted average remaining months in lease term.
- (4) Consists of: i) \$103,341,000 of non-recourse mortgages payable by the Company secured by 37 skilled nursing facilities containing a total of 4,576 beds, 10 assisted living facilities with 420 units, ii) \$7,550,000 of tax-exempt bonds secured by five assisted living facilities in Washington with 188 units, iii) \$4,901,000 of capital lease obligations on four assisted living facilities in Kansas with 134 units, and iv) \$4,126,000 of multi-unit housing tax-exempt revenue bonds on one assisted living facility in Oregon with 112 units. As of December 31, 2000, the Company's gross investment in properties encumbered by mortgage loans, bonds and capital leases was \$171,363,000.
- (5) Of the total, \$195,137,000 relates to investments in skilled nursing facilities, \$248,943,000 relates to investments in assisted living facilities and \$24,418,000 relates to investments in schools.

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 the Company's leases provide for additional rent through revenue participation (as defined in the lease

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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.

MORTGAGE LOANS. At December 31, 2000, we had 48 mortgage loans secured by first mortgages on 45 skilled nursing facilities with a total of 5,160 beds and eight assisted living residences with 369 units located in 22 states. At December 31, 2000, the mortgage loans had a weighted average interest rate of 11.52%, generally have 25-year amortization schedules, have balloon payments due from 2001 to 2018 and provide for certain facility fees. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

The following table sets forth certain information regarding our mortgage loans as of December 31, 2000 (DOLLAR AMOUNTS IN THOUSANDS) :

Location	No. of SNFs	No. of ALFs	No. of Beds /Units	Interest Rate %	Average Months to Maturity	Face Amount of Mortgage Loans
Alabama	1		40	10.25	212	\$ 500
Arizona	2		400	10.96-12.00	30	7,650
Arkansas	2		274	10.50-10.70	123	3,400
California	6		886	10.03-13.60	143	12,771
Colorado	3		263	11.63-13.12	62	6,600
Florida	5	1	582	10.15-13.50	79	16,690
Georgia	2		173	11.24-11.43	75	3,950
Illinois	1		120	9.83	92	1,950
Iowa	1	1	143	11.22-12.08	84	4,400
Mississippi	1		180	11.32	69	5,465
Missouri	1		90	9.13	210	1,500
Montana		1	34	11.44	154	2,346
Nebraska		4	163	10.43-11.22	94	10,911
Nevada	1		100	10.88	116	1,200
N. Carolina	1		101	12.50	2	2,100
Ohio	1		150	10.59	64	5,200
Oklahoma	1		161	11.40	127	1,300
S. Carolina	5		509	12.67	26	11,250
S. Dakota		1	34	11.22	100	2,346
Texas	6		701	10.50-13.35	135	7,945
Washington	4		310	11.60-12.00	119	4,500
Wisconsin	1		115	11.00	195	2,200
TOTAL	45	8	5,529			\$116,174

(1) Includes principal and interest payments.

(2) Of the total current principal balance, \$86,416,000 and \$20,983,000 relates to investments in skilled nursing facilities and assisted living facilities, respectively. All mortgage loans are pledged as collateral for our Senior Secured Revolving Line of Credit.

In general, the mortgage loans may not be prepaid except in the event of the

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sale of the collateral facility 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 facility upon a sale of one or more, but not all, of the collateral facilities 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 facility under 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

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assets of the facilities 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.

REMIC CERTIFICATES. At December 31, 2000, the carrying value of the REMIC certificate investments was \$95.0 million (\$96.3 million at amortized cost, prior to any adjustment of available for sale certificates to fair market value). These certificates are pledged as collateral for our Senior Secured Revolving Line of Credit. The REMIC certificates we retain are subordinate in rank and right of payment to the REMIC certificates sold to third-party investors and as such would bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The REMIC certificates are collateralized by four pools consisting of 118 first mortgage loans secured by 172 skilled nursing facilities with a total of 19,680 beds in 24 states. Each mortgage loan, all of which we originated, is evidenced by a promissory note and secured by a mortgage, deed of trust, or other similar instrument that creates a first mortgage lien on a fee simple estate in real property. The \$348.2 million current principal amount of mortgage loans represented by the REMIC certificates have a weighted average interest rate of approximately 11.14%, and scheduled maturities ranging from 2001 to 2028.

The following table sets forth certain information regarding the mortgage loans securing the REMIC certificates as of December 31, 2000 (DOLLAR AMOUNTS IN THOUSANDS):

Location	Number of Facilities	Number of Beds	Original Principal Amount of Remaining Mortgage Loans	Current Principal Amount of Remaining Mortgage Loans (1
Alabama	9	1,189	\$ 22,526	\$ 21
Arizona	5	955	26,018	24
California	22	2,433	46,645	35
Colorado	1	177	2,000	1
Connecticut	1	150	2,276	2
Florida	7	945	32,310	30
Georgia	12	1,318	27,272	25
Illinois	3	282	5,126	4
Iowa	11	810	16,731	16
Kansas	1	66	1,200	1

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Louisiana	1	127	1,600	1
Michigan	3	444	6,800	6
Mississippi	3	400	14,050	10
Missouri	6	645	10,989	10
Montana	6	547	15,508	14
Nebraska	6	573	10,014	9
New Mexico	8	673	20,833	19
N. Carolina	1	168	2,950	2
Ohio	2	150	4,100	3
Oklahoma	1	112	1,300	1
S. Dakota	1	50	585	
Tennessee	6	550	16,827	16
Texas	52	6,627	88,491	81
Washington	4	289	4,583	4

TOTAL	172	19,680	\$380,734	\$348
=====				

- (1) Included in the balances of the mortgages underlying the REMIC certificates are \$78,540,000 of non-recourse mortgages payable by our subsidiaries. We originated these mortgages which were subsequently transferred to the REMIC. The properties and the mortgage debt are reflected in our balance sheet.

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The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 2001 to 2028, unless prepaid prior thereto. Contractual principal and interest distributions with respect to the \$96.3 million amortized cost basis of REMIC certificates (excluding unrealized losses on changes in estimated fair value of \$1.3 million) we retained are subordinated to distributions of interest and principal with respect to the \$268.3 million of REMIC certificates held by third parties. Thus, based on the terms of the underlying mortgages and assuming no unscheduled prepayments occur, scheduled principal distributions on the REMIC certificates we retained will commence in August 2003 with final distributions in April 2028. Distributions on any of the REMIC certificates will depend, in large part, on the amount and timing of payments, collections, delinquencies and defaults with respect to the mortgage loans represented by the REMIC certificates, including the exercise of certain purchase options under existing facility leases or the sale of the mortgaged properties. Each of the mortgage loans securing the REMIC certificates contains similar prepayment and security provisions as our mortgage loans.

As part of the REMIC transactions discussed above, we serve as the sub-servicer and, in such capacity, are responsible for performing substantially all of the servicing duties relating to the mortgage loans represented by the REMIC certificates. We receive monthly fees equal to a fixed percentage of the then outstanding mortgage loan balance in the REMIC which, in management's opinion, represent currently prevailing terms for similar transactions. In addition, we will act as the special servicer to restructure any mortgage loans in the REMIC that default.

At December 31, 2000, the REMIC certificates we held had an effective interest rate of approximately 17.11% based on the expected future cash flows with no unscheduled prepayments.

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ITEM 3. LEGAL PROCEEDINGS

From time to time, we are 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 material to our results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS

NAME	AGE	POSITION
Andre C. Dimitriadis	60	Chairman, Chief Executive Officer and Director
Wendy L. Simpson	51	Vice Chairman, Chief Financial Officer, and Director
James J. Pieczynski	38	Chief Strategic Planning Officer, and Director
Christopher T. Ishikawa	37	Executive Vice President and Chief Investment Officer
Julia L. Kopta	51	Executive Vice President and General Counsel
Alex J. Chavez	36	Senior Vice President and Treasurer

Mr. Dimitriadis founded LTC in 1992 and was employed by Beverly Enterprises, Inc., an owner/operator of long-term care facilities, retirement living facilities and pharmacies, from October 1989 to May 1992, where he served as Executive Vice President and Chief Financial Officer. Prior to that, he was employed by American Medical International, Inc., an owner/operator of hospitals, from 1985 to 1989, where he served as Executive Vice President - Finance, Chief Financial Officer and Director. Mr. Dimitriadis is a member of the board of Magellan Health Services, and LTC Healthcare, Inc.

Ms. Simpson has served as Vice Chairman since April 2000 and Chief Financial Officer since July 2000. Prior to that she was a financial advisor to Coram Healthcare Corporation, a healthcare organization, from November 1999 through March 31, 2000. Ms. Simpson joined Coram as Executive Vice President and Chief Financial Officer in March 1998 and resigned as an officer of Coram in November 1999. Prior to joining Coram, Ms. Simpson was Executive Vice President, Chief Financial Officer, Chief Operating Officer and director of Transitional Hospitals Corporation from December 1994 to August 1997 and Senior Vice President and Chief Financial Officer from July 1994 to December 1994. Coram Healthcare Corporation commenced bankruptcy proceedings in August 2000.

Mr. Pieczynski has served as Chief Strategic Planning Officer since July 2000. Prior to that he served as President and Director since September 1997 and Chief Financial Officer of LTC since May 1994. From May 1994 to September 1997, he also served as Senior Vice President of LTC. He joined LTC in December 1993 as Vice President and Treasurer. Prior to that, he was employed by American Medical International, Inc., an owner/operator of hospitals, from May 1990 to December 1993, where he served as Assistant Controller and Director of Development. Mr. Pieczynski is a member of the board of LTC Healthcare, Inc.

Mr. Ishikawa has served as Executive Vice President and Chief Investment Officer since February 2001 and Senior Vice President and Chief Investment Officer since September 1997. Prior to that, he served as Vice President and Treasurer of LTC since April 1995. Prior to joining LTC, he was employed by MetroBank from

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December 1991 to March 1995, where he served as First Vice President and Controller. From December 1989 to November 1991, he was employed by Mercantile National Bank where he served as Assistant Treasurer. Mr. Ishikawa is a member of the board of LTC Healthcare, Inc.

Ms. Kopta has served as Executive Vice President and General Counsel since February 2001 and Senior Vice President and General Counsel since January 1, 2000. Prior to that, she served as Special Counsel to the Chief

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Executive Officer of Coram Healthcare Corporation from September 1999 through November 1999. From October 1993 to October 1997, she served as Executive Vice President, General Counsel and Corporate Secretary of Transitional Hospital Corporation.

Mr. Chavez has served as Senior Vice President and Treasurer since February 2001 and Vice President and Treasurer since December 1999. Prior to that, he served as Director of Finance since June 1996 and became Vice President in September 1997. Prior to joining LTC, he was employed by the international accounting firm of Ernst & Young, LLP, where he served as Audit Manager specializing in the healthcare and real estate industries from 1990 to 1996.

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ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

- (a) Our common stock is listed on the New York Stock Exchange. Set forth below are the high and low reported sale prices for our common stock as reported on the NYSE.

	2000		1999	
	HIGH	LOW	HIGH	LOW
First Quarter	\$9.375	\$5.1875	\$17.1250	\$10.5625
Second Quarter	7.750	4.0000	13.9375	10.7500
Third Quarter	6.375	2.9375	13.3125	10.7500
Fourth Quarter	4.500	3.0625	10.8750	7.7500

- (b) As of December 31, 2000 we had approximately 750 stockholders of record of our common stock.

- (c) We declared total cash distributions on common stock as set forth below:

	2000	1999
First Quarter	\$. 29	\$.39

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Second Quarter	.29	.39
Third Quarter	.29	.39
Fourth Quarter	.00	.39
	-----	-----
	\$0.87	\$1.56
	=====	=====

We intend to distribute to our stockholders an amount at least sufficient to satisfy the distribution requirements of a REIT. Cash flows from operating activities available for distribution to stockholders will be derived primarily from interest and rental payments from our real estate investments. Provisions of our Senior Secured Revolving Line of Credit Agreement limit common and preferred cash dividends to no more than 110% of consolidated taxable income. All distributions will be made subject to approval of the Board of Directors and will depend on the earnings of LTC, its financial condition and such other factors as the Board of Directors deem relevant. In order to qualify for the beneficial tax treatment accorded to REITs by Sections 856 through 860 of the Internal Revenue Code, we are required to make distributions to holders of our shares equal to at least 95% (90% for years ending after December 31, 2000) of our "REIT taxable income."

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ITEM 6. SELECTED FINANCIAL INFORMATION

The following table of selected financial information should be read in conjunction with LTC's financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

	2000 ----	1999 ----	1998 ----
	(IN THOUSANDS, EXCEPT PER SH		
OPERATING INFORMATION:			
Revenues	\$ 87,130	\$ 87,662	\$ 89,391
Expenses:			
Interest expense	27,426	21,836	22,267
Depreciation and amortization	15,259	13,483	12,561
Amortization of founders' stock	-	-	-
Provision for loan losses	-	-	600
Minority interest	982	1,018	1,415
Impairment charge	14,822	14,939	-
Operating and other expenses	5,994	5,863	5,084
	-----	-----	-----
Total expenses	64,483	57,139	41,927
	-----	-----	-----
Other income (loss)	-	1,304	(6,797)
Gain on sale of real estate assets, net	8,990	-	9,926
	-----	-----	-----
Net income	31,637	31,827	50,593
Preferred dividends	(15,087)	(15,087)	(12,896)
	-----	-----	-----
Net income available to common stockholders	\$ 16,550	\$ 16,740	\$ 37,697
	=====	=====	=====

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PER SHARE INFORMATION:

Basic net income	\$ 0.63	\$ 0.61	\$ 1.390
	=====	=====	=====
Diluted net income	\$ 0.63	\$ 0.61	\$ 1.390
	=====	=====	=====
Distributions declared	\$ 0.87	\$ 1.56	\$ 1.535
	=====	=====	=====

BALANCE SHEET INFORMATION:

Real estate investments, net	\$ 622,428	\$ 683,736	\$ 663,996
Total assets	676,585	721,811	689,814
Total debt	262,560	292,274	229,695
Total liabilities	272,546	303,300	237,900
Minority interest	9,912	9,894	10,514
Total stockholders' equity	394,127	408,617	441,400

OTHER INFORMATION:

Cash flows provided by operating activities	\$ 45,307	\$ 60,785	\$ 61,885
Cash flows provided by (used in) investing activities	45,697	(48,156)	(51,529)
Cash flows provided by (used in) financing activities	(91,789)	(11,477)	(13,827)

Funds from operations	\$ 37,641	\$ 45,162	\$ 47,559
Basic funds from operations per share	\$ 1.44	\$ 1.65	\$ 1.76
Diluted funds from operations per share	\$ 1.44	\$ 1.64	\$ 1.71

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING RESULTS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Revenues for the year ended December 31, 2000 were \$87.1 million compared to \$87.7 million for the same period in 1999. The net decrease in revenues resulted from decreases in interest from mortgage loans and notes receivable of \$4.5 million and interest income from REMIC certificates of \$0.7 million and other income of \$0.2 million which was offset by increases in rental income of \$4.9 million.

Rental income increased \$4.9 million primarily as a result of the conversion of mortgage loans into owned properties and the acquisition of two properties. "Same store" rental income (rental income from properties owned for both twelve months ended December 31, 1999 and 2000) increased \$0.3 million due to rental rate increases as provided for in the lease agreements, partially offset by the new rental rate discussed in the footnotes (See "Item 8. FINANCIAL STATEMENTS - NOTE 8. LTC HEALTHCARE, INC."). Interest income from mortgage loans and notes receivable decreased due to the conversion of mortgage loans into owned properties. Interest income from REMIC certificates decreased due to the amortization of the related asset. Interest and other income decreased primarily as a result of certain one-time investment gains that were realized in the first half of 1999.

During 2000 and 1999, the Company performed a comprehensive evaluation of its real estate investment portfolio. As a result of recent adverse changes in the long-term care industry, the Company identified certain investments in skilled nursing facilities and certain other assets that it determined to be impaired. During 2000 and 1999, the Company recorded impairment charges of \$14.8 million

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and \$14.9 million, respectively. (See "Item 8. FINANCIAL STATEMENTS - NOTE 5. IMPAIRMENT CHARGE.") Excluding the impairment charges, total expenses as a percent of total revenues in 2000 were 57% compared to 48% in 1999. Interest expense increased due to higher average outstanding balances on the revolving line of credit combined with higher average interest rates and the assumption of two mortgage loans related to the acquisition of two properties. Depreciation and amortization increased as a result of a larger average investment base in owned properties in 2000 as compared to 1999.

During the year ended December 31, 2000, the Company sold 11 skilled nursing facilities, one assisted living facility and two schools. These sales resulted in a net gain of approximately \$9.0 million.

During the year ended December 31, 1999, the Company repurchased an aggregate of \$21.6 million face amount of its convertible subordinated debentures at a discount on the open market. A gain of \$1.3 million on the repurchase is included in other non-operating income.

On January 1, 1999, in accordance with recently issued accounting standards, the Company reclassified its investment in REMIC certificates from trading securities to available-for-sale and held-to-maturity securities. As a result of the change in accounting for REMIC certificates, the Company no longer recognizes the change in unrealized gains or losses in current period earnings.

Net income available to common shareholders decreased to \$16.6 million for the year ended December 31, 2000 from \$16.7 million for the same period in 1999. Excluding the impairment charge and gain on the sale of real estate assets recorded in 2000 and the impairment charge and the gain on the repurchase of convertible subordinated debentures recorded in 1999, net income available to common shareholders was \$22.4 million for the year ended December 31, 2000 compared to \$30.4 million for the year ended December 31, 1999.

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YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues for the year ended December 31, 1999 were \$87.7 million compared to \$89.4 million for the same period in 1998. The net decrease in revenues resulted from decreases in interest from mortgage loans and notes receivable of \$3.5 million and interest and other income of \$1.4 million which was offset by increases in rental income of \$2.6 million and interest income from REMIC certificates of \$0.7 million.

Rental income increased \$7.5 million as a result of property acquisitions and the conversion of mortgage loans into owned properties. "Same-store" rents decreased \$1.1 million due to the transitional impact of the change in operators for certain skilled nursing facilities. The decrease in rental income due to the change of operators was partially mitigated by the receipt of contingent rents and rental increases as provided for in the lease agreements. Also reducing the net increase in rental income were decreases of \$3.3 million related to the contribution of properties to LTC Healthcare in September 1998 and \$0.5 million resulting from the disposition of properties. Interest income from mortgage loans and notes receivable decreased due to the sale of mortgage loans in connection with a REMIC securitization that was completed in May 1998 and the conversion of mortgage loans into owned properties. The decrease in interest income from mortgage loans and notes receivable was partially offset by interest income on the unsecured line of credit provided to LTC Healthcare. Partially reducing the decrease in interest income from mortgage loans was an increase in interest income from REMIC certificates from the retention of certificates originated in the May 1998 securitization. Interest and other income also

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decreased due to a reduction in commitment fees.

During 1999, the Company performed a comprehensive evaluation of its real estate investment portfolio. As a result of recent adverse changes in the long-term care industry, the Company identified certain investments in skilled nursing facilities that it determined to be impaired. During the fourth quarter of 1999, the Company recorded an impairment charge of \$14.9 million. (See "Item 8. FINANCIAL STATEMENTS - NOTE 5. IMPAIRMENT CHARGE".) Excluding the impairment charge, total expenses as a percent of total revenues were 48% in 1999 compared to 47% in 1998. Depreciation and amortization increased as a result of a larger average investment base in owned properties in 1999 as compared to 1998. The increase in general and administrative expenses is due to the reorganization of the Company's legal department and the settlement of an employee related dispute.

During the year ended December 31, 1999, the Company repurchased an aggregate of \$21.6 million face amount of its convertible subordinated debentures at a discount on the open market. A gain of \$1.3 million on the repurchase is included in other non-operating income. Other non-operating income for the year ended December 31, 1998 includes a gain of approximately \$9.9 million on the sale of three skilled nursing facilities. Offsetting the increase in other income attributable to the gain on the sale of real estate was a decrease in the estimated fair value of REMIC certificates that resulted in an unrealized loss of \$6.8 million.

On January 1, 1999, in accordance with recently issued accounting standards, the Company reclassified its investment in REMIC certificates from trading securities to available-for-sale and held-to-maturity securities. As a result of the change in accounting for REMIC certificates, on a prospective basis, the Company no longer recognizes the change in unrealized gains or losses in current period earnings.

Preferred dividends increased as a result of dividends on the Series C Convertible Preferred Stock, which was issued in September 1998.

Net income available to common shareholders decreased to \$16.7 million for the year ended December 31, 1999 from \$37.7 million for the same period in 1998. Excluding the impairment charge and the gain on the repurchase of convertible subordinated debentures recorded in 1999 and the gain on the sale of real estate investments and the unrealized loss on REMIC Certificates recorded in 1998, net income available to common shareholders was \$30.4 million for the year ended December 31, 1999 compared to \$34.6 million for the year ended December 31, 1998.

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LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, the Company's real estate investment portfolio (before accumulated depreciation and allowance for doubtful accounts) consisted of \$468.5 million invested primarily in owned long-term care facilities, mortgage loans of approximately \$107.4 million and subordinated REMIC certificates of approximately \$95.0 million with a weighted average effective yield of 17.11%. At December 31, 2000, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was \$268.3 million and 7.21%.

During the year ended December 31, 2000, the Company entered into a new Senior Secured Revolving Line of Credit agreement that initially provides for \$185.0 million of total commitments with periodic reductions of these commitments to fully retire the commitments as of October 2, 2004.

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Specifically, scheduled available commitments as of December 31, 2000, 2001, 2002 and 2003 are \$185.0 million, \$157.5 million, \$95.0 million and \$75.0 million, respectively. An additional provision of this agreement requires certain amounts of commitment reductions as a result of asset sales, debt issuances or other types of financing. At inception, \$183.3 million of owned properties, \$113.8 million of mortgage loans receivable and \$96.3 million of REMIC certificates were pledged as collateral. At December 31, 2000 commitment availability was \$174.0 million and as of January 2, 2001 commitment availability was \$171.7 million. These commitment reductions from \$185.0 million to \$171.7 million were due to asset sales.

At December 31, 2000, the Company had \$118.0 million outstanding under the Senior Secured Revolving Line of Credit agreement. Subsequent to December 31, 2000, the Company borrowed \$12.0 million to retire the 8.50% Convertible Subordinated Debentures that matured in January 2001.

During the year ended December 31, 2000, the Company had net cash provided by operating activities of \$45.3 million. The Company advanced \$1.0 million for renovation and expansion under a mortgage loan previously provided on a skilled nursing facility. During 2000, the Company acquired two skilled nursing facilities from a related party for a purchase price (based upon independent appraisals) of \$19.2 million and invested approximately \$4.3 million in the expansion and improvement of existing properties. The Company sold 11 skilled nursing facilities, one assisted living facility and two schools. These sales resulted in net proceeds of \$51.6 million and a net gain of \$9.0 million. In addition, the Company provided Healthcare with an additional \$11.2 million in borrowings, net of repayments, under the \$20.0 million unsecured line of credit that bears interest at 10% and matures in March 2008. Principal payments of \$8.8 million were received on mortgage loans receivable, including \$7.7 million related to the early payoff of four loans. Mortgage loans with outstanding principal balances totaling \$12.3 million that were secured by eight long-term care facilities were converted into owned properties.

During the year ended December 31, 2000, the Company had additional bank borrowings of \$125.0 million and repaid \$167.0 million. In addition, the Company paid \$2.8 million in debt issue costs related to its new Senior Secured Revolving Line of Credit and paid \$1.4 million of principal on mortgage loans payable, bonds payable and capital lease obligations. Two of the skilled nursing facilities acquired during 2000 were acquired subject to the assumption of existing non-recourse mortgage debt of \$13.7 million that bears interest at a weighted average rate of 9.25%. During the year ended December 31, 2000, the Company repurchased and retired 1,005,600 shares of common stock for an aggregate purchase price of approximately \$8.0 million.

During the same period, the Company declared and paid cash dividends on its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock totaling \$7.3 million, \$4.5 million, \$3.3 million, respectively. In addition, the Company paid three quarterly cash dividends on its common stock totaling \$22.7 million.

The Company expects its future income and ability to make distributions from cash flows from operations to depend on the collectibility of its mortgage loans receivable, REMIC Certificates and rents. The collection of these loans, certificates and rents will be dependent, in large part, upon the successful operation by the operators of the skilled nursing facilities, assisted living residences and schools owned by or pledged to the Company. The operating results of the facilities will depend on various factors over which the operators/owners may have no control.

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Those factors include, without limitation, the status of the economy, changes in supply of or demand for competing long-term care facilities, ability to control rising operating costs, and the potential for significant reforms in the long-term care industry. In addition, the Company's 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 long-term care industry. The Company cannot presently predict what impact these proposals may have, if any. The Company believes that an adequate provision has been made for the possibility of loans proving uncollectible but will continually evaluate the status of the operations of the skilled nursing facilities, assisted living facilities and schools. In addition, the Company will monitor its borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

The Company's investments, principally its investments in mortgage loans, REMIC Certificates, 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 the Company's costs of financing its operations and the fair market value of its financial assets. The Company generally makes loans which have predetermined increases in interest rates and leases which have agreed upon annual increases. In as much as the Company initially funded some its investments with revolving credit facilities, the Company is at risk of net interest margin deterioration if medium and long-term rates were to increase between the time the Company originated the investment and replaces the short-term variable rate borrowings with a fixed rate financing.

The REMIC certificates retained by the Company are subordinate in rank and right of payment to the certificates sold to third-party investors and as such would, in most cases, bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The returns on the Company's investment in REMIC certificates are subject to certain uncertainties and contingencies including, without limitation, the level of prepayments, estimated future credit losses, prevailing interest rates, and the timing and magnitude of credit losses on the underlying mortgages collateralizing the securities that are a result of the general condition of the real estate market or long-term care industry. As these uncertainties and contingencies are difficult to predict and are subject to future events that may alter management's estimations and assumptions, no assurance can be given that current yields will not vary significantly in future periods. To minimize the impact of prepayments, the mortgage loans underlying the REMIC certificates generally prohibit prepayment unless the property is sold to an unaffiliated third party (with respect to the borrower).

Certain of the REMIC certificates retained by the Company have designated certificate principal balances and a stated certificate interest "pass-through" rate. These REMIC certificates are subject to credit risk to the extent that there are estimated or realized credit losses on the underlying mortgages, and as such their effective yield would be negatively impacted by such losses. The Company also retains the interest-only (I/O) Certificates, which provide cash flow (interest-only) payments that result from the difference between the interest collected from the underlying mortgages and interest paid on all the outstanding pass-through rate certificates. In addition to the risk from credit losses, the I/O Certificates are also subject to prepayment risk, in that prepayments of the underlying mortgages reduce future interest payments of which a portion flows to the I/O Certificates, thus, reducing their effective yield. The Certificates' fair values are estimated, in part, based on a spread over the applicable U.S Treasury rate, and consequently, are inversely affected by increases or decreases in such interest rates. There is no active market in these securities from which to readily determine their value. The estimated fair values of both classes of Certificates are subject to change based on the estimate of future prepayments and credit losses, as well as fluctuations

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in interest rates and market risk. Although the Company is required to report its REMIC Certificate investments available for sale at fair value, many of the factors considered in estimating their fair value are difficult to predict and are beyond the control of the Company's management, consequently, changes in the reported fair values may vary widely and may not be indicative of amounts immediately realizable if the Company was forced to liquidate any of the Certificates. (See "Exhibit 99 -RISK FACTORS" for a more comprehensive discussion of risks and uncertainties.)

The Company believes that its current cash flow from operations available for distribution or reinvestment and its current borrowing capacity are sufficient to provide for payment of its operating costs and provide funds for

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distribution to its stockholders in amounts sufficient to maintain its REIT status. Difficult capital market conditions in the health care industry have limited the Company's access to traditional forms of growth capital. As a result of the tight capital markets for the health care industry, the Company has reduced its investment activity in 2000 and intends to continue to limit its investment activity in 2001. At December 31, 2000, the Company had \$118.0 million outstanding under a secured credit agreement that matures in October 2004 and convertible subordinated debentures maturing in 2001 totaling \$22.2 million.

FUNDS FROM OPERATIONS

The Company has adopted the definition of Funds From Operations ("FFO") prescribed by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO is defined as net income applicable to common stockholders (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real property and after adjustments for unconsolidated entities in which a REIT holds an interest. In addition, the Company excludes any unrealized gains or losses resulting from temporary changes in the estimated fair value of its REMIC Certificates from the computation of FFO.

The Company believes that FFO is an important supplemental measure of operating performance. FFO should not be considered as an alternative to net income or any other GAAP measurement of performance as indicator of operating performance or as an alternative to cash flows from operations, investing or financing activities as a measure of liquidity. The Company believes that FFO is helpful in evaluating a real estate investment portfolio's overall performance considering the fact that historical cost accounting implicitly assumes that the value of real estate assets diminishes predictably over time. FFO provides an alternative measurement criteria, exclusive of certain non-cash charges included in GAAP income, by which to evaluate the performance of such investments. FFO, as used by the Company in accordance with the NAREIT definition may not be comparable to similarly entitled items reported by other REITs that have not adopted the NAREIT definition.

The following table reconciles net income available to common stockholders to FFO available to common stockholders (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS):

	2000	1999	1998
	-----	-----	-----

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Net income available to common stockholders	\$	16,550	\$	16,740	\$	37,697
Real estate depreciation		15,259		13,483		12,561
Impairment charge on real estate investments		14,822		14,939		-
Real estate depreciation included in equity earnings		-		-		430
Gain on sale of real estate		(8,990)		-		(9,926)
Unrealized (gain) loss on REMIC Certificates		-		-		6,797
		-----		-----		-----
FFO available to common stockholders	\$	37,641	\$	45,162	\$	47,559
		=====		=====		=====
Diluted FFO available to common stockholders	\$	39,194	\$	51,582	\$	55,871
		=====		=====		=====
Basic FFO per share	\$	1.44	\$	1.65	\$	1.76
		=====		=====		=====
Diluted FFO per share	\$	1.44	\$	1.64	\$	1.71
		=====		=====		=====
Shares for basic FFO per share		26,108		27,412		27,077
Shares for diluted FFO per share		27,213		31,548		32,762

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YEAR 2000

In prior years, we discussed the nature and progress of our plans to become Year 2000 ready. In late 1999, we completed the remediation and testing of our systems. As a result of our planning and implementation efforts, we experienced no significant disruptions in mission critical information technology and non-information technology systems and we believe our systems successfully responded to the Year 2000 date change. We are not aware of any significant adverse effects on our operators computer systems or operations resulting from Year 2000 date change. We will continue to monitor our mission critical computer applications and those of our operators throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Readers are cautioned that statements contained in this section "Quantitative and Qualitative Disclosures About Market Risk" are forward looking and should be read in conjunction with the disclosure under the heading "-Statement Regarding Forward Looking Disclosure" set forth above.

We are exposed to market risks associated with changes in interest rates as they relate to our mortgage loans receivable, investments in REMIC certificates and debt. Interest rate risk is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

To modify and manage the interest characteristics of our outstanding debt and limit the effects of interest rates on our operations, we may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks such as

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counter-party credit risk and legal enforceability of hedging contracts. We do not enter into any transactions for speculative or trading purposes. We had no such financial investments outstanding in 2000.

Our future earnings, cash flows and estimated fair values relating to financial instruments are dependent upon prevalent market rates of interest, such as LIBOR or term rates of U.S. Treasury Notes. Changes in interest rates generally impact the fair value, but not future earnings or cash flows, of mortgage loans receivable, our investment in REMIC certificates and fixed rate debt. For variable rate debt, such as our revolving line of credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows.

At December 31, 2000, based on the prevailing interest rates for comparable loans and estimates made by management, the fair value of our mortgage loans receivable was approximately \$107.7 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately \$4.7 million while a 1% decrease in such rates would increase their estimated fair value by approximately \$5.0 million. A 1% increase or decrease in applicable interest rates would not have a material impact on the fair value of our investment in REMIC certificates or fixed rate debt.

Assuming the borrowings outstanding under our revolving line of credit at December 31, 2000 and taking into effect our draw under the revolving line of credit in January 2001 remain constant for the remainder of 2001, a 1% increase in interest rates would increase annual interest expense on our revolving line of credit by approximately \$1.3 million. Conversely, a 1% decrease in interest rates would decrease annual interest expense on our revolving line of credit by \$1.3 million.

These estimated impact of changes in interest rates discussed above are determined by considering the impact of the hypothetical interest rates on our borrowing costs, lending rates and current U.S. Treasury rates from which our financial instruments may be priced. We do not believe that future market rate risks related to our financial instruments will be material to our financial position or results of operations. These analyses do not consider the effects of industry specific events, changes in the real estate markets, or other overall economic activities that could increase or decrease the fair value of our financial instruments. If such events or changes were to occur, we would consider taking actions to mitigate and/or reduce any negative exposure to such changes. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

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ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
LTC Properties, Inc.

We have audited the accompanying consolidated balance sheets of LTC Properties, Inc. as of December 31, 2000 and 1999 and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedules listed in the index at Item 14(a). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LTC Properties, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Los Angeles, California
January 19, 2001,
except for Note 12, which date is
February 1, 2001

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	DECEMBER 31,	
	2000	1999
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2000 - \$47,181; 1999 - \$39,975	\$ 397,833	\$ 430,000
Land	23,484	24,000
Mortgage loans receivable, net of allowance for doubtful accounts: 2000 - \$1,250; 1999 - \$1,250	106,149	131,000
REMIC Certificates	94,962	97,000
	622,428	683,000
Real estate investments, net		
Other Assets:		
Cash and cash equivalents	1,870	2,000
Debt issue costs, net	3,396	1,000
Interest receivable	4,558	4,000
Prepaid expenses and other assets	11,878	9,000
Marketable debt securities	15,873	14,000
Note receivable from LTC Healthcare, Inc.	16,582	6,000
	54,157	38,000
	\$ 676,585	\$ 721,000
Total assets	\$ 676,585	\$ 721,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Convertible subordinated debentures	\$ 24,642	\$ 24,000
Bank borrowings	118,000	160,000
Mortgage loans payable	103,341	90,000
Bonds payable and capital lease obligations	16,577	17,000
Accrued interest	2,260	2,000
Accrued expenses and other liabilities	6,741	7,000
Distributions payable	985	0
	272,546	303,000
Total liabilities	272,546	303,000
Minority interest		
	9,912	9,000
Stockholders' equity:		
Preferred stock \$0.01 par value; 10,000 shares authorized; shares issued and outstanding: 2000 - 7,080; 1999 - 7,080	165,500	165,000
Common stock \$0.01 par value; 40,000 shares authorized; shares issued and outstanding: 2000 - 26,031; 1999 - 27,036	260	0
Capital in excess of par value	296,568	304,000
Cumulative net income	221,734	190,000
Notes receivable from stockholders	(10,126)	(10,000)
Accumulated comprehensive loss	(1,746)	(1,000)
Cumulative distributions	(278,063)	(240,000)
	394,127	408,000
Total stockholders' equity	394,127	408,000

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Total liabilities and stockholders' equity	\$ 676,585	\$ 721,000
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See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Revenues:			
Rental income	\$ 49,958	\$ 45,086	\$ 42,534
Interest income from mortgage loans and notes receivable	15,025	19,506	23,030
Interest income from REMIC Certificates	16,852	17,598	16,945
Interest and other revenue	5,295	5,472	6,882
	87,130	87,662	89,391
Expenses:			
Interest expense	27,426	21,836	22,267
Depreciation and amortization	15,259	13,483	12,561
Provision for loan losses	-	-	600
Minority interest	982	1,018	1,415
Impairment charge	14,822	14,939	-
Operating and other expenses	5,994	5,863	5,084
	64,483	57,139	41,927
Operating income	22,647	30,523	47,464
Other income, net	-	1,304	(6,797)
Gain on sale of real estate assets, net	8,990	-	9,926
	31,637	31,827	50,593
Net income	31,637	31,827	50,593
Preferred dividends	15,087	15,087	12,896
Net income available to common stockholders	\$ 16,550	\$ 16,740	\$ 37,697
Net Income Per Common Share:			
Basic net income per common share	\$ 0.63	\$ 0.61	\$ 1.39

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Diluted net income per common share	\$ 0.63	\$ 0.61	\$ 1.39
Comprehensive Income:			
Net income available to common stockholders	\$ 16,550	\$ 16,740	\$ 37,697
Unrealized loss on available-for-sale equity securities	(500)	(1,246)	-
Total comprehensive income	\$ 16,050	\$ 15,494	\$ 37,697

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except per share amounts)

	SHARE				CA EX PA
	PREFERRED STOCK	COMMON STOCK	PREFERRED STOCK	COMMON STOCK	
Balance - December 31, 1997	5,080	25,025	\$127,000	\$250	
Issuance of Series C Preferred Stock	2,000	-	38,500	-	
Exercise of stock options	-	147	-	2	
Payments on stockholder notes	-	-	-	-	
Conversion of debentures	-	2,283	-	23	
Repurchase of common stock	-	(200)	-	(2)	
Issuance of restricted stock	-	406	-	4	
Amortization of restricted stock	-	-	-	-	
Conversion of partnership units	-	-	-	-	
Net income	-	-	-	-	
Preferred stock dividends	-	-	-	-	
Common stock cash distributions (\$1.535 per share)	-	-	-	-	
Distribution of investment in LTC Healthcare, Inc. (\$0.469 per share)	-	-	-	-	
Balance - December 31, 1998	7,080	27,661	165,500	277	
Payments on stockholder notes	-	-	-	-	
Conversion of debentures	-	25	-	-	
Repurchase of common stock	-	(650)	-	(7)	
Conversion of partnership units	-	-	-	-	
Net income	-	-	-	-	
Preferred stock dividends	-	-	-	-	
Common stock cash distributions (\$1.56 per share)	-	-	-	-	

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Balance - December 31, 1999	7,080	27,036	\$165,500	\$270
Payments on stockholder notes	-	-	-	-
Repurchase of common stock	-	(1,005)	-	(10)
Conversion of partnership units	-	-	-	-
Net income	-	-	-	-
Preferred stock dividends	-	-	-	-
Common stock cash distributions (\$0.087 per share)	-	-	-	-
Balance - December 31, 2000	7,080	26,031	\$165,500	\$260

	CUMULATIVE NET INCOME	NOTES RECEIVABLE FROM STOCKHOLDERS	CUMULATIVE DISTRIBUTION
Balance - December 31, 1997	\$107,677	\$ (9,429)	\$ (117,103)
Issuance of Series C Preferred Stock	-	-	-
Exercise of stock options	-	(2,313)	-
Payments on stockholder notes	-	542	-
Conversion of debentures	-	-	-
Repurchase of common stock	-	-	-
Issuance of restricted stock	-	-	-
Amortization of restricted stock	-	-	-
Conversion of partnership units	-	-	-
Net income	50,593	-	-
Preferred stock dividends	-	-	(12,896)
Common stock cash distributions (\$1.535 per share)	-	-	(41,837)
Distribution of investment in LTC Healthcare, Inc. (\$0.469 per share)	-	-	(10,724)
Balance - December 31, 1998	158,270	(11,200)	(182,560)

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Payments on stockholder notes	-	942	-
Conversion of debentures	-	-	-
Repurchase of common stock	-	-	-
Conversion of partnership units	-	-	-
Net income	31,827	-	-
Preferred stock dividends	-	-	(15,087)
Common stock cash distributions (\$1.56 per share)	-	-	(42,626)
Balance - December 31, 1999	\$190,097	\$ (10,258)	\$ (240,273)
Payments on stockholder notes	-	132	-
Repurchase of common stock	-	-	-
Conversion of partnership units	-	-	-
Net income	31,637	-	-
Preferred stock dividends	-	-	(15,087)
Common stock cash distributions (\$0.087 per share)	-	-	(22,703)
Balance - December 31, 2000	\$221,734	\$ (10,126)	\$ (278,063)

ACCUMULATED
COMPREHENSIVE LOSS

Balance at December 31, 1997	-
Balance at December 31, 1998	-
Balance at December 31, 1999	\$(1,246)
Unrealized loss on available for-sale securities	(500)
Balance at December 31, 2000	\$(1,746)

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

YEAR

2000

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OPERATING ACTIVITIES:	
Net income	\$ 31,637
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	15,259
Unrealized holding loss on estimated fair value of REMIC Certificates	-
Gain on sale of real estate investments, net	(8,990)
Gain on repurchase of convertible subordinated debentures	-
Expense related to vesting of restricted stock	-
Non-cash impairment charge	14,822
Other non-cash charges	1,700
(Increase) decrease in interest receivable	(632)
(Increase) in prepaid, other assets and allowance	(5,407)
(Decrease) in accrued interest	(640)
(Decrease) increase in accrued expenses and other liabilities	(2,442)

Net cash provided by operating activities	45,307
INVESTING ACTIVITIES:	
Investment in real estate mortgages	(964)
Acquisition of real estate properties and capital improvements, net	(4,288)
Proceeds from sale of real estate properties, net	51,632
Proceeds from sale of REMIC Certificates, net	-
Principal payments on mortgage loans receivable	8,789
Investment in debt securities	-
Investment in LTC Healthcare, Inc.	-
Advances to LTC Healthcare, Inc.	(14,753)
Repayment of advances to LTC Healthcare, Inc.	3,540
Other	1,741

Net cash provided by (used in) investing activities	45,697
FINANCING ACTIVITIES:	
Proceeds from issuance of preferred stock, net	-
Debt issue costs	(2,751)
Distributions paid	(37,790)
Bank borrowings	125,000
Repayment of bank borrowings	(167,000)
Mortgage loan borrowings	-
Principal payments on mortgage loans, notes payable and capital leases	(1,410)
Redemption of convertible subordinated debentures	-
Repurchase of common stock	(7,969)
Other	131

Net cash used in financing activities	(91,789)

Increase (decrease) in cash and cash equivalents	(785)
Cash and cash equivalents, beginning of year	2,655

Cash and cash equivalents, end of year	\$ 1,870
	=====
Supplemental disclosure of cash flow information:	
Interest paid	\$ 27,012
Non-cash investing and financing transactions:	
See Note 4: Supplemental Cash Flow Information	

See accompanying notes.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

LTC Properties, Inc. (the "Company"), a Maryland corporation, commenced operations on August 25, 1992. The Company is a real estate investment trust ("REIT") that invests primarily in long-term care facilities through mortgage loans, facility lease transactions and other investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION. The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its controlled partnerships. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

USE OF ESTIMATES. Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS. Cash equivalents consist of highly liquid investments with a maturity of three months or less when purchased and are stated at cost which approximates market.

LAND, BUILDINGS AND IMPROVEMENTS. Land, buildings and improvements are recorded at cost. Impairment losses are recorded when events or changes in circumstances indicate the asset is impaired and the estimated undiscounted cash flows to be generated by the asset are less than its carrying amount. Management assesses the impairment of properties individually and impairment losses are calculated as the excess of the carrying amount of the real estate over its fair value less cost to sell. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 years on computers, 7 years for equipment to 40 years for buildings.

SECURITIZATION TRANSACTIONS. The Company is a REIT and, as such, makes its investments with the intent to hold them for long-term purposes. However, mortgage loans may be transferred to a Real Estate Mortgage Investment Conduit ("REMIC"), a qualifying special-purpose entity, when a securitization provides the Company with the best available form of capital to fund additional long-term investments. When contemplating a securitization, consideration is given to the Company's current and expected future interest rate posture and liquidity and leverage position, as well as overall economic and financial market trends.

A securitization is completed in a two-step process. First, a wholly owned special-purpose bankruptcy remote corporation (the "REMIC Corp.") is formed and selected mortgage loans are sold to the REMIC Corp. without recourse. Second, the REMIC Corp. transfers the loans to a trust (the "REMIC Trust") in exchange for commercial mortgage pass-through certificates (the "REMIC Certificates") which represent beneficial ownership interests in the REMIC Trust assets (the underlying mortgage loans). Under this structure, the REMIC Trust is a qualifying special purpose entity from which the mortgages are isolated from REMIC Corp. and the Company. Holders of REMIC Certificates issued by the REMIC Trust have the right free of any conditional constraints to pledge or exchange those interests, and neither the REMIC Corp. nor the Company maintains effective control over the transferred assets (the

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mortgages). The REMIC Trust is administered by a third-party trustee solely for the benefit of the REMIC Certificate holders.

Under the securitization structure described above, the Company accounts for the transfer of the mortgages as a sale and any gain or loss is recorded in earnings. The gain or loss is equal to the excess or deficiency of the cash proceeds and fair market value of any subordinated certificates received when compared with the carrying value of the mortgages sold, net of any transaction costs incurred and any gains or losses associated with an underlying hedge. Subordinated certificates received by the Company are recorded at their fair value at the date of the transaction. The Company has no controlling interest in the REMIC since the majority of the beneficial ownership interests (in the form of REMIC Certificates) are sold to third-party investors. Consequently, the financial statements of the REMIC Trust are not consolidated with those of the Company for financial reporting purposes.

REMIC Certificates retained by the Company as consideration for the mortgages sold are accounted for at fair value. In determining fair value on the date of sale, management considers various factors including, pricing of the certificates sold relative to the certificates retained as evaluated by the underwriters, discount rates and applicable spreads at the time of issuance for similar securities (or adjustments thereto if no comparable securities are available), assumptions regarding prepayments including the weighted-average life of prepayable assets, if any, and estimates relating to potential realized credit losses.

The REMIC Certificates issued by the REMIC Trust include various levels of senior, subordinated, interest only and residual classes. The subordinated REMIC Certificates generally provide a level of credit enhancement to the senior REMIC Certificates. The senior and residual REMIC Certificates (which historically have represented between 66% and 81% of the total REMIC Certificates) are then sold to outside third-party investors through a private placement under Rule 144A of the Securities Act of 1933, as amended. The subordinated REMIC Certificates along with the cash proceeds from the sale of the senior REMIC Certificates are retained by the REMIC Corp. as consideration for the initial transfer of the mortgage loans to the REMIC Trust. Neither the Company nor the REMIC Corp. is obligated to purchase any of the REMIC Trust assets or assume any liabilities.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DESCRIPTION OF THE REMIC CERTIFICATES. REMIC Certificates represent beneficial ownership interests in the REMIC Trust and can be grouped into three categories; senior, subordinated and subordinated interest-only ("I/O"). The REMIC Certificates sold to third-party investors are the senior certificates and those retained by the Company are the subordinated certificates. The senior and the subordinated certificates have stated principal balances and stated interest rates ("pass-through rates"). The I/O REMIC Certificates have no stated principal but are entitled to interest distributions. Interest distributions on the I/O REMIC Certificates are typically based on the spread between the monthly interest received by the REMIC Trust on the underlying mortgage collateral and the monthly pass-through interest paid by the REMIC Trust on the outstanding pass-through rate REMIC Certificates. After payment of the pass-through interest on the outstanding REMIC Certificates and interest distributions on the I/O Certificates, the REMIC Trust distributes the balance of the payments received

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on the underlying mortgages as a distribution of principal. Interest and principal distributions are made in order of REMIC Certificate seniority. As such, to the extent there are defaults or unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the subordinated certificates held by the Company would in general bear the first risk of loss. Management evaluates the realizability of expected future cash flows periodically. A permanent impairment would be recorded in current period earnings when management believes that it is likely that a portion of the underlying mortgage collateral would not be realized by the REMIC Trust.

On January 1, 1999, the Company adopted SFAS No. 134 "ACCOUNTING FOR MORTGAGE-BACKED SECURITIES RETAINED AFTER THE SECURITIZATION OF MORTGAGE LOANS HELD FOR SALE BY A MORTGAGE BANKING ENTERPRISE". Upon adoption of SFAS No. 134, the Company, based on its ability and intent to hold its investments in REMIC Certificates, transferred its I/O REMIC Certificates and certificates with an investment rating of "BB" or higher from the trading category to the available-for-sale category and its certificates with an investment rating of "B" or lower to the held-to-maturity category. The transfer was recorded at fair value on the date of the transfer.

MORTGAGE LOANS RECEIVABLE. Historically, the Company has sold its mortgage loans solely in connection with its REMIC securitizations. Since certain mortgage loans may be securitized or sold in the future, direct investments in mortgage loans are classified as held for sale and carried at the lower of cost or market. If the mortgage loans aggregate cost basis exceeds their aggregate market value, a valuation allowance is established and the resulting amount is included in the determination of net income. Changes in the valuation allowance are included in current period earnings. In determining the estimated market value for mortgage loans, the Company considers estimated prices and yields, based in part on a spread over the applicable U.S. Treasury Note Rate, sought by qualified institutional buyers of the REMIC Certificates originated in the Company's securitizations.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MORTGAGE SERVICING RIGHTS. The Company sub-services mortgage loans that are collateral for REMIC Certificates issued in its securitization transactions for which it receives servicing fees, based on market rates for such services at the time the securitization is completed, equal to a fixed percentage of the outstanding principal on the collateral loans. A separate asset for servicing rights is not recognized since the servicing fees received only adequately compensate the Company for the cost of servicing the loans. The fair value of servicing rights for mortgage loans originated and retained by the Company are estimated based on the fees received for servicing mortgage loans that serve as collateral for REMIC Certificates. All costs to originate mortgage loans are allocated to the mortgage loans since the fair value of servicing rights only sufficiently covers the servicing costs.

INTEREST RATE CONTRACTS. Firm commitments subject the Company to interest rate risk to the extent that debt or other fixed rate financing will be used to finance the commitments. The Company may elect to enter into interest rate contracts to hedge such financing thereby reducing its exposure to interest rate risk. Interest rate contracts are designated as hedges of assets intended for securitization when the significant characteristics and expected terms of the securitization are identified and it is probable the securitization will occur.

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These contracts are entered into in notional amounts that generally correspond to the principal amount of the assets to be securitized. The Company effectively locks in its net interest margin on the securitization when the interest rate contract is entered into since changes in the market value of these contracts respond inversely to changes in the market value of the hedged assets. Gains or losses on interest rate contracts designated as hedges of assets to be securitized are deferred and recognized upon the completion of the securitization. The Company may also manage interest rate risk by entering into interest rate swap agreements whereby the Company effectively fixes the interest rate on variable rate debt. The differential between interest paid and received on interest rate swaps is recognized as an adjustment to interest expense. No interest rate contracts were outstanding as of December 31, 2000.

REVENUE RECOGNITION. Interest income on mortgage loans and REMIC Certificates is recognized using the effective interest method. Base rents under operating leases are accrued as earned over the terms of the leases. Contingent rental income provided for in certain leases, equal to a percentage of increased revenue over defined base period revenue of the long-term care facility operations, is recognized when the stated conditions upon which contingent rent is based occur.

FEDERAL INCOME TAXES. The Company qualifies as a REIT under the Internal Revenue Code of 1986, as amended and as such, no provision for Federal income taxes has been made. A REIT may deduct distributions to its stockholders from its taxable income. If at least 95% (90% for taxable years beginning after December 31, 2000) of a REIT's taxable income is distributed to its stockholders and it complies with other Internal Revenue Code requirements, a REIT generally is not subject to Federal income taxation.

For Federal tax purposes, depreciation is generally calculated at a rate of 3.6% based on the assets' tax basis (which approximates cost) using the straight-line method over a period of 27.5 years. Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income for financial statement purposes due to the treatment of certain interest income and expense items and depreciable lives and basis of assets under the Internal Revenue Code.

CONCENTRATIONS OF CREDIT RISKS. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, REMIC Certificates, mortgage loans receivable, operating leases on owned properties and interest rate swaps. The Company's financial instruments, principally REMIC Certificates, mortgage loans receivable and operating leases, are subject to the possibility of loss of carrying value as a result of the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instrument less valuable. The Company obtains various collateral and other protective

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

rights, and continually monitors these rights, in order to reduce such possibilities of loss. In addition, the Company provides reserves for potential losses based upon management's periodic review of its portfolio.

The Company's REMIC Certificates are subordinate in rank and right of payment

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to the certificates sold to third-party investors and as such, in most cases, would bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The returns on the REMIC Certificates are subject to certain uncertainties and contingencies including, without limitation, the level of prepayment, prevailing interest rates and the timing and magnitude of credit losses on the mortgages underlying the securities that are a result of the general condition of the real estate market or long-term care industry. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter management's estimations and assumptions therefore, no assurance can be given that current yields will not vary significantly in future periods. In general, the mortgage loans underlying the REMIC Certificates generally prohibit prepayment unless the property is sold to an unaffiliated third party (with respect to the borrower).

Certain of the REMIC Certificates retained by the Company have designated certificate principal balances and a stated certificate interest "pass-through" rate. These REMIC Certificates are subject to credit risk to the extent that there are estimated or realized credit losses on the underlying mortgages, and as such their effective yield would be negatively impacted by such losses. The Company also retains the I/O REMIC Certificates. In addition to the risk from credit losses, the I/O REMIC Certificates are also subject to prepayment risk, in that prepayments of the underlying mortgages reduce future interest payments of which a portion flows to the I/O REMIC Certificates, thus, reducing their effective yield. The I/O REMIC Certificates' fair values are estimated, in part, based on a spread over the applicable U.S. Treasury Rate, and consequently, are inversely affected by increases or decreases in such interest rates. There is no active market in these securities from which to readily determine their value. The estimated fair values of both classes of certificates are subject to change based on the estimate of the current interest rate environment, estimated spreads over the U.S. Treasury Rate at which the retained certificates might trade, expectations regarding credit losses, if any, expected weighted-average life of the underlying collateral and discount rates commensurate with the risks involved.

NET INCOME PER SHARE. Basic earnings per share is calculated using the weighted-average shares of common stock outstanding during the period excluding common stock equivalents. Diluted earnings per share includes the effect of all dilutive common stock equivalents.

STOCK-BASED COMPENSATION. The Company has adopted the disclosure requirements of SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION" but continues to account for stock-based compensation using the intrinsic value method prescribed by APB Opinion No. 25, as permitted by SFAS No. 123.

NEW ACCOUNTING PRONOUNCEMENTS. In 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES". In June 1999, the FASB issued SFAS No. 137 "DEFERRAL OF EFFECTIVE DATE OF FASB STATEMENT 133" which defers the effective date for SFAS No. 133 to all quarters of all fiscal years beginning after June 15, 2000. SFAS No. 133 requires all derivatives to be recorded at fair value and establishes unique accounting for fair value hedges. Because of the Company's limited use of derivatives, management does not anticipate that the adoption of SFAS No. 133 will have a significant effect on the Company's financial position or results of operations. As of December 31, 2000 the Company had no derivative instruments in place.

In September 2000, the FASB issued SFAS No. 140, ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES, which replaces in its entirety SFAS No. 125. The guidance in SFAS No. 140, while not changing most of the guidance originally issued in SFAS No. 125, revises

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the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain additional disclosures related to transferred assets. SFAS No. 140 provides guidance with respect to securitization transactions including, among other things, whether a transfer of assets qualifies for a sale or secured borrowing and whether a liability has been extinguished, accounting for servicing of financial assets and receipt and pledging of collateral. Additionally, SFAS No. 140 requires additional disclosures about securitized financial assets and interests retained in those securitizations including, accounting policies, volume, cash flows, key assumptions in estimating fair values and sensitivity analysis on the fair values relative to changes in the key assumptions. Certain provisions of SFAS No. 140 such as the disclosure relating to securitization transactions and retained interests therein, became effective for the Company for 2000 year-end reporting. Other provisions of SFAS No. 140 are effective for securitizations completed after March 31, 2001. Other than the additional disclosures required under SFAS No. 140, the Company does not believe that the adoption will have any significant impact on its financial statements. To the extent that the new provisions under SFAS No. 140 would require modifications, if any, to the structure of future securitization transactions, the necessary modifications would be made to allow such securitizations to be accounted for as sales. At this time, however, management does not anticipate the completion of any additional securitization in the foreseeable future.

3. MAJOR OPERATORS

As of December 31, 2000, Sun Healthcare Group, Inc. ("Sun") operated 34 facilities with 3,874 beds/units representing approximately 12%, or \$100,907,000, of the Company's adjusted gross real estate investment portfolio (adjusted to include the mortgage loans to third parties underlying the investment in REMIC certificates). During 1999, Sun filed for reorganization under Chapter 11 of the Bankruptcy Code. The facilities operated by Sun at December 31, 2000 consisted of approximately \$62,202,000 of direct investments to Sun and approximately \$38,705,000 of investments in facilities owned by independent parties that lease the property to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Sun or contract with Sun to manage the property. Sun is currently operating its business as a debtor-in-possession subject to the jurisdiction of the Bankruptcy Court.

Alterra Healthcare Corporation ("Alterra") and Assisted Living Concepts, Inc. ("ALC") each operate facilities representing approximately 10% of the Company's adjusted gross real estate investment portfolio. Alterra operates 35 assisted living facilities with 1,416 units representing \$84,189,000 of the Company's adjusted gross real estate investment portfolio. ALC operates 37 assisted living facilities with 1,434 units representing \$88,105,000 of the Company's adjusted gross real estate investment portfolio.

ALC, Alterra and Sun are publicly traded companies, and as such are subject to the filing requirements of the Securities and Exchange Commission. The Company's financial position and its ability to make distributions may be adversely affected by financial difficulties experienced by ALC, Alterra, Sun, or any of its other major operators, including bankruptcy, insolvency or general downturn

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in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or the Company's borrowers when it expires.

4. SUPPLEMENTAL CASH FLOW INFORMATION

	2000 -----
Non-cash investing and financing transactions:	
Exchange of mortgage loans for REMIC Certificates	\$
Exchange of previously issued REMIC Certificates for REMIC Certificates	\$
Conversion of debentures into common stock	\$
Assumption of mortgage loans payable relating to acquisitions of real estate properties	\$13,6
Distribution of investment in LTC Healthcare, Inc.	\$
Notes receivable related to exercise of stock options	\$
Conversion of mortgage loans into owned properties	\$12,2
Minority interest	\$
Reduction in receivables from LTC Healthcare, Inc. relating to the acquisitions of real estate properties	\$ 5,3
Increase in short term notes receivable related to the disposition of real estate properties	\$ 3,0

5. IMPAIRMENT CHARGE

The Company periodically performs a comprehensive evaluation of its real estate investment portfolio. The long-term care industry has experienced significant adverse changes which have resulted in continued operating losses by certain of the Company's operators and in some instances the filing by certain operators for bankruptcy protection. As a result of the adverse changes in the long-term care industry, the Company has identified certain investments in skilled nursing facilities that it determined to be impaired. These assets were determined to be impaired primarily because the expected future cash flows to be received from these investments are not expected to recover the carrying values of the investments.

During 2000 the Company recorded an impairment charge of approximately \$14,822,000. The impairment charge included the write-down of the carrying value to the estimated fair value, less cost to sell, of six owned skilled nursing facilities of \$7,529,000, mortgage loans secured by skilled nursing facilities of \$5,088,000 and notes receivable of \$1,259,000 and the costs of foreclosure and lease terminations of approximately \$946,000.

The fair values were based on current appraisals or other third-party opinions of value and other estimates of fair value such as estimated undiscounted future cash flows.

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During 1999, the Company recorded an impairment charge of \$14,939,000. The impairment charge included the write down of the carrying value to the estimated fair value, less cost to sell, of seven owned skilled nursing facilities of \$7,428,000, two mortgage loans secured by skilled nursing facilities of \$2,806,000, notes receivable of \$3,329,000 and other assets and the cost of foreclosure and lease terminations of approximately \$1,376,000. The fair values were based on current appraisals or other third-party opinions of value and other estimates of fair value such as estimated undiscounted future cash flows.

During 1998, the Company performed a comprehensive evaluation of its real estate investment portfolio. Based on this review, no assets were deemed to be impaired.

6. REAL ESTATE INVESTMENTS

MORTGAGE LOANS. During the year ended December 31, 2000, the Company advanced \$964,000 for renovation and expansion under a mortgage loan previously provided on a skilled nursing facility. The Company received prepayments totaling \$7,650,000 on four mortgage loans originally scheduled to mature in 2001, 2003, 2006 and 2007, and scheduled principal payments of \$1,139,000. Mortgage loans with outstanding principal balances totaling \$12,255,000 that were secured by eight long-term care facilities were converted into owned properties.

During 1999, the Company originated mortgage loans of \$6,678,000 secured by three assisted living facilities with 106 beds and advanced \$1,890,000 for renovation and expansion under a mortgage loan previously provided on an educational facility. Mortgage loans with outstanding principal balances totaling \$47,554,000 that were secured by 15 long-term care facilities with 1,116 beds/units and one educational facility were converted into owned properties. Prepayments totaling \$5,178,000 on two mortgage loans originally scheduled to mature in 2000 and 2006 and scheduled principal payments of \$1,551,000 were received.

At December 31, 2000, the Company had 48 mortgage loans secured by first mortgages on 45 skilled nursing facilities with a total of 5,160 beds and eight assisted living residences with 369 units located in 22 states. At December 31, 2000, the mortgage loans had interest rates ranging from 9.1% to 13.6% and maturities ranging from 2001 to 2018. In addition, the loans contain certain guarantees, provide for certain 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. At December 31, 2000 and 1999, the fair value of mortgage loans was approximately \$107,727,000 and \$132,912,000, respectively. Scheduled principal payments on mortgage loans are \$9,400,000, \$2,549,000, \$12,234,000, \$7,421,000, \$3,806,000 and \$71,989,000 in 2001, 2002, 2003, 2004, 2005, and thereafter.

OWNED PROPERTIES AND LEASE COMMITMENTS. During 2000, \$12,255,000 of mortgage loans converted into owned properties. In addition, the Company acquired, from a related party, two skilled nursing facilities with a total of 393 beds for a gross purchase price (based upon independent appraisals) of \$19,200,000, and invested approximately \$4,288,000 in the expansion and improvement of existing properties. The skilled nursing facilities acquired during 2000 were acquired subject to the assumption of existing non-recourse mortgage debt of \$13,696,000 that bears interest at a weighted average rate of 9.25%

With the exception of certain properties leased to LTC Healthcare, Inc. under one year and month-to-month leases, owned facilities are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 20 years. Many of the leases contain renewal options and some contain options that permit the operators to purchase the facilities. The leases provide for fixed minimum base rent during the initial and renewal periods. Most of the leases

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provide for annual fixed rent increases or increases based on increases in consumer price

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

indices over the term of the lease. Certain of the leases provide for additional rent through revenue participation (as defined in the lease agreements) 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 all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Contingent rent income for the years ended December 31, 2000, 1999 and 1998 was not significant in relation to contractual base rent income.

Depreciation expense on buildings and improvements, including facilities owned under capital leases, was \$15,145,000, \$13,237,000 and \$11,959,000 for the years ended December 31, 2000, 1999 and 1998.

Future minimum base rents receivable under the remaining non-cancelable terms of operating leases are: \$44,400,000, \$41,424,000, \$41,111,000, \$38,903,000, \$36,299,000 and \$204,642,000 for the years ending December 31, 2001, 2002, 2003, 2004, 2005 and thereafter.

REMIC CERTIFICATES. The outstanding principal balance and the weighted-average pass through rate for the senior certificates (held by third parties) and the carrying value of the subordinated certificates (held by the Company) as of December 31, 2000 and 1999 were as follows (DOLLAR AMOUNTS IN THOUSANDS):

	2000				
	Senior Certificates	Subordinated Certificates	Subordinated Certificates	Senior Certificates	
	Principal	Rate	Carrying Value	Principal	Rate
1993-1 Pool	\$46,120	7.7%	\$ 3,599	\$50,709	7.7%
1994-1 Pool	25,414	9.4%	38,066	28,299	9.4%
1996-1 Pool	81,534	7.5%	15,013	82,916	7.5%
1998-1 Pool	115,223 (1)	6.3%	38,284	117,112 (1)	6.3%

			\$94,962		
			=====		

(1) Included in the 1998-1 Pool assets are \$26,382,000 of certificates originated in the 1993-1 Pool that are excluded from the amount outstanding presented for the 1993-1 Pool.

At December 31, 2000 and 1999, the aggregate effective yield of the subordinated

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certificates, based on expected future cash flows with no unscheduled prepayments, was 17.11% and 17.35%, respectively. Income on the subordinated certificates was as follows for the years ended December 31, 2000, 1999 and 1998 (DOLLAR AMOUNTS IN THOUSANDS) :

	2000	1999	1998
	-----	-----	-----
1993-1 Pool	\$ 465	\$ 1,504	\$ 2,656
1994-1 Pool	5,361	4,943	4,898
1996-1 Pool	3,334	3,447	3,908
1998-1 Pool	7,692	7,704	5,483
	-----	-----	-----
	\$16,852	\$17,598	\$16,945
	=====	=====	=====

As sub-servicer for all of the above REMIC pools, the Company is responsible for performing substantially all of the servicing duties relating to the mortgage loans underlying the REMIC Certificates and will act as the special servicer to restructure any mortgage loans that default.

The REMIC Certificates retained by the Company, represent the non-investment grade certificates issued in the securitizations. Furthermore, because of the highly specialized nature of the underlying collateral (long-term care facilities), there is an extremely limited market for these securities. Because REMIC Certificates of this nature trade infrequently, if at all, market comparability to the certificates the Company retains is very limited.

The Company uses certain assumptions and estimates in determining the fair value allocated to the retained interest at the time of initial sale and each subsequent measurement date in accordance with SFAS No. 125. These assumptions and estimates include projections concerning the expected level and timing of future cash flows, current interest rate environment, estimated spreads over the U.S. Treasury Rate at which the retained certificates might trade, expectations regarding credit losses, if any, expected weighted-average life of the underlying collateral and discount rates commensurate with the risks involved. These assumptions are reviewed periodically by management. If these assumptions change, the related asset and income would be affected. Key economic assumptions used in measuring the retained interest at December 31, 2000 were as follows: a U.S. Treasury Rate of 5%, an average market spread on "BB" and "B" rated certificates of 765 basis points over the applicable U.S. Treasury rate, an average discount rate on unrated and interest-only certificates of 28.5%, weighted-average life of 156 months and no expected annual credit losses. At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of cash flows on the REMIC Certificates retained by the Company to immediate 10% and 20% adverse changes in those assumptions are as follows: (dollar amounts in thousands)

-----	-----
Estimated Fair Value	Carrying
-----	-----

RETAINED INTERESTS IN REMIC SECURITIZATIONS:

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Available-for-sale REMIC Certificates	\$42,362	\$42,362
Held-to-maturity REMIC Certificates	32,241	52,600
	-----	-----
Totals	\$74,603	\$94,962
	=====	=====

	10% Adverse Change ----- Decline in Fair Value	20% Adverse Change ----- Decline in Fair Value
--	--	--

KEY ASSUMPTION SENSITIVITY ANALYSIS

AVERAGE SPREAD AND DISCOUNT RATE ASSUMPTION:

Average Spread on "BB" and "B" rated certificates - 765 basis points	\$ 699	\$ 1,398
Average discount rate on Unrated and I/O certificates - 28.5%	3,053	5,105
	-----	-----
Total	\$ 3,752	\$ 6,503
	=====	=====

U.S. TREASURY RATE ASSUMPTION (5.0%):	\$ 896	\$ 1,792
	-----	-----

WEIGHTED-AVERAGE LIFE ASSUMPTION (156 MONTHS):	\$ 452	\$ 904
	-----	-----

EXPECTED CREDIT LOSS ASSUMPTION (NO EXPECTED LOSSES):	\$ 4,484	\$ 8,968
	-----	-----

As of December 31, 2000 and 1999, available-for-sale certificates were recorded at their fair value of approximately \$42,362,000 and \$45,651,000, respectively. Unrealized holding losses on available-for-sale certificates of \$315,000 and \$1,065,000 were included in comprehensive income for the years ended December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999 held-to-maturity certificates had a book value of \$52,600,000 and \$51,954,000, respectively, and a fair value of \$32,241,000 and \$43,698,000, respectively. As of December 31, 2000 none of the REMIC pools had experienced any realized losses nor had any of the Company's REMIC Certificate investments been determined to be permanently impaired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. ASSET SECURITIZATIONS

The Company is a REIT and, as such, makes its investments with the intent to hold them for long-term purposes. However, mortgage loans may be transferred to a REMIC (securitization) when a securitization provides the Company with the best available form of capital to fund additional long-term investments. When contemplating a securitization, consideration is given to the Company's current and expected future interest rate posture and liquidity and leverage position, as well as overall economic and financial market trends. As of December 31, 2000 the Company has completed four securitization transactions, however, no securitizations occurred during 1999 or 2000, nor is the Company under commitment to complete any securitization in the future.

From its past securitizations, the Company receives annual sub-servicing fees

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which range from 2.0 to 3.0 basis points of the outstanding mortgage loan balances in each of the REMIC pools. Additionally, through the REMIC Certificates retained by the Company from past securitizations, LTC receives cash flows and the rights to future cash flows resulting from cash received on the underlying mortgage loans in the REMIC pools. All of the investors in the REMIC Certificates and the REMIC Trusts themselves have no recourse to the Company's assets for failure by any obligor to the REMIC Trust assets (the mortgages) to pay when due, or comply with any provisions of the mortgage contracts. The REMIC Certificates are classified separately on the balance sheet and interest income earned shown separately on the income statement. Sub-servicing fees and related fees associated with the REMIC certificates are included in other income.

Certain cash flows received from and paid to REMIC Trusts are as follows:
(dollar amounts in thousands)

	Year Ended	
	2000	1999
Cash flow received on retained REMIC Certificates	\$18,940	\$19,361
Servicing and related fees received	\$ 336	\$ 211
Servicing advances made	\$ 2,052	\$ 1,519
Repayments of servicing advances	\$ 2,282	\$ 881

At December 31, 2000, scheduled distributions of principal on REMIC Certificates retained by the Company are: \$0, \$0, \$6,530,000; \$20,428,000; \$10,112,000; and, \$45,592,000; for the years ending December 31, 2001, 2002, 2003, 2004, 2005 and thereafter. These amounts are based upon the scheduled remaining amortization periods of the underlying mortgages, which may be subject to change. Currently, the Company has no mortgage loans in its portfolio held for securitization. Quantitative information relating to subserviced mortgage loans, including, delinquencies and net credit losses is as follows: (dollar amounts in thousands)

	2000	1999	1998
Average balance of loans in REMIC pools	\$ 353,300	\$ 372,292	\$ 354,000
Year-end balance of loans in REMIC pools	348,201	361,896	381,000
Net credit losses	\$ 0	\$ 0	\$ 0
Net credit losses to average REMIC pool loans	0%	0%	0%
Delinquencies (greater than 30 days) to year-end REMIC pool loans	2.0%	2.2%	1.8%

8. LTC HEALTHCARE, INC.

As of December 31, 2000, 29 real estate properties with a gross carrying value of \$70,376,000 or 8% of the Company's gross real estate investment portfolio (adjusted to include two mortgage loans underlying the REMIC Certificates) were operated by LTC Healthcare, Inc. ("Healthcare"). During

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the twelve months ended December 31, 2000, the Company recorded rental income of approximately \$6,176,000 from Healthcare. The Company leased 25 properties, on a short-term basis, to Healthcare. These leases expire on June 30, 2001, at which time the Company and Healthcare will reevaluate all leases. The Company also leases two properties on a month-to-month basis to Healthcare. On July 1, 2000, the independent members of the Board of Directors of both Healthcare and the Company approved new rental rates. Annual rental income from Healthcare under the new rates is approximately \$4,100,000. Effective January 1, 2001, the Company and Healthcare agreed to early termination of four leases, which would have expired on June 30, 2001, one each in Florida, Illinois, Texas and Virginia (See Note 5). These facilities had gross carrying value of \$8,126,000 or 1% of the Company's gross real estate investment portfolio (adjusted to include mortgage loans underlying the REMIC Certificates). Annual rental from Healthcare in 2001 under the 23 remaining leases is approximately \$3,405,000. Also, as of December 31, 2000, Healthcare had mortgage loans secured by six skilled nursing facilities with total outstanding principal balances of \$16,433,000 and a weighted average interest rate of 9.25% payable to REMIC pools originated by the Company. Two of the skilled nursing facilities securing the mortgage loans payable to the Company's REMIC pools are operated by Healthcare and the remaining four skilled nursing facilities are leased to third party operators.

As of December 31, 2000 and 1999, the Company owned 180,000 and 239,000 shares, respectively, of Healthcare common stock. At December 31, 2000 and 1999, the Company's investment in Healthcare common stock is recorded at its fair value of \$236,000 and \$480,000, respectively, in the accompanying balance sheet. An unrealized holding loss of \$185,000 and \$181,000, respectively, is included in comprehensive income for the years ended December 31, 2000 and 1999.

During the third quarter of 2000 the Company purchased 100% of the common stock of Coronado Corporation and Park Villa Corporation from Healthcare for a total purchase price (based on independent appraisals) of \$19,200,000. As a result of the purchase, the Company assumed \$13,696,000 of mortgage debt and reduced receivables from Healthcare by \$5,346,000.

The Company has provided Healthcare with a \$20,000,000 unsecured line of credit that bears interest at 10% and matures in March 2008. As of December 31, 2000 and 1999, \$16,582,000 and \$6,337,000, respectively, was outstanding under the line of credit. Under the terms of the new Senior Secured Revolving Line of Credit, the Company is permitted to loan Healthcare up to \$25,000,000. The Company and Healthcare have not increased the \$20,000,000 unsecured line of credit between the companies. Should any such amendment be proposed, it would need approval of the independent Board members of each company's board. During the years ended December 31, 2000 and 1999, the Company recorded interest income of \$1,713,000 and \$1,514,000, respectively on the average outstanding principal balance under the line of credit.

On June 23, 2000, the Company's Board of Directors appointed Healthcare as the Company's exclusive sales agent for all skilled nursing facilities for a period of one year and approved a commission agreement with Healthcare. Pursuant to the agreements, during 2000, the Company paid Healthcare sales commissions of \$1,600,000. During 1999, the Company had an administrative services agreement with Healthcare. Accordingly, Healthcare reimbursed the Company for administrative and management advisory services in the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

amount of \$740,000 for the year. The administrative services agreement was terminated effective January 1, 2000 since Healthcare has its own management and administrative staff. The Company received no reimbursement for administrative and management advisory services in 2000.

During 1999, the Company acquired from Healthcare, 100% of the stock of two companies that each own an assisted living facility, for a total purchase price of \$16,050,000. Both facilities are leased to a third party operator. Healthcare used the proceeds to repay borrowings under the unsecured line of credit.

As of December 31, 1999, 17 skilled nursing facilities with a gross carrying value of \$36,055,000 were leased to Healthcare. Also, as of December 31, 1999, Healthcare had mortgage loans secured by eight skilled nursing facilities with total outstanding principal of \$30,424,000 and a weighted average interest rate of 9.18% payable to the Company's REMIC pools. During 1999, the Company recorded rental income of approximately \$779,000 on properties leased to Healthcare.

During 1998, the Company acquired 4,002 shares of LTC Healthcare, Inc. ("Healthcare") non-voting common stock for \$2,001,000 in cash. The Company also contributed net assets with a book value of \$21,619,000 in exchange for 36,000 additional shares of Healthcare non-voting common stock and a note receivable from Healthcare. On September 30, 1998, the 40,002 shares of Healthcare non-voting common stock held by the Company were converted into 3,335,882 shares of Healthcare voting common stock. Concurrently, the Company completed the spin-off of all Healthcare voting common stock through a taxable dividend distribution to the holders of Company common stock, Cumulative Convertible Series C Preferred Stock and Convertible Subordinated Debentures. The Company incurred costs of approximately \$500,000 in connection with the distribution. For book purposes, no gain was recognized on the distribution of Healthcare common stock which had a net book value of approximately \$10,724,000. The distribution was a taxable dividend distribution and accordingly, for tax purposes, the net assets were transferred at their net fair market value of approximately \$15,650,000 (\$4.69 per share of Healthcare common stock - unaudited) which resulted in a taxable gain to the Company of approximately \$4,900,000 (unaudited). Upon completion of the distribution, Healthcare began operating as a separate public company.

9. OTHER ASSETS

During 2000, the Company received short term notes receivable of \$3,055,000 in conjunction with the sale of one skilled nursing facility, one assisted living facility and one school. The notes mature on various dates in 2001 and have a combined weighted average interest rate of 9.5%. Additionally, the Company received a three year \$2,000,000 note with an interest rate of 10%. This note is a deposit on a skilled nursing facility in Florida. The gross sales price of this facility is approximately \$6,000,000.

During 1999, the Company provided one of its operators with a line of credit secured by patient accounts receivable to fund working capital requirements. The line of credit bears interest at the prime rate of interest plus 2% and matures in February 2004. The Company performed a comprehensive evaluation of the accounts receivable securing the line of credit at December 2000 and 1999 and determined that approximately \$1,259,000 and \$3,329,000, respectively, of the amounts advanced were not recoverable. See Note. 5 - Impairment Charge. At December 31, 2000 and 1999, advances of \$1,500,000 and \$4,954,000 were estimated to be recoverable.

10. MARKETABLE DEBT SECURITIES

During 1999, the Company acquired \$4,195,000 face amount of Assisted Living

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Concepts, Inc. ("ALC") 5.625% convertible subordinated debentures due May 2003 and \$15,645,000 face amount of ALC 6.0% convertible subordinated debentures due November 2002 for an aggregate purchase price of \$13,097,000. As of December 31, 2000 and 1999, our investment in ALC convertible debentures had a weighted average cash yield of 8.3%

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and a weighted average effective yield of 19.1%. The Company accounts for its investment in ALC convertible subordinated debentures at amortized cost as held-to-maturity securities. At December 31, 2000 and 1999, the Company's investment in ALC convertible subordinated debentures had an amortized cost of \$15,873,000 and \$14,190,000 and a fair value of \$8,696,000 and \$12,207,000, respectively.

11. DEBT OBLIGATIONS

BANK BORROWINGS. On October 31, 2000, the Company entered into a new Senior Secured Revolving Line of Credit Agreement (the "Senior Secured Revolving Line of Credit") that expires on October 2, 2004 and replaces the Revolving Credit Facility and the term loan discussed below. The Senior Secured Revolving Line of Credit initially provided for \$185,000,000 of total commitments with periodic reductions of these commitments to fully retire the commitments as of October 2, 2004. Specifically scheduled available commitments as of December 31, 2000, 2001, 2002 and 2003 are \$185,000,000, \$157,500,000, \$95,000,000 and \$75,000,000 respectively. An additional provision of this agreement requires certain amounts of commitment reductions as a result of asset sales. As a result of sales of assets prior to year end, the available commitment balance at December 31, 2000 was \$173,960,000. Subsequent to year end 2000, the Company further reduced commitments to \$171,676,000 as a result of additional asset sales.

The Senior Secured Revolving Line of Credit pricing varies between LIBOR plus 2.00% and LIBOR plus 3.00% depending on the Company's leverage ratio. At December 31, 2000 the Company's interest rate was 9.215%, reflecting a pricing of LIBOR plus 2.50%.

The Senior Secured Revolving Line of Credit contains financial covenants including, but not limited to a collateral value ratio, funded debt ratio, senior leverage ratio, interest coverage ratio and a tangible net worth ratio. As of December 31, 2000, the Company was in compliance with financial covenants as required by the Senior Secured Revolving Line of Credit. Under the terms of the Senior Secured Revolving Line of Credit the Company is limited in any fiscal year from paying total common and preferred cash dividends of no more than 110% of consolidated taxable income. At inception, \$183,290,000 of owned properties, \$113,842,000 of mortgage loans receivable and \$96,332,000 of REMIC certificates were pledged as collateral. Additional provisions in the Senior Secured Revolving Line of Credit provide for the release of certain collateral when the commitments are reduced to \$100,000,000 or less and \$60,000,000 or less and allows the Company to buy back its stock once the commitments are \$135,000,000 or less. In addition to a fee paid to the lenders at the time of signing the Senior Secured Revolving Line of Credit, the Company has agreed to pay an additional fee to the lenders based on total commitments, if any, outstanding as of October 2, 2002.

As of December 31, 1999, \$135,000,000 was outstanding under the Company's prior \$170,000,000 Senior Unsecured Revolving Line of Credit (the "Revolving Credit

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Facility"), which expired on October 31, 2000. The Revolving Credit Facility pricing varied between LIBOR plus 1.25% and LIBOR plus 1.5% depending on the Company's leverage ratio. During the year ended December 31, 1999, pricing under the Revolving Credit Facility was LIBOR plus 1.25%. During 1999, the Company obtained a \$25,000,000 term loan with interest at LIBOR plus 1.25% and that matured October 31, 2000.

On November 2, 1998, the Company entered into an interest rate swap agreement whereby the Company effectively fixed the interest rate on LIBOR based variable rate debt. Under this agreement, which expired in November 2000, the Company was credited interest at three month LIBOR and paid interest at a fixed rate of 4.74% on a notional amount of \$50,000,000. The differential paid or received on the interest rate swap was recognized as an adjustment to interest expense. During 1999, the Company received \$657,000 upon early termination of the interest rate swap that was amortized over the term of the original swap agreement.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONVERTIBLE SUBORDINATED DEBENTURES (DOLLAR AMOUNTS IN THOUSANDS):

Interest Rate -----	Maturity -----	Conversion Price per share -----	Outstanding Principal at December 31,	
			2000	1999
8.50%	January 2001	\$15.50	\$11,849	\$11,849
7.75%	January 2002	\$16.50	2,408	2,408
8.25%	July 2001	\$17.25	10,385	10,385
			\$24,642	\$24,642

On January 2, 2001, the Company borrowed \$12,000,000 under its Senior Secured Revolving Line of Credit Facility to pay in full the 8.50% Convertible Subordinated Debentures.

On September 30, 1999, \$10,000,000 outstanding principal amount of 8.25% Convertible Subordinated Debentures matured and were repaid. During 1999, the Company repurchased an aggregate of \$21,590,000 face amount of its convertible debentures on the open market for an aggregate purchase price of \$19,992,000. A gain of \$1,304,000 on the repurchase of convertible debentures is included in other income, net in the accompanying income statement.

Neither the 8.25% debentures due July 2001 nor the 7.75% debentures due January 2002 were redeemable by the Company prior to January 1, 2001.

As of December 31, 2000, giving effect to the January 2, 2001 redemption of the 8.50% Convertible Subordinated Debentures, the remaining convertible subordinated debentures outstanding were convertible into 747,968 shares of common stock. Based on quoted market prices the fair value of the debentures approximated \$23,136,000 and \$21,907,000 at December 31, 2000 and 1999, respectively.

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MORTGAGE LOANS PAYABLE. During 2000, the Company acquired two skilled nursing facilities that were subject to the assumption of existing non-recourse mortgage debt of \$13,696,000 that bears interest at a weighted average rate of 9.25% and matures in 2006.

Mortgage loans and weighted average interest rates for loans payable to REMIC's formed by the Company were (DOLLAR AMOUNTS IN THOUSANDS):

	December 31, 2000 -----	Rate ----	December 31, 1999 -----	Rate ----
1993-1 Pool	\$21,908	12.0%	\$22,107	12.
1994-1 Pool	5,965	11.7	6,042	11.
1996-1 Pool	37,063	10.0	23,672	10.
1998-1 Pool	13,604	9.3	13,730	9.
	-----		-----	
	\$78,540		\$65,551	
	=====		=====	

Mortgage loans and weighted average interest rates for mortgage loans payable to others were (DOLLAR AMOUNTS IN THOUSANDS):

MATURITY -----	December 31, 2000 -----	Rate ----	December 31, 1999 -----	Rate ----
2002	\$6,500	9.50%	\$6,500	8.50%
2009	18,301	8.81	18,485	8.81
	-----		-----	
	\$24,801		\$24,985	
	=====		=====	

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2000 and 1999, the aggregate carrying value of real estate properties securing the Company's mortgage loans payable was \$145,644,000 and \$128,636,000, respectively.

BONDS PAYABLE AND CAPITAL LEASES. At December 31, 2000 and 1999, the Company had outstanding principal of \$7,550,000 and \$7,815,000, respectively on multifamily tax-exempt revenue bonds. These bonds bear interest at a variable rate that is reset weekly and matures during 2015. For the year ended December 31, 2000, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 6.0%. At December 31, 2000 and 1999, the Company had outstanding principal of \$4,127,000 and \$4,162,000, respectively on a multi-unit housing tax-exempt revenue bond that bears interest at 10.9% and matures in 2025.

At December 31, 2000 and 1999, the Company had outstanding principal of \$4,900,000 and \$5,119,000, respectively, under capital lease obligations. The capital leases are secured by four assisted living residences, have a weighted

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average interest rate of 7.6% and mature at various dates through 2013.

As of December 31, 2000 and 1999, the aggregate gross investment in real estate properties securing the Company's bonds payable and capital leases was \$25,719,000.

SCHEDULED PRINCIPAL PAYMENTS. Total scheduled principal payments for the mortgage loans payable, bonds payable and capital lease obligations as of December 31, 2000 were \$1,747,000, \$16,150,000, \$17,452,000, \$5,572,000, \$12,206,000 and \$66,791,000 in 2001, 2002, 2003, 2004, 2005 and thereafter.

12. STOCKHOLDERS' EQUITY

ISSUANCE OF STOCK. On September 2, 1998, the Company issued 2,000,000 shares of 8.5% Series C Convertible Preferred Stock (the "Series C Preferred Stock") at \$19.25 per share for net proceeds of \$37,605,000. The Series C Preferred Stock is convertible into 2,000,000 shares of the Company's common stock, has a liquidation value of \$19.25 per share and has an annual coupon of 8.5%, payable quarterly. Total shares reserved for issuance of common stock related to the conversion of Series C Preferred Stock were 2,000,000 shares at December 31, 2000 and 1999.

At December 31, 2000, 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock ("Series A Preferred Stock") and 2,000,000 shares of 9.0% Series B Cumulative Preferred Stock ("Series B Preferred Stock") were outstanding. Dividends on the Series A Preferred Stock and Series B Preferred Stock are cumulative from the date of original issue and are payable monthly to stockholders of record on the first day of each month. Dividends on the Series A Preferred Stock and the Series B Preferred Stock accrue at 9.5% and 9.0% per annum, respectively, on the \$25 liquidation value per share (equivalent to a fixed annual amount of \$2.375 and \$2.25 per share, respectively). The Series A Preferred Stock is not redeemable prior to April 1, 2001 and the Series B Preferred Stock is not redeemable prior to January 1, 2002, except in certain circumstances relating to preservation of the Company's qualification as a REIT.

The liquidation preferences of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are pari passu. Neither the Series A Preferred Stock, Series B Preferred Stock nor the Series C Preferred Stock have any voting rights.

REPURCHASE OF COMMON STOCK. During 2000 and 1999 the Company repurchased and retired 1,005,600 and 649,800 shares of common stock, respectively, for an aggregate purchase price of \$7,969,000 and \$7,039,000, respectively.

STOCK BASED COMPENSATION PLANS. During 1998, the Company adopted and its stockholders approved the 1998 Equity Participation Plan under which 500,000 shares of common stock have been reserved for stock based compensation awards. The 1998 Equity Participation Plan and the Company's Restated 1992 Stock Option Plan under which 500,000 shares of common stock were reserved (collectively "the Plans") provide for the issuance of incentive and nonqualified stock options, restricted stock and other stock based awards to officers, employees, non-employee directors and consultants. The terms of awards granted under the Plans are set by the Company's compensation committee at its discretion however, in the case of incentive stock options, the term may not exceed ten years from the date of grant. Total shares available for grant under the Plans as of December 31, 2000, 1999 and 1998 were 19,880, 507,040 and 507,000, respectively. All options outstanding vest over five years from the original date of grant. Unexercised options expire seven years after the date of vesting.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Nonqualified stock option activity for the years ended December 31, 2000, 1999 and 1998 was as follows:

	Shares			Weig
	2000	1999	1998	2000
Outstanding, January 1	23,000	23,000	169,500	\$14.8
Granted	517,500	-	-	\$5.4
Exercised	-	-	(146,500)	
Canceled	(31,500)	-	-	\$7.0
Outstanding, December 31	509,000	23,000	23,000	\$5.7
Exercisable, December 31	16,500	18,000	12,000	\$15.4

Restricted stock activity for the years ended December 31, 2000, 1999 and 1998 was as follows:

	2000	1999	1998
Outstanding, January 1	264,400	393,000	382,000
Granted	23,000	448,800	24,000
Vested	-	(128,560)	(13,000)
Canceled	(21,840)	(448,840)	-
Outstanding, December 31	265,560	264,400	393,000
Compensation Expense	\$ -	\$ -	\$ 1,492,000

In 2000, restricted stock awards aggregating 23,000 shares with a weighted average fair value on the dates of grant of \$8.07 per share were granted to employees. These grants vest evenly over four or five years with the first vesting in January 2001.

In March 1999, all outstanding shares of restricted stock as of that date were cancelled. Subsequently, restricted stock awards aggregating 448,800 shares with a weighted average fair value on the date of grant of \$11.50 per share were granted to employees and non-employee directors. Each grantee will vest shares equal to 10% of their total grant per year if the Company meets certain financial objectives and the grantee remains employed by the Company. If, in any

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given year, the Company does not meet the stated financial objectives then the shares scheduled to vest in that year will not vest and the vesting period will be extended by one year. During 1999, certain recipients of restricted stock awarded in 1999 immediately vested in a portion of such shares. Compensation expense related to the vested shares approximated compensation expense recognized in prior years on the unvested shares that were cancelled in 1999. Future compensation expense will be recognized over the service period at the market price per share on the date of vesting. None of these shares of restricted stock vested in 2000.

Dividends are payable on the restricted shares to the extent and on the same date as dividends are paid on all of the Company's common stock.

As of December 31, 2000, 1999 and 1998, there were 509,000, 23,000, and 23,000 options outstanding, respectively, subject to the disclosure requirements of SFAS No. 123. The fair value of these options was estimated utilizing the Black-Scholes valuation model and assumptions as of each respective grant date. In determining the estimated fair values for the options granted in 2000, the weighted average expected life assumption was five years, the weighted average volatility was 0.48 and the weighted average risk free interest rate was 6.47%. The weighted average fair value of the options granted was estimated to be \$0.65. There was no material pro-forma effect on net income or earnings per share for the years ending December 31, 2000, 1999 and 1998. The weighted average exercise price of the options was \$5.38, \$15.65 and \$15.65 and the weighted average remaining contractual life was 4.3, 5.9 and 6.9 years as of December 31, 2000, 1999 and 1998, respectively.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTES RECEIVABLE FROM STOCKHOLDERS. In 1997, the Board of Directors adopted a loan program designed to encourage executives, key employees, consultants and directors to acquire common stock through the exercise of options. Under the program, the Company made full recourse, secured loans to participants equal to the exercise price of vested options plus up to 50% of the taxable income resulting from the exercise of options. Such loans bear interest at the then current Applicable Federal Rate. In January 2000, the Board of Directors approved a new loan agreement for current executives and directors in the amounts of the remaining principal balance of the original loans.

The new loan agreements provide that the interest rate is 6.07% and interest payments are due quarterly equal to the most recent dividend received on the shares pledged as security for the notes. If the dividend does not fully pay the interest due or if no dividend is paid, the unpaid interest is added to the principal balance. The notes also require the borrower to reduce principal by one-half of the most recent dividend received on the pledged shares less the interest paid on the loans from that dividend.

The maturity date of the new notes is December 31, 2008 and at that time the remaining principal amount is due in full. Additionally, the new notes contain a provision that allows the borrower the option of fully discharging the then remaining principal balance of the loan by tendering the pledged shares as full payment upon the event of a change of control of the Company or upon the death of the borrower.

Unless the Board of Directors approves otherwise, loans must be repaid within 90 days after termination of employment for any reason, other than in connection

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with a change of control of the Company.

The remaining original notes provide for the same calculation of the periodic principal reductions; however, interest is payable every quarter, regardless of receipt of a dividend. The original notes will convert to fully amortizing loans with 16 quarterly payments beginning in year six. The original notes bear interest rates ranging from 5.77% to 6.63%.

In 2000 and 1999, no options were exercised under this program. At December 31, 2000 and 1999, loans totaling \$10,126,000 and \$10,258,000, respectively were outstanding. At December 31, 2000 and 1999, the market value of the common stock securing these loans was approximately \$2,968,000 and \$6,691,000, respectively.

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2000, the Company entered into two separate purchase and sale agreements with two unrelated third parties for the sale of two schools in Arizona for a combined gross sales price of \$15,185,000. Additionally, the Company entered into a purchase and sale agreement with an unrelated third party for the sale of three assisted living facilities in Wyoming for a gross sales price of \$12,850,000. The transaction is scheduled to close escrow on November 30, 2001, however the agreement provides for extensions of the scheduled closing date with corresponding increases in the gross sales price.

14. DISTRIBUTIONS

The Company must distribute at least 95% (90% for years ending after December 31, 2000) of its taxable income in order to continue to qualify as a REIT. Annual distributions may exceed the Company's earnings and profits due to non-cash expenses such as depreciation and amortization. Under special tax rules for REITs, dividends declared in the last quarter of the calendar year and paid by January 31 of the following year are treated as paid on December 31 of the year declared. Distributions for 2000 and 1999 were cash distributions. The 1998 distribution consisted of \$1.535 per share in cash and \$.469 per share (unaudited) in the form of Healthcare common stock.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Federal income tax classification of the per share common stock distributions are (unaudited):

	2000	1999	1998
	-----	-----	-----
Ordinary income	\$0.701	\$1.185	\$1.355
Non-taxable distribution	-	0.375	0.397
Section 1250 capital gain	0.146	-	0.051
Long term capital gain	0.023	-	0.201
	-----	-----	-----
Total	\$0.870	\$1.560	\$2.004
	=====	=====	=====

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2000

Revenues	\$22,506	\$22,717	\$2
Net income (loss) available to common stockholders(1)	6,903	6,081	
Basic net income (loss) per share	0.26	0.23	
Diluted net income (loss) per share	0.26	0.23	
Dividends per share	0.29	0.29	

1999

Revenues	\$22,204	\$22,766	\$2
Net income (loss) available to common stockholders(2)	8,768	9,112	
Basic net income (loss) per share	0.32	0.33	
Diluted net income (loss) per share	0.32	0.33	
Dividends per share	0.39	0.39	

(1) Includes an impairment charge of \$14.8 million.
See Note 5 - Impairment Charge.

(2) Includes an impairment charge of \$14.9 million.
See Note 5 - Impairment Charge.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

ITEM 14. FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K.

(a) Financial Statement Schedules

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The financial statement schedules listed in the accompanying index to financial statement schedules are filed as part of this annual report.

(b) Exhibits

The exhibits listed in the accompanying index to exhibits are filed as part of this annual report.

(c) Reports on Form 8-K

None.

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INDEX TO FINANCIAL STATEMENT SCHEDULES
(ITEM 14 (a))

II.	Valuation and Qualifying Accounts	57
III.	Real Estate and Accumulated Depreciation	58
IV.	Mortgage Loans on Real Estate	59

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule.

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LTC PROPERTIES, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Period -----	Charge to Operations -----	Balance End of -----
Allowance for Doubtful Accounts:			
2000	\$1,250	\$ -	\$1,2
1999	\$1,250	\$ -	\$1,2
1998	\$1,000	\$250	\$1,2

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LTC PROPERTIES, INC.

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SCHEDULE III
 REAL ESTATE AND ACCUMULATED DEPRECIATION
 (in thousands)

	Encumbrance	Initial Cost to Company		Costs Capitalized	Gross Amount at which Carried at December 31, 2000		
		Land	Building and Improvements	After Acquisition	Land	Building and Improvements	Total
Skilled Nursing Facilities:							
Bradenton, FL	\$ -	\$330	\$2,720	\$ -	\$330	\$2,720	\$3,050
Clearwater, FL	-	454	2,902	-	454	2,902	3,356
Lecanto, FL	-	351	2,665	2,251	351	4,916	5,267
Rusk, TX	-	34	2,399	14	34	2,413	2,447
Chicago Heights, IL	-	221	6,406	-	221	6,406	6,627
Demopolis, AL	10,351 (2)	71	2,141	-	71	2,141	2,212
Fort Payne, AL	- (2)	37	3,588	-	37	3,588	3,625
Jackson, AL	- (2)	64	2,620	-	64	2,620	2,684
Madison, AL	- (2)	30	2,328	-	30	2,328	2,358
Phoenix, AL	- (2)	59	2,123	-	59	2,123	2,182
Toppanish, WA	2,551 (3)	132	2,654	-	132	2,654	2,786
Vancouver, WA	- (5)	60	3,031	2	60	3,033	3,093
Chesapeake, VA	-	656	3,201	34	656	3,235	3,891
Richmond, VA	-	354	3,182	43	354	3,225	3,579
Tappahannock, VA	- (14)	209	1,493	-	209	1,493	1,702
Jefferson, IA	10,282 (4)	36	1,933	163	36	2,096	2,132
Montgomery, AL	3,771 (5)	144	5,426	-	144	5,426	5,570
Carroll, IA	- (4)	60	1,020	38	60	1,058	1,118
Whiteright, TX	1,093	100	2,923	-	100	2,923	3,023
Granger, IA	- (4)	93	1,325	59	93	1,384	1,477
Bedford, TX	- (4)	345	3,195	404	345	3,599	3,944
Polk City, IA	- (3)	88	1,351	15	88	1,366	1,454
Atmore, AL	- (4)	23	2,985	-	23	2,985	3,008
Norwalk, IA	- (4)	45	1,035	46	45	1,081	1,126
Altoona, IA	- (4)	102	2,312	121	102	2,433	2,535
Midland, TX	1,988	32	2,285	-	32	2,285	2,317
Gardendale, AL	-	84	6,316	-	84	6,316	6,400
Roberta, GA	-	100	2,400	59	100	2,459	2,559
Houston, TX	6,976 (8)	202	4,458	456	202	4,914	5,116
Houston, TX	6,628 (9)	361	3,773	248	361	4,021	4,382
Houston, TX	- (8)	202	4,458	449	202	4,907	5,109
Mesa, AZ	4,385	305	6,909	1,695	305	8,604	8,909
Houston, TX	- (9) (14)	572	2,997	824	572	3,821	4,393
Sacramento, CA	-	220	2,929	-	220	2,929	3,149
Coffeyville, KS	-	-	-	-	-	-	-
Salina, KS	-	100	1,153	445	100	1,598	1,698
South Haven, KS	-	-	-	-	-	-	-
Portland, OR	-	100	1,925	457	100	2,382	2,482
Nacogdoches, TX	-	100	1,738	37	100	1,775	1,875
Cushing, TX	-	100	1,679	24	100	1,703	1,803
Mesa, AZ	2,921	420	4,258	32	420	4,290	4,710
Wells, TX	2,226 (6)	100	1,649	7	100	1,656	1,756
Corrigan, TX	- (6)	100	1,649	7	100	1,656	1,756
Groesbeck, TX	1,301	100	1,649	7	100	1,656	1,756
Tampa, FL	-	100	6,402	41	100	6,443	6,543

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LTC PROPERTIES, INC.
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)
(in thousands)

	Encumbrance	Initial Cost to Company		Costs Capitalized	Gross Amount at which Carried at December 31, 2000		
		Land	Building and Improvements	After Acquisition	Land	Building and Improvements	Total
Jonesboro, GA	2,659	150	2,573	3	150	2,576	2,726
Griffin, GA	4,742 (10)	500	2,900	-	500	2,900	3,400
Atlanta, GA	- (10)	175	1,282	3	175	1,285	1,460
Des Moines, IA	-	100	2,111	142	100	2,253	2,353
Olathe, KS	-	520	1,872	5	520	1,877	2,397
Crawfordville, FL	-	522	1,815	1,202	522	3,017	3,539
Venice, FL	- (14)	236	346	838	236	1,184	1,420
Sumner, IL	968	100	877	7	100	884	984
Topeka, KS	- (14)	-	400	12	-	412	412
Carlinville, IL	- (14)	100	486	25	100	511	611
Fort Worth, TX	2,076	100	1,534	-	100	1,534	1,634
Jessup, GA	6,500 (13)	35	465	38	35	503	538
Fort Valley, GA	- (13)	230	770	86	230	856	1,086
Gardner, KS	- (13)	729	4,478	149	729	4,627	5,356
Canyon, TX	- (14)	196	1,093	211	196	1,304	1,500
Phoenix, AZ	7,381	300	9,703	-	300	9,703	10,003
Tuscon, AZ	6,241	276	8,924	-	276	8,924	9,200
Holyoke, CO	-	184	1,541	2	184	1,543	1,727
Manchester, TN	-	50	954	58	50	1,012	1,062
Dresden, TN	-	31	1,529	149	31	1,678	1,709
Ripley, TN	-	20	985	56	20	1,041	1,061
Skilled Nursing Facilities	85,040	11,950	172,223	10,964	11,950	183,187	195,137

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LTC PROPERTIES, INC.
SCHEDULE XI
REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)
(in thousands)

Initial Cost to Costs Gross Amount at which Carried

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	Encumbrance	Company		Capitalized	at December 31, 2000		
		Land	Building and Improvements	After Acquisition	Land	Building and Improvements	Total
Assisted Living Residences:							
Longview, TX	-	38	1,568	-	38	1,568	1,606
Marshall, TX	-	38	1,568	450	38	2,018	2,056
Dodge City, KS	1,435	88	1,662	-	88	1,662	1,750
Great Bend, KS	1,209	87	1,563	17	87	1,580	1,667
McPherson, KS	1,044	75	1,575	-	75	1,575	1,650
Salina, KS	1,213	72	1,578	-	72	1,578	1,650
Greenville, TX	-	42	1,565	-	42	1,565	1,607
Athens, TX	-	96	1,511	-	96	1,511	1,607
Kennewick, WA	(7)	100	1,940	-	100	1,940	2,040
Grandview, WA	(7)	100	1,940	-	100	1,940	2,040
Jacksonville, TX	-	100	1,900	-	100	1,900	2,000
Walla Walla, WA	7,550 (7)	100	1,940	-	100	1,940	2,040
Lufkin, TX	-	100	1,950	-	100	1,950	2,050
Camas, WA	(7)	100	2,175	-	100	2,175	2,275
Gardendale, AL	-	16	1,234	-	16	1,234	1,250
Vancouver, WA	(7)	100	2,785	-	100	2,785	2,885
Kelso, WA	-	100	2,500	-	100	2,500	2,600
Battleground, WA	-	100	2,500	-	100	2,500	2,600
Hayden, ID	-	100	2,450	243	100	2,693	2,793
Klamath Falls, OR	-	100	2,300	-	100	2,300	2,400
Newport, OR	-	100	2,050	-	100	2,050	2,150
Tyler, TX	11,420 (12)	100	1,800	-	100	1,800	1,900
Wichita Falls, TX	-	100	1,850	-	100	1,850	1,950
Ada, OK	-	100	1,650	-	100	1,650	1,750
Nampa, ID	-	100	2,240	23	100	2,263	2,363
Tulsa, OK	(12)	200	1,650	-	200	1,650	1,850
Durant, OK	-	100	1,769	-	100	1,769	1,869
San Antonio, TX	(12)	100	1,900	-	100	1,900	2,000
Troy, OH	-	100	2,435	306	100	2,741	2,841
Waco, TX	-	100	2,235	-	100	2,235	2,335
Tulsa, OK	(12)	100	2,395	-	100	2,395	2,495
San Antonio, TX	(12)	100	2,055	-	100	2,055	2,155
Norfolk, NE	-	100	2,123	-	100	2,123	2,223
Wahoo, NE	-	100	2,318	-	100	2,318	2,418
York, NE	-	100	2,318	-	100	2,318	2,418
Hoquiam, WA	-	100	2,500	-	100	2,500	2,600
Tiffin, OH	-	100	2,435	-	100	2,435	2,535
Millville, NJ	-	100	2,825	-	100	2,825	2,925
Fremont, OH	-	100	2,435	-	100	2,435	2,535
Lake Havasu, AZ	-	100	2,420	-	100	2,420	2,520
Greeley, CO	-	100	2,310	270	100	2,580	2,680
Springfield, OH	-	100	2,035	270	100	2,305	2,405
Watauga, TX	-	100	1,668	-	100	1,668	1,768
Bullhead Ctiy, AZ	-	100	2,500	-	100	2,500	2,600
Arvada, CO	6,881 (11)	100	2,810	276	100	3,086	3,186

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(in thousands)

	Encumbrance	Initial Cost to Company		Costs Capitalized	Gross Amount at which Carried at December 31, 2000		
		Land	Building and Improvements	After Acquisition	Land	Building and Improvements	Total
Edmond, OK	- (12)	100	1,365	526	100	1,891	1,991
Wetherford, OK	-	100	1,669	592	100	2,261	2,361
Eugene, OR	-	100	2,600	-	100	2,600	2,700
Caldwell, ID	-	100	2,200	-	100	2,200	2,300
Burley, ID	-	100	2,200	-	100	2,200	2,300
Wheelersburg, OH	-	100	2,435	-	100	2,435	2,535
Loveland, CO	- (11)	100	2,865	270	100	3,135	3,235
Wichita Falls, TX	-	100	2,750	-	100	2,750	2,850
Beatrice, NE	-	100	2,173	-	100	2,173	2,273
Madison, IN	-	100	2,435	-	100	2,435	2,535
Newark, OH	-	100	2,435	-	100	2,435	2,535
Elkhart, IN	-	100	2,435	-	100	2,435	2,535
Newport Richey, FL	-	100	5,845	294	100	6,139	6,239
Fremont, CA	-	100	3,080	212	100	3,292	3,392
RioRancho, NM	-	100	8,300	32	100	8,332	8,432
Ft. Meyers, FL	-	100	2,728	9	100	2,737	2,837
Tallahassee, FL	- (12)	100	3,075	-	100	3,075	3,175
Niceville, FL	-	100	2,680	-	100	2,680	2,780
Longmont, CO	- (11)	100	2,640	-	100	2,640	2,740
Shelby, NC	-	100	2,805	-	100	2,805	2,905
Spring Hill, FL	-	100	2,650	-	100	2,650	2,750
Portland, OR	0	100	7,622	-	100	7,622	7,722
Tuscon, AZ	-	100	8,700	-	100	8,700	8,800
Denison, IA	-	100	2,713	-	100	2,713	2,813
Roseville, CA	-	100	7,300	-	100	7,300	7,400
Cheyenne, WY	-	100	5,290	-	100	5,290	5,390
Casper, WY	-	100	3,610	-	100	3,610	3,710
Laramie, WY	-	100	3,610	-	100	3,610	3,710
Ft. Collins, CO	-	100	2,961	-	100	2,961	3,061
Greenwood, SC	-	100	2,638	-	100	2,638	2,738
Greenville, NC	-	100	2,478	-	100	2,478	2,578
Sumter, SC	-	100	2,351	-	100	2,351	2,451
Central, SC	-	100	2,321	-	100	2,321	2,421
Rocky Mount, NC	-	100	2,494	-	100	2,494	2,594
New Bern, NC	-	100	2,428	-	100	2,428	2,528
Goldsboro, NC	-	100	2,386	-	100	2,386	2,486
Ft. Collins, CO	-	100	3,400	-	100	3,400	3,500
Rocky River, OH	-	760	6,963	-	760	6,963	7,723
Erie, PA	-	850	7,477	-	850	7,477	8,327
Lakeland, FL	-	519	2,313	57	519	2,370	2,889
Cordele, GA	-	153	1,455	57	153	1,512	1,665
Assisted Living Residences	34,888	10,234	234,805	3,904	10,234	238,709	248,943

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LTC PROPERTIES, INC.
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)
(in thousands)

	Encumbrance	Initial Cost to Company		Costs	Gross Amount	
		Land	Building and Improvements	Capitalized After Acquisition	Land	Buildings and Improvements
Schools						
Phoenix, AZ	-	100	1,834	-	100	
Egan, MN	-	100	3,688	26	100	
Trenton, NJ	-	100	6,000	3,170	100	
Scottsdale, AZ	-	1,000	8,400	-	1,000	
Schools	-	1,300	19,922	3,196	1,300	
	\$119,928	\$23,484	\$426,950	\$18,064	\$23,484	\$

Construction/ Renovation Date	Acquisition Date
1980/97/98	May-98
1987/97	Jun-98
1930/98	Dec-98
1999	Dec-99

- (1) Depreciation for building is calculated using a 35 year life for skilled nursing facilities and 40 year life for assisted living residences and additions to facilities. Depreciation for furniture and fixtures is calculated based on a 7-year life for all facilities.
- (2) Single note backed by five facilities in Alabama
- (3) Single note backed by two facilities in Washington
- (4) Single note backed by six facilities in Iowa and one facility in Texas
- (5) Single note backed by two facilities in Alabama
- (6) Single note backed by two facilities in Texas
- (7) Single note backed by five facilities in Washington
- (8) Single note backed by two facilities in Texas
- (9) Single note backed by two facilities in Texas
- (10) Single note backed by two facilities in Georgia

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- (11) Single note backed by three facilities in Colorado
- (12) Single note backed by one facility in Florida, three facilities in Oklahoma, and three facilities in Texas
- (13) Single note backed by one facility in Kansas and two facilities in Georgia
- (14) An impairment charge totaling \$7,529,000 was taken against 6 facilities

Activity for the years ended December 31, 1998, 1999 and 2000 is as follows:

	Real Estate & Equipment	Accumulated Depreciation
	-----	-----
Balance at December 31, 1997	\$ 318,870	\$ 20,042
Additions	157,324	11,959
Conversion of mortgage loans into owned properties	7,301	-
Cost of real estate sold	(7,654)	(1,309)
Cost of real estate in spin-off	(65,182)	(3,720)
	-----	-----
Balance at December 31, 1998	410,659	26,972
Additions	44,362	13,237
Conversion of mortgage loans into owned properties	47,554	-
Impairment charge	(7,662)	(234)
	-----	-----
Balance at December 31, 1999	494,913	39,975
Additions	22,495	15,145
Conversion of mortgage loans into owned properties	12,255	-
Impairment charge	(7,529)	-
Cost of real estate sold	(53,636)	(7,939)
	-----	-----
Balance at December 31, 2000	\$ 468,498	\$ 47,181
	=====	=====

LTC PROPERTIES, INC.
SCHEDULE IV
MORTGAGE LOANS ON REAL ESTATE
(dollars in thousands)

Number of	Number of	Final Maturity	Balloon	Face Amount	Carrying of Mortg
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State	Facilities	Units/Beds	Interest Rate(1)	Date	Amount(2)	of Mortgages	December
SC	5	509	12.67%	2003	\$10,754	\$ 11,250	\$
CO	2	230	11.63%	2007	5,412	6,000	
MS	1	180	11.32%	2006	5,033	5,465	
AZ	1	256	10.96%	2001	5,033	5,250	
OH	1	150	10.59%	2006	4,579	5,200	
FL	1	191	11.88%	2017	0	4,500	
CA	1	212	10.28%	2018	0	3,500	
FL	1	94	10.15%	2007	2,879	3,290	
NE	1	47	11.22%	2008	3,071	3,243	
Various (3)	39	3,660	9.13%-13.6%	2001-2018	44,210	68,476	
	53	5,529			\$80,971	\$116,174	\$1

Current Monthly Debt Service	Principal Amount of Loans Subject to Delinquent Principal or Interest
\$ 121	\$ -
62	-
55	-
-	5,907
50	-
49	-
34	-
30	-
31	-
690	3,133
\$1,122	\$9,040

- (1) Represents current stated interest rate. Generally, the loans have 25-year amortization with principal and interest payable at varying amounts over the life to maturity with annual interest adjustments through specified fixed rate increases effective either on the first anniversary or calendar year of the loan.
- (2) Balloon payment is due upon maturity, generally the 10th year of the loan, with various prepayment penalties (as defined in the loan agreement).
- (3) Includes 48 first-lien mortgage loans as follows:

# of Loans	Original loan amounts:
26	\$ 247 - \$2,000

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10	\$2,001 - \$3,000
6	\$3,001 - \$4,000
1	\$4,001 - \$5,000
4	\$5,001 - \$6,000
1	\$6,001 - \$11,250

Activity for the years ended December 31, 1998, 1999 and 2000 is as follows:

Balance at December 31, 1997	\$255,094
New mortgage loans	47,452
Sales of notes to REMIC	(103,523)
Conversion of notes to owned properties	(7,301)
Collections of principal	(10,758)

Balance at December 31, 1998	180,964
New mortgage loans	6,678
Additional funding of existing loans	1,890
Conversion of notes to owned properties	(47,554)
Impairment charges	(2,806)
Collections of principal	(6,729)

Balance at December 31, 1999	132,443
Additional funding of existing loans	964
Conversion of notes to owned properties	(12,131)
Impairment charges	(5,088)
Collections of principal	(8,789)

Balance at December 31, 2000	\$107,399
	=====

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INDEX TO EXHIBITS (ITEM 14(b))

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Amended and Restated Articles of Incorporation of LTC Properties, Inc. (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Current Report on Form 8-K dated June 19, 1997)
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Form 10-Q for the quarter ended June 30, 1996)
3.3	Articles Supplementary Classifying 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 3.2 to LTC Properties, Inc.'s Current Report on Form 8-K dated June 19, 1997)
3.4	Articles of Amendment of LTC Properties, Inc. (incorporated by reference to Exhibit 3.3 to LTC Properties, Inc.'s Current

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- Report on Form 8-K dated June 19, 1997)
- 3.5 Articles Supplementary Classifying 2,000,000 Shares of 9.0% Series B Cumulative Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 2.5 to LTC Properties, Inc.'s Registration Statement on Form 8-A filed on December 15, 1997)
 - 3.6 Certificate of Amendment to Amended and Restated Bylaws of LTC Properties, Inc. (incorporated by reference to Exhibit 3.1 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
 - 3.7 Articles Supplementary Classifying 2,000,000 Shares of 8.5% Series C Cumulative Convertible Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 3.2 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
 - 3.8 Articles Supplementary Classifying 40,000 shares of Series D Junior Participating Preferred Stock of LTC Properties, Inc. (incorporated by reference to Exhibit 4.7 to LTC Properties, Inc.'s Registration Statement on Form 8-A filed on May 9, 2000)
 - 4.1 Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee (incorporated by reference to Exhibit 4.2 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
 - 4.2 Second Supplemental Indenture dated as of September 21, 1995 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$51,500,000 in principal amount of 8.5% Convertible Subordinated Debentures due 2001 (incorporated by reference to Exhibit 10.17 to LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 1995)
 - 4.3 Third Supplemental Indenture dated as of September 26, 1995 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$10,000,000 in principal amount of 8.25% Convertible Subordinated Debentures due 1999 (incorporated by reference to Exhibit 10.19 to LTC Properties, Inc.'s Form 10-Q for the quarter ended September 30, 1995)
 - 4.4 Fourth Supplemental Indenture dated as of February 5, 1996 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$30,000,000 in principal amount of 7.75% Convertible Subordinated Debentures due 2002 (incorporated by reference to Exhibit 4.6 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1995)
 - 4.5 Fifth Supplemental Indenture dated as of August 23, 1996 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$30,000,000 in principal amount of 8.25% Convertible Subordinated Debentures due 2001 (incorporated by reference to Exhibit 4.5 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998)
 - 4.6 Sixth Supplemental Indenture dated as of December 30, 1998 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$10,000,000 in principal amount of 8.25% Convertible Subordinated Debentures due 1999 (incorporated by reference to Exhibit 4.6 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998)
 - 4.7 Seventh Supplemental Indenture dated as of January 14, 1999 to Indenture dated September 23, 1994 between LTC Properties, Inc. and Harris Trust and Savings Bank, as trustee with respect to \$10,000,000 in principal amount of 8.25% Convertible

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- 4.8 Subordinated Debentures due 1999 (incorporated by reference to Exhibit 4.7 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998)
Rights Agreement dated as of May 2, 2000 (incorporated by reference to Exhibit 4.1 to LTC Properties, Inc.'s Registration Statement on Form 8-A filed on May 9, 2000)

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INDEX TO EXHIBITS (CONTINUED) (ITEM 14(b))

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1	Pooling and Servicing Agreement, dated as of July 20, 1993, among LTC REMIC Corporation, as depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc., as Special Servicer and originator and Union Bank, as trustee (incorporated by reference to Exhibit 10.11 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
10.2	Pooling and Servicing Agreement, dated as of November 1, 1994, among LTC REMIC Corporation, as depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc., as Special Servicer and originator and Marine Midland Bank, as trustee (incorporated by reference to Exhibit 10.13 to LTC Properties, Inc.'s Form 10-K dated December 31, 1994)
10.3	Amended Deferred Compensation Plan (incorporated by reference to Exhibit 10.17 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1995)
10.4	Pooling and Servicing Agreement dated as of March 1, 1996, among LTC REMIC Corporation, as depositor, GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc., as Special Servicer and Originator, LaSalle National Bank, as Trustee and ABN AMRO Bank, N.V., as fiscal agent (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Form 10-Q for the quarter ended March 31, 1996)
10.5	Amended and Restated 1992 Stock Option Plan (incorporated by reference to Exhibit 10.22 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1996)
10.6	Subservicing Agreement dated as July 20, 1993 by and between Bankers Trust Company, as Master Servicer and LTC Properties, Inc., as Special Servicer (incorporated by reference to Exhibit 10.25 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)
10.7	Custodial Agreement dated as of July 20, 1993 by and among Union Bank, as Trustee, LTC REMIC Corporation, as Depositor, and Bankers Trust Company as Master Servicer and Custodian (incorporated by reference to Exhibit 10.26 to LTC Properties, Inc.'s Form 10-K/A for the year ended December 31, 1996)
10.8	Form of Certificates as Exhibit as filed herewith to the Pooling and Servicing Agreement dated as of July 20, 1993 among LTC REMIC Corporation, as Depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and Union Bank as Trustee (incorporated by reference to Exhibit 10.11 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
10.9	Form of Certificates, Form of Custodial Agreement and Form of Subservicing Agreement as Exhibits as filed herewith to the Pooling and Servicing Agreement dated as of November 1, 1994

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- among LTC REMIC Corporation, as Depositor, Bankers Trust Company, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and Marine Midland Bank as Trustee (incorporated by reference to Exhibit 10.13 to LTC Properties, Inc.'s Form 10-K for the year ended December 31, 1994)
- 10.10 Form of Certificates, Form of Custodial Agreement and Form of Subservicing Agreement as Exhibits as filed herewith to the Pooling and Servicing Agreement dated as of March 1, 1996 among LTC REMIC Corporation, as Depositor, GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc. as Special Servicer and Originator and LaSalle National Bank as Trustee and ABN AMRO Bank N.V., as Fiscal Agent (incorporated by reference to Exhibit 10.1 to LTC Properties, Inc.'s Form 10-Q for the quarter ended March 31, 1996)
- 10.11 Subservicing Agreement dated as of May 14, 1998, by and between GMAC Commercial Mortgage Corporation, as Master Servicer, LTC Properties, Inc. as Subservicer (incorporated by reference to Exhibit 10.3 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
- 10.12 Pooling and Servicing Agreement dated as of April 20, 1998 among LTC REMIC IV Corporation, LaSalle National Bank and LTC Properties, Inc. (incorporated by reference to Exhibit 10.4 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
- 10.13 Distribution Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.5 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)

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INDEX TO EXHIBITS (CONTINUED) (ITEM 14(b))

EXHIBIT NUMBER -----	DESCRIPTION -----
10.14	Intercompany Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.7 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
10.15	Tax Sharing Agreement, dated as of September 30, 1998, by and between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.8 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
10.16	Amended and Restated Promissory Note, dated as of May 19, 1998, between LTC Properties, Inc. and LTC Healthcare, Inc. (incorporated by reference to Exhibit 10.9 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998)
10.17	LTC Properties, Inc. 1998 Equity Participation Plan (incorporated by reference to Exhibit 10.28 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998)
10.18	Second Amended and Restated Employment Agreement between Andre C. Dimitriadis and LTC Properties, Inc. dated March 26, 1999 (incorporated by reference to Exhibit 10.28 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31,

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10.19	1998), as amended by Amendment No. 1 thereto dated June 23, 2000 Amended and Restated Employment Agreement between James J. Pieczynski and LTC Properties, Inc. dated March 26, 1999 (incorporated by reference to Exhibit 10.28 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998), as superceded by Separation Agreement effective July 1, 2000
10.20	Amended and Restated Employment Agreement between Christopher T. Ishikawa and LTC Properties, Inc. dated March 26, 1999 (incorporated by reference to Exhibit 10.28 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998), as amended by Amendment No. 1 thereto dated June 23, 2000
10.21	Employment Agreement between Julia L. Kopta and LTC Properties, Inc. dated January 1, 2000 (incorporated by reference to Exhibit 10.33 to LTC Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999), as amended by Amendment No. 1 thereto dated June 23, 2000
10.22	Employment Agreement between Wendy L. Simpson and LTC Properties, Inc. dated April 10, 2000, as amended by Amendment No. 1 thereto dated June 23, 2000
10.23	Promissory Note dated January 1, 2000, executed by Andre C. Dimitriadis in favor of LTC Properties, Inc.
10.24	Promissory Note dated January 1, 2000, executed by James J. Pieczynski in favor of LTC Properties, Inc.
10.25	Promissory Note dated January 1, 2000, executed by Wendy L. Simpson in favor of LTC Properties, Inc.
10.26	Promissory Note dated January 1, 2000, executed by Christopher T. Ishikawa in favor of LTC Properties, Inc.
10.27	Promissory Note dated January 1, 2000, executed by Edmund C. King in favor of LTC Properties, Inc.
10.28	Promissory Note dated January 1, 2000, executed by Sam Yellen in favor of LTC Properties, Inc.
10.29	Senior Secured Revolving Credit Agreement dated October 31, 2000 (incorporated by reference to Exhibit 10 to LTC Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)
21.1	List of subsidiaries
23.1	Consent of Ernst & Young LLP with respect to the financial information of the Company
99.0	Risk Factors

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LTC Properties, Inc.
Registrant

Dated: February 21, 2000

By: /s/ WENDY L. SIMPSON

WENDY L. SIMPSON
Vice Chairman, Chief Financial

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Officer and Director

/s/ ANDRE C. DIMITRIADIS

ANDRE C. DIMITRIADIS

Chairman of the Board, Chief Executive Officer and

/s/ WENDY L. SIMPSON

WENDY L. SIMPSON

Vice Chairman, Chief Financial Officer and Di

/s/ JAMES J. PIECZYNSKI

JAMES J. PIECZYNSKI

Chief Strategic Planning Officer and Direc

/s/ EDMUND C. KING

EDMUND C. KING

Director

/s/ TIMOTHY TRICHE

TIMOTHY TRICHE

Director

/s/ SAM YELLEN

SAM YELLEN

Director